Insurance in Malta
An Industry Profile
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PwC recognises the importance of the insurance industry to Malta’s endeavour to become a leading financial services centre. We have dedicated people in our team serving the unique needs of this industry, covering all aspects of assurance, tax, and advisory services. We bring you in-depth knowledge and understanding of your market, and provide you with the solutions you need to grow, thrive and adapt to changes in the market.
Material growth is expected in the field of international insurance business. Malta is witnessing an ever increasing number of foreign players registering as insurance licencees, together with an ongoing stream of enquiries on potential new applications. This growth is consistent with Malta’s development as a reputable financial services centre, which has accelerated since membership of the European Union in 2004. In the Competitiveness Index 2011-2012, recently published by the World Economic Forum, Malta ranked 15th out of 143 world economies surveyed in the financial market development sub-index.

The insurance industry is an important pillar of the Maltese economy, taking advantage of a number of key attributes that Malta offers, including a highly-skilled workforce, excellent service, the appropriate corporate infrastructure and robust legislative and regulatory frameworks, including tax efficiency and innovative structures such as PCCs and ICCs.

PwC Malta is the leading and largest professional services organisation on the island, with 17 partners and around four hundred staff. We provide a range of assurance, tax, and advisory services to a large and varied client base, including leading companies involved in all the spheres of the insurance industry – insurance principals, intermediaries, protected cell companies, captives and insurance managers. This publication is one of an increasing number of initiatives, including surveys and newsletters, which are designed to share our knowledge with the industry. It presents an overview of how we perceive a steadily growing industry, and the services we are geared to provide.

Whilst all reasonable care has been taken in preparing this publication, there is of course no substitute for specific advice. Should readers require further information, we shall be glad to assist and encourage you to contact one of the members of our insurance team listed at Section 9 of this publication.

We look forward to being of service to you.

Kevin Valenzia
Territory Senior Partner
25 January 2012
Malta as a strategic location for doing business
1. Malta as a strategic location for doing business

Malta’s strategic geographical location at the centre of the Mediterranean has played a decisive role in its history and continues to play a very important part in its economical, political and cultural development and prosperity today.

Malta was a British colony until 1964. Today it is an independent Republic, a member of the British Commonwealth, the Council of Europe, and the United Nations and became a member of the European Union (EU) on 1 May 2004.

Over the past two decades, Malta has completed a programme of reforming all its finance sector legislation in line with best practices observed in Organisation for Economic, Co-operation and Development (OECD) countries. It is also actively involved with the OECD, the EU and the Commonwealth in modelling global regulatory policy.

The government is democratically elected and all sides of the political spectrum have agreed to Malta’s economic development strategy. This strategy is designed to continue to develop Malta as a manufacturing base, as a quality tourist resort, and as a provider of a growing range of services, particularly financial services.

Malta has an excellent business infrastructure with good telecommunications, extremely well equipped ports and Freeport, a well-developed manufacturing infrastructure and a sophisticated European business environment.

The labour force is skilled, multi-lingual, flexible and adaptable. The official languages are Maltese and English; most Maltese citizens speak the latter fluently. Business correspondence is conducted mainly in English and all laws are published in both languages. A large proportion of the population is also fluent in Italian.
The insurance industry in Malta
Malta is considered to be an attractive location in the EU for the establishment of captive and other insurance and reinsurance businesses. The island continues to offer stability to potential investors. Since the early 1990’s, Malta has established itself as a renowned and stable financial services sector. The insurance industry is one of the pillars of this development, with the Malta Financial Services Authority (the “MFSA”) working to create a stable, yet innovative, jurisdiction aimed at encouraging the growth of insurance and reinsurance business, including captive insurance companies, Protected Cell companies (PCCs) and Incorporated Cell companies (ICCs), passporting their services throughout the European Union.

The insurance industry in Malta boasts a mature domestic market constituted of life and non-life insurers, as well as a thriving international sector, including captives and direct underwriters and reinsurers. The number of insurance intermediaries and service providers also continues to increase. As per Malta Insurance Management Association (“MIMA”) survey results published on 30 July 2010, the number of managed insurance companies, and cells in protected cell companies, has increased from 20 in 2008 to 41 in 2010; and assets under management have increased from €555,305,454 in 2008 to €1,099,657,011 in 2010. Similarly, annual gross premium written by insurance companies and cells under management has grown by 68% since 2008.

With its favourable tax system, low-cost location and efficient regulatory environment that accelerates the set-up of new companies, Malta continues to be an attractive destination for insurance companies, PCCs and, more recently, ICCs.
Why carry on insurance business in Malta?
3. Why carry on insurance business in Malta?

There are a number of benefits associated with setting up insurance business in Malta. A main advantage, of particular appeal to companies intending to write business across EU is that insurance companies incorporated in Malta can passport directly, either through freedom of establishment or services, to all other member states. Significant advantages lie in having a knowledgeable and accessible regulator, the MFSA, coupled with a very experienced professional workforce. Malta’s tax regime is stable. As governments across the world move to tighten tax rules, Malta’s tax rate of 35%, based on a full imputation tax system that results in tax refunds to shareholders, is seen as tax-efficient and acceptable. Moreover, Malta has a network of Double Tax Treaties with over 55 countries, including most EU countries and the US.

From an operational perspective, Malta has a comparatively lower cost base when compared to other EU domiciles. The country has an excellent business infrastructure with good telecommunications and a sophisticated European business environment.

Malta’s legislative framework is also innovative in that it caters for insurance set-up options considered to be relatively new and alternative in the context of the rest of the EU, such as the creation of PCCs, and more recently, ICCs. Malta is the only EU member state to have this legislation in place. The local legal framework further includes migration legislation that facilitates movement into and out of Malta.

The table below summarises what we perceive to be the main benefits of setting up insurance business in Malta.

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The insurance sector is thriving in Malta, with 7 PCCs already incorporated operating 16 cells between them, and 38 (28 principals and 10 captives) insurance companies licensed by the MFSA primarily for risks situated outside of Malta. (Source: MFSA website, list and details of insurance licence holders as at September 2011)
### Reasons that make Malta an attractive location for setting up an insurance business

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<th>Reason</th>
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<td><strong>EU membership/passporting rights</strong></td>
<td>Insurance companies that incorporate in Malta are effectively an EU-domiciled insurer with the opportunity to benefit from passporting rights which facilitate the underwriting of insurance business anywhere in the EU without the need for costly fronting arrangements.</td>
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<td><strong>EU compliant legislation</strong></td>
<td>As a member of the EU, insurance businesses incorporated in Malta can benefit from harmonised EU legislation and regulation. Of particular relevance, at this point in time is the alignment with the rest of the EU in preparation for the advent of the Solvency II regime.</td>
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<td><strong>An advanced and innovative legal system</strong></td>
<td>Regulations specific to PCCs and to ICCs are examples of pieces of legislation aimed at establishing an innovative legal framework to govern insurance business, whilst promoting such business in Malta. Refer to further detail in section 4 of this publication.</td>
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| **Efficient tax environment, for companies and individuals**         | The main advantages of Malta's tax system are:  
  • An extensive double treaty network presently covering over 55 countries, (including all EU member states, the US, as well as many emerging economies). The Maltese government follows an aggressive policy of expansion in this respect;  
  • The availability of substantial refunds of the tax paid by the company in the hands of the shareholder upon distribution of dividends as a result of a full imputation tax system;  
  • The absence of withholding taxes upon repatriation of dividends, interest and royalties to non-Maltese residents, subject to certain statutory conditions;  
  • Beneficial, reduced personal tax rates for qualified expatriates are available through the recently enacted “ Highly Qualified Persons Rules, 2011” Further details of the fiscal framework applicable to insurance companies in Malta is provided in Appendix C of this publication. |
| **Re-domiciliation**                                                 | Malta’s legislative framework, specifically the Continuation of Insurance Business Companies Regulations, allows established insurance businesses to seamlessly transfer their seat to Malta, without any break in the company’s corporate existence or the need to re-execute any reinsurance treaties or other contracts. |
| **An accessible and efficient regulator, the MFSA**                 | MFSA’s consistent regulatory approach has ensured the growth of the insurance industry on the island. The MFSA is approachable, encouraging regular consultation, on an individual company basis, to ensure that both the interests of the business and compliance with all regulatory standards are met. Refer to further detail in Section 3.1. |
| **Swift application process**                                       | The insurance application process is an efficient, non-bureaucratic process. The MFSA is required to respond to an application within a prescribed timeframe. |
| **Availability of insurance management services**                   | A significant number of licensed insurance management companies operate in Malta, varying from international names to local establishments. Insurance managers are adequately equipped to assist in the initial set-up stages as well as the ongoing operations of a captive insurance business or a direct underwriter. The vast majority of insurance managers are members of the Malta Insurance Management Association (MIMA). |
| **Availability of quality, personalised professional services**      | Malta has a skilled, multi-lingual, flexible and adaptable labour force including, inter alia, accounting, audit, investment management and legal services.                                                                 |
| **The application of International Financial Reporting Standards in the preparation of financial statements** | Malta adopted International Financial Reporting Standards (IFRS) for all companies in 1995. A consistent accounting framework within the EU facilitates the consolidation process at an EU level. |
| **The use of English as Malta's business language**                 | English, together with Maltese, are the primary languages of Malta, with English being considered the business language country-wide. |
3.1 The competent regulatory authority

The competent regulatory authority is the MFSA, which is a fully autonomous public institution that reports to Parliament and was established by law on 23 July 2002. The MFSA is the single regulator for all financial services, which includes banking, insurance, investment services, trustee services, pensions, collective investment schemes and their providers. The functions of the Registry of Companies, the International Tax Unit of the Inland Revenue, and the Listing Authority, are all housed within the MFSA.

Creating the MFSA as a single regulator was part of Malta’s long-term strategy to create a mainstream finance centre in the country. Financial services have benefited from a reduction in bureaucracy, streamlined procedures, lower fees and compliance costs, and a more consistent implementation of standards.

The organisational structure of the MFSA ensures that the regulatory and operational functions of the Authority are exercised within strict legal demarcations. The Board of Governors, presided by the Chairman, sets out policy and general direction and is assisted by the Legal and International Affairs Unit. The Director of this Unit is also the Secretary to the Board of Governors. The Supervisory Council, headed by the Director General, is exclusively responsible for licencing, supervision and regulation and is composed of the Directors responsible for Authorisation, Banking Supervision, Securities and Markets Supervision, Insurance and Pensions Supervision, and Regulatory Development. Operations are the responsibility of the Board of Management and Resources composed of the Directors responsible for Communications, Human Resource Development, Information Technology and Administration chaired by the Chief Operations Officer. Co-ordination between these three organs is ensured at Co-ordination Committee level.

The MFSA has a staff of over 170 people, consisting of specialist regulators, lawyers, accountants and support staff facilitating the formulation of policy, decision making and support for both licence holders and consumers.

The Authorisation Unit of the MFSA is the department responsible for the licensing of insurance principals, intermediaries, PCCs, ICCs, captives and insurance managers, and may be contacted as follows:

The Director
Authorisations Unit
Malta Financial Services Authority
Notabile Road,
Attard, BKR 3000
Telephone (+356) 2144 1155
Fax (+356) 2144 9308
Email: au@mfsa.com.mt
Website: www.mfsa.com.mt

Source: MFSA website, updated as at September 2011.
Insurance business set-up options and the relevant Maltese legislation
4. Insurance business set-up options and the relevant Maltese legislation

Malta’s company law and fiscal legislation is based on tried and tested legal principles and implements all applicable European Union legislation. Insurance-specific pieces of legislation offer a variety of set-up options, together with the governing framework within which they can operate. Further details of the legislative framework are included in Appendix B to this publication.

The following is a summary of the possible set-up options:

**4.1 Insurance and reinsurance principals**
- Carry on business of insurance, direct with third parties
- Regulated by the IBA, 1998

**4.2 Insurance intermediaries**
- Bring together prospective clients and insurance companies for the purposes of issuing an insurance policy
- Regulated by the Insurance Intermediaries Act, 2006

**4.3 Affiliated Insurance Companies**
- Commonly referred to as “captives”
- In simple terms, they insure risks emanating from a “group” of companies
- S.L.403.11, Insurance Business (Companies carrying on business of affiliated insurance), Regulations and Insurance Rule 21 of 2007 regulate aspects specific to captives

**4.4 Insurance management companies**
- Manage any part of an insurer’s business, or exercise managerial functions therein, or are responsible for maintaining accounts or other records of such company

**4.5 PCCs and ICCs**
- Insurance companies that are set up on a “cellular structure”
- Regulated by PCC Regulations, 2004 and ICC Regulations, 2010

**4.1 Insurance (and reinsurance) principal companies**

Insurance (and reinsurance) companies in Malta are mainly regulated by the Insurance Business Act, 1998 (“the Act”). The Act provides for the authorisation and supervision of insurance companies and the MFSA is the Competent Authority for the purposes of the Act. Insurance Business Regulations (“Regulations”) constitute subsidiary legislation to the Act, whereas Insurance Rules (“Rules”) may be issued by the MFSA under the Act as may be required for carrying into effect any of the provisions of the Act. The Act, Regulations and Rules together constitute the legislative framework for insurers in Malta. Refer also to Appendix B for details on the regulatory framework.
The Malta Insurance Association (MIA) is a non-profit-making organisation that represents the views and common interests of all insurance companies in Malta. MIA provides its members with the opportunity to exchange and analyse external developments and issues relevant to their industry's well being. Indeed, part of the MIA's mission is to offer training initiatives and events targeting general and specialised lines of insurance business.

As at December 2011, the number of insurance principals in Malta stood at 35, including 28 primarily underwriting risks outside Malta.

### 4.2 Insurance intermediaries

An insurance intermediary is defined as a person(s) or a company who brings together prospective clients and insurance companies for the purpose of issuing an insurance policy. All intermediaries, except for introducers, are licensed by the MFSA and are regulated under the Insurance Intermediaries Act, 2006.

The Insurance Business Act, 1998 and the Insurance Intermediaries Act, 2006 are two separate but complementary pieces of legislation that establish the legal and prudential framework for the regulation of insurance business and insurance intermediaries' activities in Malta.

As at December 2011, there were 17 insurance agents and 29 insurance brokers registered in Malta as per the MFSA's list of licence holders.

### 4.3 Captives

Under the Maltese legislative framework, captives are termed “Affiliated Insurance Companies” (“AICs”). These are defined as companies that insure risks originating from:

- parent companies;
- associated or group companies;
- individuals or other entities having a majority ownership or controlling interest in the AIC, and
- members of trade, industry or profession associations insuring risks related to the particular trade, industry or profession.

The legal and regulatory framework governing captive insurance in Malta is the same that applies to all insurance companies. There are however a number of features which recognise the particular characteristics of captives and cater for their needs. Subsidiary Legislation 403.11, Insurance business (companies carrying on business of affiliated insurance), Regulations and Insurance Rule 21 of 2007 (Business of Affiliated Insurance) regulate those aspects specific to captives. Detail on the setting up of captives is provided in Appendix B5 to this document.

Currently, there are 10 companies authorised by the MFSA as AICs.
4.4 Insurance management companies

The Act defines an insurance manager as a person enrolled to carry out activities that consist of accepting an appointment from an insurance company to manage any part of its business, or to exercise managerial functions therein, or to be responsible for maintaining accounts or other records of such company. Management functions may include the authority to enter into contracts of insurance on behalf of such company under the terms of appointment. A local company authorised under the Insurance Intermediaries Act, 2006 as an insurance intermediary and carrying on business as an insurance broker, restricted to contracts of insurance relating to risks situated outside Malta, may appoint an insurance manager authorised under the Act to manage such business. An affiliated insurance company or an affiliated reinsurance company may also, with the approval of the Authority given in writing, appoint an insurance manager.

The Malta Insurance Managers Association (MIMA), established in Malta in 2007, represents the interests of all authorised insurance managers and managed insurance companies in Malta. MIMA has succeeded in and continues to strive towards the establishment and growth of the international insurance industry in Malta, as well as the development of management expertise.

As at December 2011, there were 15 insurance managers registered in Malta, the vast majority of which are members of MIMA.

4.5 Protected cell companies (PCCs)

With the introduction of Subsidiary Legislation 386.10 of 2004, Companies Act (Cell Companies Carrying on Business of Insurance) Regulations, Malta became the only EU member state to incorporate PCC legislation in its financial legal framework.

The PCC is a risk management tool, enabling different owners with varying interests to participate in one insurance company through the establishment of cells.

As at December 2011, there were 7 PCCs domiciled in Malta, operating 16 cells between them and offering potential investors the opportunity to set up an insurance operation in Malta, with reduced capital requirements compared to a stand-alone insurance set-up, as well as other advantages.

4.6 Incorporated cell companies (ICCs)

Taking account of international developments in the area of cell legislation, the Companies Act (Incorporated Cell Companies Carrying on Business of Insurance) Regulations, 2010 have also been enacted, introducing another innovative type of vehicle in Malta. This legislation builds on the cellular concept under the PCC legislation introduced in 2004, and detailed in section 4.5 above. The most significant difference between the two concepts is that in an ICC, its core and cells are individually separate legal entities.

Refer to Appendix B6 for more on PCCs and CCs.
A wider perspective – the global insurance market
5. A wider perspective – the global insurance market

Following the recent global financial crisis, what customers, investors, governments and regulators expect from insurers is changing rapidly. The scenarios we are witnessing today are just the beginning of a process of change.

Macro issues facing insurers include regulatory upheaval, fundamental tax changes and other implications. Facing pressure from the government, supervision will be more intense and regulations are subject to national and European priorities. Solvency II is at the top of all insurers’ agendas and is expected to result in an overhaul of regulation as we know it today, influencing key decision makers in the manner in which they conduct their business and manage risk. Similarly, amid moves to increase tax revenues and tighten the tax rules of offshore businesses, the stability of the tax regime is now a key consideration for where insurers are domiciled or where they chose to relocate. At the same time, phase two of IFRS 4 is underway, which is expected to result in a complete overhaul of accounting for insurers as we know it today.

Insurance CEOs, participating in the PwC 14th Annual Global CEO Survey, said that generating profitable growth is going to be challenging for many companies in the face of tight margins, mounting regulation and the fragile economic environment within many developed markets. Of all the threats to growth highlighted by insurance CEOs, over-regulation was by the far the most significant (cited by 79% of insurance CEOs).

They were however upbeat about the future. More than half (56%) were very confident about their company’s prospects for revenue growth over the next three years and virtually all the rest are reasonably confident. That makes them more optimistic than CEOs in almost every other sector. Innovation and the smart use of technology are high on the agenda to drive the growth strategy.

Malta is well positioned to meet these challenges. As a member of the EU, Malta is currently preparing itself for Solvency II, led by the local supervisor, the MFSA. All Maltese insurance companies adopt IFRS as their accounting framework and preparations for the eventual introduction of the new IFRS on insurance contracts are also underway. The Maltese insurance market has proved to be a stable environment throughout the financial crisis and the major shocks registered in other jurisdictions were not as pronounced locally.
**Solvency II**

Solvency II, the planned overhaul of prudential regulation for European insurers is well under way. Existing European solvency rules for life, non-life insurers and reinsurers will be significantly upgraded. Structured around three pillars, Solvency II is a risk-based, forward-looking regulatory regime founded on a ‘total balance sheet’ and market-consistent approach. Companies will need to run their business with an increased focus on risk management, governance and enhanced disclosure.

Amongst the latest developments on Solvency II is the agreement between the European Parliament and the European Council that the full implementation date for Solvency II will be 1 January 2014. With this deadline approaching, it is vital that insurers press ahead with their current plans and timetable. Any distraction now could prove potentially costly in the long run.

**IFRS 4, Phase II**

The IASB is working on a comprehensive standard that will fundamentally change the accounting by insurers, reinsurers and other entities that issue contracts with insurance risk. The proposals are the output of the IASB and FASB’s joint efforts to develop a single converged insurance standard. The FASB plans to issue a discussion paper that will incorporate the IASB’s proposals. The proposed standard would replace IFRS 4, which currently permits a variety of practices in accounting for insurance contracts.

The proposed standard would apply to all entities that issue contracts that contain insurance risk. IASB expects a review/redraft of the exposure draft (ED), issued in July 2010, to be released in 2012. The date of publishing of the final standard and the effective date are still to be determined, the latter date will not be earlier than 2013. Insurers should understand the implications of the new IFRS, as currently exposed in the ED, on their organisations and should start to assess the requirements, (for example in terms of data management), arising from the eventual introduction of this standard. There are synergies to be found between IFRS Phase II and Solvency II, which if identified, will mean that insurers do not “dig the road twice” when preparing for these two major changes.
6. About PwC Malta

6.1 A general background (PwC Malta)

The firm is the leading and largest practice of accountants and auditors in Malta. It forms part of the worldwide PwC organisation - the world's leading professional services organisation, drawing on the knowledge and skills of almost 169,000 people in 158 countries. This organisation is designed to give a worldwide coordinated service to clients and is under the surveillance of an international partnership which supervises the ethical and professional standards in all offices.

Within the broad range of services, which PwC provides, the principal areas are:

- Assurance
- Tax Services
- Company Administration Services
- Transactions
- Crisis Management
- Business & Performance Improvement
- Change & Programme Effectiveness
- Internal Audit Services

PwC also makes available a range of other services in Malta designed to provide businesses and organisations with a coordinated package of services that will contribute to future growth, efficiency and prosperity. The firm is currently responsible for serving a large and diverse client portfolio comprising some of Malta’s top companies. Its client list includes a number of public companies and institutions, private companies both large and small, foreign and local, and Government related companies. The annual report, ‘Review Malta Firm’ provides more insight into the Malta practice, and includes a list of insurance clients.

The firm’s head office is located at 167, Merchants Street, Valletta, where Tax Services and Corporate Services are located. Assurance and Advisory Services are located at Mill Street, Qormi.

Visit the Malta firm website www.pwc.com/mt to know more about us, about our services, and get the latest industry updates.
6.2 Our insurance client-portfolio

Our firm serves every major segment of the insurance industry, including local and foreign insurance principals, captive insurers and protected cell companies. We have a leading position in the insurance industry. Our clients include the majority of local insurance companies, a number of captives and foreign underwriters registered in Malta, as well as insurance intermediaries and insurance managers.

PwC actively participates in growing and shaping the insurance industry. We have been, and continue to be, involved in assisting in drafting segments of insurance and tax legislation. In recognition of the continued and sustained growth of the insurance sector in Malta and its requirements for high quality audit, tax and business advisory services, the Maltese firm has dedicated resources and professionals to service this industry. We have a team that specialises in this particular sector. The scale of this experienced resource pool cannot be matched by any other service provider in Malta.

Our presence in the insurance industry in Malta:

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<th>Assurance, tax and advisory services</th>
<th>Thought leadership</th>
<th>PwC's Academy*</th>
<th>Relationship with the Regulator</th>
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<td>• The leading insurance external audit firm</td>
<td>• Pioneers in advising on PCC/ICC structures and implications.</td>
<td>• Solvency II conference (May 2010).</td>
<td>• Excellent relationship with the Regulator.</td>
</tr>
<tr>
<td>• Tax services to a large number of insurance clients.</td>
<td>• Updating the market with developments through various communications including ongoing distribution of relevant publications to all our contacts.</td>
<td>• IFRS4 Phase II workshop (Oct 2010).</td>
<td>• Discussion, on an ongoing basis, on regulatory and accounting matters.</td>
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<td>• Advisory assistance on any aspect of doing insurance business. [example: viability of setting up operations in Malta].</td>
<td>• Co-ordinating with the PwC global network on Solvency II and IFRS4 Phase II developments.</td>
<td>• Several dedicated workshops addressing the training needs of clients.</td>
<td>• Liaison with the Regulator on a one to one client basis as required, particularly as part of the licensing process.</td>
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<td>• Assistance to MIA, [example: training on Solvency I to MIA members].</td>
<td>• Researching and discussing Malta specific issues.</td>
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<td>• Website continuously updated with latest industry developments</td>
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<td>• CEO Connect whereby CEOs are invited to come together to discuss issues, pertinent to their industry</td>
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<td>• Involvement in insurance conferences (example MIMA annual conference)</td>
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PwC provides services to 86% of insurance companies listed on the Fortune Global 500 (Source: PwC Global Annual Review 2011).
6.3 PwC – a global network

PwC is the largest provider of professional services to the insurance industry. This has allowed us to develop unique insights into the challenges, issues, and best practices that engage companies across the industry providing services to 86% of insurance companies listed on the Fortune Global 500.

Our global network of specialists has a proven track record of helping financial services organisations successfully address complex issues including growth, human capital, mergers and acquisitions, governance and risk management, regulation and compliance, process improvement and operational effectiveness.

More importantly, we are on the forefront of Solvency II developments and the challenge that this overhaul of regulation brings. We have access to an actuarial practice that has over 1,000 specialists in 36 countries providing life, health and non-life assurance and advisory services to the insurance industry, its regulators, and other financial services providers.

We advise a wide range of clients in traditional areas of actuarial work such as reserving, mergers and acquisitions, due diligence, exit solutions and capital modelling. As part of the world’s largest professional services organisation, we draw on the extensive knowledge of accountants, risk managers, performance improvement consultants, tax advisors, as well as corporate finance and business recovery specialists.

We specialise in helping financial services and insurance companies create, sustain and increase shareholder value by adopting a value-based approach to the issues they face. Risk quantification and dynamic financial modelling of risk outcomes provides the management tools required for more informed business decisions.

Our actuarial insurance services include:
- Risk management
- Market reporting, governance, regulation and compliance
- Processes
- Mergers, acquisitions and disposals
- Capital management
- Healthcare.

Source: http://www.pwc.com/gx/en/actuarial-insurance-services/index.jhtml updated as at Sep 2011

PwC firms help organisations and individuals create the value they’re looking for. We’re a network of firms in 158 countries with close to 169,000 people who are committed to delivering quality in assurance, tax and advisory services. Tell us what matters to you and find out more by visiting us at www.pwc.com.
How can we help?
7. How can we help?

Access to our specialists

PwC is the leading provider of professional services to the insurance industry in Malta. Our market footprint is significantly greater than that of any other accounting firm. We benefit from a wealth of experience and knowledge of insurance market practices, issues and developments, including access to a specialist network that continues to excel in this sector internationally.

This gives us unrivalled strength and depth of specialist insurance resources at all levels and in all disciplines, including audit services, accounting, tax and advisory services. PwC can assist you in all aspects of your business, as further outlined in this section.

### 7.1 Setting up and licensing process

- You can consult us throughout the various stages of the application and licensing process.

PwC Malta provides consultancy services throughout the various stages of the licensing process. These include:

- Introduction to the Maltese regulatory authorities, and the requirements for setting up an insurance business in Malta.
- Assistance in the preparation and/or review of the Scheme of Operations, with a focus on the financial components in the business plan, prior to submission to the Authorities, in liaison with the prospective insurer’s insurance managers and/or accountants and/or legal advisors as may be appropriate.
- Assistance in the compilation and/or co-ordination of documentation required at various stages of the licensing application process.
- Assistance in the compilation of the organisation’s policies and procedures with appropriate mapping to regulatory requirements and providing value added recommendations.
- Advice on ad hoc regulatory and general queries as they arise, including consideration of implications for complex non-standard insurance contracts.

### 7.2 Tax and company administration

- We can assist you in all your tax and company administration requirements.

### 7.3 Assurance

- Audit
- Third party assurance services
- Internal audit

### 7.4 Advisory

- Solvency II
- IFRS 4 Phase II
- Technical accounting
- Information technology
- Merger and acquisition
- Financial analysis
- Performance Improvement
- Data management
7.2 Tax and company administration

PwC Malta’s tax practice has significant experience in dealing with international structures, including, but not limited to, clients in the insurance industry. Our firm has assisted a large number of clients in setting up Malta structures. Our expertise in this field is enhanced by our membership of the PwC network.

Tax planning and advisory services vary depending on the complexity of the structures and the issues arising. It is our experience that some investment is required particularly in the initial stages in assessing the tax implications of operating in the insurance industry and exploring possible solutions.

Our firm can also provide assistance with the incorporation of a Maltese entity. In addition to dealing with annual income tax compliance, companies are required to submit annual returns to the Registrar of Companies. Our firm is well placed to assist with both of these legal obligations. We also assist with any tax refund claims that may be applicable in certain circumstances, both in advising on the setting up of an efficient tax refund process, as well as assisting in the compliance aspect of tax refund applications.

Particularly in the case of foreign insurance businesses or those employing individuals who are not ordinarily resident in Malta, or employing expatriates qualifying for the personal tax incentives under “The Highly Qualified Persons Rules, 2011”, we have the necessary expertise to advise and assist with personal income tax matters. We also provide human resource related services such as advice on organisation design, policies, assistance with global mobility matters, job evaluation and compensation, and payroll administration services.

Our practice is also well placed to provide various accounting services to insurance businesses, which could range from assistance with the production of monthly or quarterly management accounts to involvement in day-to-day book-keeping and reconciliation processes. The preparation of financial statements in accordance with IFRS is a complex process, particularly for insurance entities. We benefit from significant expertise in insurance accounting matters and disclosure requirements, and are well placed to assist our clients in this regard.

7.3 Assurance

Audit

Why choose PwC for your audit?

Our audit proposition focuses on your needs with emphasis on the following key features of our service delivery:
We are committed to adding value during the audit process

A value-added audit experience

Our audit will focus on the key risk areas in the context of the financial statements. We initiate this process by engaging in conversations with senior members of corporate governance such as the Board or Audit Committee (AC), and we direct our focus to areas of concern, at the same time minimising time on matters that are less significant. We seek to share our knowledge of best practices or issues that are typical of your business.

A ‘No surprises’ audit

We believe in a ‘no surprises’ audit and consider that ongoing and transparent communication is critical to this process. We endeavour to communicate with our clients throughout the year as well as at the year end. This helps to ensure that we are able to provide timely advice on events that may have an impact on your business. Communication can take several forms, including meetings with the AC and senior management, sharing of relevant publications, and involvement in related events like CEO Connect.

Third Party (TP) assurance services

Why look to TP assurance services?

When use TP assurance services?

- International Standard on Assurance Engagements (ISAE) 3402 reports are applicable when a service organisation seeks to provide their customers (the user organisations) with an understanding of its internal control environment.
- A user organisation’s external auditor can use the report to gain an understanding of, and potentially place reliance on, the testing of the internal controls at the service organisation.

Increased relevance under Solvency II

- The relevance of this type of service increases in the context of assurance on outsourced functions of an insurer, in line with the requirements of Pillar II under Solvency II (eg insurance managers).
- SMEs rely on outsourcing and this is a way of obtaining assurance over the service organisation, providing the outsourced function.

Why PwC for this service?

- PwC is a leading global provider of Third Party Assurance services and is recognised as a thought leader in the development and execution of controls assurance.
There are two types of ISAE 3402 report:

- **Type I** - details the service organisation’s description and design of controls at a specific point in time e.g. 31 December 2011.
- **Type II** - also includes details on the operating effectiveness of the controls over a period of time and, therefore address both the design effectiveness and operating effectiveness of controls.

**Benefits to customers**

Customers knowing that an organisation produces an ISAE 3402 report will obtain:

- Relevant information on policies, procedures and controls.
- A focused and independent assessment of controls and operating effectiveness.
- A globally recognised standard for reporting.

**Internal Audit**

Internal audit is a required function under the Solvency II system of governance. There are various options available to an organisation, through which the required internal audit function may be established. One possibility could be to outsource.

**7.4 Advisory**

PwC Malta is well positioned to provide advisory and consultancy services in relation to various aspects of setting up and on the operations of insurance businesses in Malta. We can provide various services including, inter-alia, assistance with ongoing regulatory and compliance matters, the implementation of Solvency II and advice on preparation for the requirements of IFRS for insurance contracts (Phase II). In this document, we will focus mainly on our Solvency II and IFRS offerings.
Solvency II

Solvency II is the most significant regulatory initiative for decades within the (re)insurance sector in the European Union and will usher in a new risk-sensitive solvency regime facilitating better capital utilisation, more robust risk management processes and improved competitiveness.

In preparing for all three pillars of Solvency II, PwC can help to:

- prioritise resources and next steps,
- identify areas to fix,
- raise awareness in the company,
- set the vision and ambition,
- tease out the business benefits,
- think about synergies between IFRS/Enterprise Risk management (ERM) and structural and capital issues,
- assist with implementation,
- document controls and procedures.

PwC Malta forms part of a team of representatives of the PwC network across the EU, who meet on a regular basis in the interest of sharing knowledge and experience across the network. We have ongoing access to network knowledge and resources that results in a wealth of Solvency II experience that is difficult to match, including actuarial expertise.

IFRS Insurance Contracts Phase II

On 30 July 2010, the International Accounting Standards Board (IASB) issued an Exposure Draft (ED) in relation to an IFRS on Insurance Contracts, for comment. The IASB plans to release a re-exposure or a review of the draft in 2012. The effective date is not yet clear, but it will not be before 2013. Insurers in Europe will be looking at this timetable in the context of the changes being implemented under Solvency II, which contains similarities in terms of the measurement model.

At this stage of the process, PwC can help you understand the exposure draft, identify the main impacts of the proposals and start to consider an outline for a transition plan (resources, data available, systems needs).

PwC Malta provides other general advisory services in the following areas:

Information technology

In preparation for Solvency II, PwC can support you in your assessment of system requirements and in your selection of a software provider in terms of requirements and our market knowledge.

Our data quality methodology and experience can help you address data quality issues by looking at data quality governance, quality of data and tools to manage data quality.

Our IT specialists are able to provide a range of advice from strategic to operational. We focus on assisting clients make the best of the technologies available, aligned to the type of organisation and the business processes concerned.

We also have an Information Security team that can carry out audits of the IT infrastructure, operations and data as well as internet connectivity penetration testing, internal LAN penetration testing and application vulnerability audits. We also provide advice on key issues in regulated sectors such as IT outsourcing; disaster recovery planning; security policies and data protection.
Accounting and reporting

Through its Accounting Consulting Services, PwC Malta has the necessary expertise locally to provide you with solutions to your accounting and reporting needs. We can provide various solutions, tailored to your needs, including:

- Assistance and advice in respect of the impact that new (and proposed) IFRS pronouncements may have on your company;
- Training of your management and/or finance team in respect of new IFRS pronouncements, or in respect of specific existing standards;
- Preparation, or assistance with the preparation, of your IFRS financial statements;
- Assistance in meeting your group’s internal reporting requirements;
- Assistance with the preparation of consolidated financial information that incorporates your company and its subsidiaries;
- Assistance with the provision of resources during situations where you have temporary requirements.

As a member of the PwC network of firms, we also have access to network knowledge and resources that we can mobilise according to your needs.

Merger and acquisition

We identify merger and acquisition candidates, perform acquisition advisory procedures and disposition assistance of businesses. We assist our clients through every stage of a transaction, including deal structuring and fund raising, and help clients adapt quickly to the resultant changes.

Financial analysis

Our finance specialists prepare prospective financial analyses for proposed and existing operations. We evaluate actual results, and analyse the effectiveness of an entity’s accounting and internal control systems for regulatory compliance and other purposes. Financial analysis services also include assisting entities in structuring joint venture agreements, negotiating management contracts and providing direction in the development of financial terms and the overall capital structure with lending institutions and investment banks.

Performance improvement

Our insurance specialists work within an organisation to assess areas for operational improvement and enhanced financial performance. This includes in-depth analysis by department of current practices, funds flow, staffing, departmental objectives, marketing initiatives and internal communication tools to enhance customer satisfaction and property earnings.
Solvency II – the requirements, your needs and how we can help you
8. Solvency II –the requirements, your needs and how we can help you

Solvency II is the largest change to European Insurance regulation to date:

- Introduces a new way of measuring assets and liabilities on a market consistent basis and calculating the capital requirement using a risk-based approach;
- Brings in the ‘three pillar’ principles of Basel II to the European insurance industry;

- Requires insurers to implement (and have approved) a model (standard formula or internal model) for capital calculation, with wide ranging impacts on risk management and decision-making processes; and
- Requires continuous dialogue with the firm’s supervisor (regulator) and significant changes to public disclosure.

Over the past months there has been significant debate about Solvency II’s implementation date following the European Council’s proposal to defer full Solvency II implementation until 1 January 2014, a one-year delay over original Omnibus II Directive proposals.

In this section, we consider the main requirements for insurers in relation to each pillar, your needs and ways in which PwC can support (re)insurers with their Solvency II projects.
8.1 The requirements in broad terms

Pillar I - the quantitative requirements

Capital requirements

- Insurers are required to calculate a Solvency Capital Requirement (SCR) using either a standard formula or an approved internal model. The SCR is a risk responsive capital measure calibrated to ensure that the insurer will be able to meet its obligations over the next 12 months with a probability of at least 99.5%.

- In addition a Minimum Capital Requirement (MCR) is calculated which represents a lower minimum level of security (calibrated at an 85% survival probability over a 1 year time horizon) below which the amount of an insurer’s financial resources should not fall. Insurers should cover the SCR with eligible own funds and the MCR with basic own funds, which are subject to more stringent eligibility criteria.

- The nature of the MCR is quite different to the SCR. The MCR is calculated using a comparatively simple formula (with reference to an insurer’s premiums, technical provisions, capital-at-risk, deferred tax and administrative expenses), with a floor and a cap (based on prescribed percentages of between 25% and 45% of SCR).

- The MCR is subject to a prescribed minimum referred to as the ‘absolute floor’ as summarised in the following table.
Capital requirements - MCR absolute minimum

<table>
<thead>
<tr>
<th>Insurers</th>
<th>Minimum MCR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-life direct insurer</td>
<td>€3.2 million</td>
</tr>
<tr>
<td>Liability insurer</td>
<td>€2.2 million</td>
</tr>
<tr>
<td>Other insurer (including captive insurers)</td>
<td></td>
</tr>
<tr>
<td>Life direct insurer (including captive insurers)</td>
<td>€3.2 million</td>
</tr>
<tr>
<td>Reinsurer (life and non-life)</td>
<td>€3.2 million</td>
</tr>
<tr>
<td>Reinsurer excluding captive reinsurer</td>
<td>€1.0 million</td>
</tr>
<tr>
<td>Captive reinsurer</td>
<td></td>
</tr>
</tbody>
</table>

Capital requirements - SCR risk components

The calculation of SCR is risk-based, complex, and is more reflective of the particular risk profile of the insurer.
The SCR (whether calculated by standard formula or internal model) requires careful consideration and calibration of the different risks that the entity is exposed to and calculation of the corresponding capital that should be attached to each risk module.

**Own funds requirement**

The Directive provides that own funds are comprised of items on balance sheet (basic own funds) and items that may be called up to absorb losses (items off the balance sheet known as ancillary own funds).

The main constituent of basic own funds is the excess of assets over liabilities (as valued for the purposes of the Solvency II regulatory balance sheet), but also includes subordinated liabilities. Examples of ancillary own funds include unpaid share capital, letters of credit and guarantees.

Basic own funds are classified into tiers and the degree of their eligibility differs accordingly:

- Ancillary own funds are not available to cover the MCR.
- At least 80% of MCR should be covered by Tier 1 eligible own funds.
- At least 50% of the SCR should be covered by Tier 1 own funds and no more than 15% of the SCR may be covered by Tier 3 own funds.

The following table summarises the characteristics of own funds within each tier.

Source: Solvency II A guide to the new regime by PwC Jan 2011

<table>
<thead>
<tr>
<th>Tier</th>
<th>Basic own funds</th>
<th>Ancillary own funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1</td>
<td>Deep subordination; unable to cause or accelerate insolvency; immediately available to absorb losses; sufficient duration (at least 10 years); absence of redemption incentives; suspension of redemption or repayment; suspension of serving costs; absence of encumbrances. A maximum of 20% of Tier 1 own funds may be composed of preference shares, subordinated liabilities and subordinated mutual member accounts, provided such instruments have conversation, waiver of principal or other equivalent features on a significant (less than 75%) or prolonged (over two month) breach of SCR.</td>
<td>N/A</td>
</tr>
<tr>
<td>Tier 2</td>
<td>Subordination; unable to cause or accelerate insolvency; called up; sufficient duration (at least 5 years); absence of strong redemption incentives; suspension of redemption or repayment; deferral of servicing costs; absence of encumbrances.</td>
<td>Would give rise to a Tier 1 basic own fund item if called.</td>
</tr>
<tr>
<td>Tier 3</td>
<td>Subordination; unable to cause or accelerate insolvency; sufficient duration (at least 3 years); suspension of redemption or repayment; deferral of servicing costs; absence of encumbrances. Does not have characteristics to fall within Tiers 1 or 2.</td>
<td>Off balance sheet items that may be called absorb losses. Would not have the characteristics to fall within Tier 1 if called.</td>
</tr>
</tbody>
</table>
Technical provisions

- Immediate transfer of obligation: Valued at the current amount an insurer would have to pay for an immediate transfer of its obligations to another insurer.
- Best estimate + risk margin: Technical provisions should be calculated as the sum of a best estimate and a risk margin.
- Segmentation: A prescribed minimum level of business segmentation at which the calculation of technical provisions should be performed is proposed. It is possible that these defined business segments may not be aligned with the ways insurers currently segment their business for reporting purposes.
- Best estimate: Probability-weighted average of future cash-flows, discounted at a risk-free rate. Only those cash flows that belong to existing insurance contracts are included in the valuation of technical provisions. Basic risk-free rates are derived from swap rates with an adjustment for credit risk. The (explicit) risk margin must be calculated as the cost of providing an amount of capital equal to the SCR necessary to support the insurance obligations over the lifetime thereof. The cost shall be calculated based on the additional rate (referred to as the ‘cost of capital rate’), above the relevant risk-free interest rate, that an insurer would incur holding that capital.

Measurement of assets and other liabilities

The Directive requires that the assets and liabilities of insurers be valued on a basis that reflects their fair value (described as an 'economic valuation') with the exception that liabilities should not be adjusted to take account of an insurer’s own credit standing.

Key points arising so far include (as per QISS Technical specifications):

- No value will be ascribed to goodwill or to most intangible assets;
- Financial assets/investment property will be valued at fair value;
- The initial measurement of financial liabilities should be at fair value;
- Investments in subsidiaries and associates for which there is no active market must generally be valued by reference to the regulatory value of the underlying assets;
- Contingent liabilities must be recognised as a liability and valued based on the discounted probability-weighted average of future cash flows;
- Deferred tax assets/liabilities will be measured as per IFRS (i.e. undiscounted basis).

*The Directive does not include a prescribed list of 'admissible assets' that insurers may invest in but rather requires insurers to invest their assets in accordance with a principles based 'prudent person' regime.*
Pillar II - the system of governance requirements

Solvency II will require insurers to develop and demonstrate an adequate system of governance, including appropriate internal organisation and key functions, an effective risk management system, and prospective risk identification through the own risk and solvency assessment (ORSA). The main requirements of the system of governance under Pillar II include:

<table>
<thead>
<tr>
<th>Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Well defined, transparent and consistent lines of responsibilities, appropriate segregation of duties</td>
</tr>
<tr>
<td>Criteria for key functions at all time: fit and proper</td>
</tr>
<tr>
<td>Risk management</td>
</tr>
<tr>
<td>Risk management function</td>
</tr>
<tr>
<td>Internal control</td>
</tr>
<tr>
<td>Compliance function</td>
</tr>
<tr>
<td>Internal Audit</td>
</tr>
<tr>
<td>Internal audit function</td>
</tr>
<tr>
<td>Actuarial function</td>
</tr>
<tr>
<td>Own risk and solvency assessment (ORSA)</td>
</tr>
</tbody>
</table>
The following is a description of each of the components of the system of governance:

<table>
<thead>
<tr>
<th>Lines of responsibilities, appropriate segregation of duties</th>
<th>Insurers shall have in place an effective system of governance which provides for sound and prudent management of the business. Review of policies at least annually and subject to prior approval by administrator or management body.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fit and proper</td>
<td>All those who perform governance functions must be fit and proper (although only the function holders need to be notified to supervisors). Professional qualifications and experience should be taken into account when assessing competence.</td>
</tr>
<tr>
<td>Risk management</td>
<td>Shall have effective risk management systems in place to identify, measure, monitor, manage and report risks on an individual and aggregate level to which they could be exposed. This system must consider risks at an individual level and in aggregate, taking into account their interdependencies. The risk management system needs to be effective and integrated into the decision making process. It should consider those who run or hold key functions within the organisation.</td>
</tr>
<tr>
<td>Internal control</td>
<td>To have an effective internal control system in place which includes administrative and accounting procedures, an internal control framework, appropriate reporting arrangements at all levels and a compliance function. The compliance function is responsible for advising management on compliance with laws and regulations including the identification of compliance risk and the assessment of the potential impact of changes in the legal environment.</td>
</tr>
<tr>
<td>Internal Audit</td>
<td>Insurers are required to have an effective internal audit function. Internal audit is responsible for evaluating the effectiveness and adequacy of the internal control system and other areas of governance. Internal audit must be objective and independent from other operational functions. It will report its findings to the management body. The management body will determine what actions are to be taken as a result of those findings and shall ensure those actions are carried out.</td>
</tr>
<tr>
<td>Actuarial function</td>
<td>Insurers are required to have an effective actuarial function. The actuarial function must be carried out by persons with relevant experience who are appropriately skilled in actuarial and financial mathematics.</td>
</tr>
<tr>
<td>ORSA</td>
<td>Insurers should assess their own overall solvency needs taking into account: Risk appetite / risk profile, Appropriateness standard formula / (partial) internal model, Emerging risks, Appropriateness of contingency plans, etc.</td>
</tr>
</tbody>
</table>
Pillar III – Disclosure requirements

A new set of EEA-wide reporting and disclosure requirements will replace current regulatory reporting requirements. Reporting requirements under Solvency II include both private reporting by insurers to their supervisors referred to as regular supervisory reports (RSR) together with public reporting in the form of an annual Solvency and Financial Condition Report (SFCR). The following tables illustrate the main reporting requirements arising under Pillar 3:

<table>
<thead>
<tr>
<th>Supervisor</th>
<th>Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>ORSA</td>
<td>SFCR</td>
</tr>
<tr>
<td>RSR</td>
<td></td>
</tr>
<tr>
<td>QRT quarterly</td>
<td></td>
</tr>
<tr>
<td></td>
<td>QRT annual</td>
</tr>
</tbody>
</table>

Undertaking

**Information to be received by the supervisory authority**

<table>
<thead>
<tr>
<th>Regular supervisory reporting and public disclosure at predefined periods</th>
<th>Solvency and financial condition report (SFCR) Art.50</th>
</tr>
</thead>
<tbody>
<tr>
<td>Report to supervisors (RTS) Art. 35(1)</td>
<td>Publicly disclosed information</td>
</tr>
<tr>
<td>All information necessary for the purposes of supervision</td>
<td>- Qualitative report</td>
</tr>
<tr>
<td>- Qualitative report</td>
<td>- Quantitative reporting templates</td>
</tr>
<tr>
<td>- Quantitative reporting templates</td>
<td></td>
</tr>
</tbody>
</table>

Art. 35 (2) (a) (ii) and Art. 53(1) - upon occurrence of predefined events

Art. 35 (2) (a) (iii) - during enquiries regarding the situation of an undertaking
Key changes from the current regime include:

- Making risk and capital information more relevant and up to date;
- Quarterly reporting (currently required, but more onerous under Solvency II);
- Production and disclosure turnaround from many months to a number of days;
- More strategic and forward looking information than current regime;
- Ability to assess changes in capital position after a specific event (e.g. acquisition, new product launch or market movement);
- Introduction of public disclosure of solvency information, previously only reported to regulators.

Questions that need to be answered:

- What are the implications for existing financial consolidation and reporting processes, data and systems?
- How much will it cost to comply and what are the options?
- How does pillar 3 align with pillars 1 and 2 management information requirements?
- Is there benefit in addressing Pillar 3 in parallel with IFRS phase 2 requirements?
- What are the likely implications for the finance function?
- Can this investment be leveraged to transform the effectiveness of the finance function?
8.2 Where do we stand on Solvency II?

Level 1,2,3 of the process

The following diagram provides an overview of where we stand (January 2012) on each of the levels of the process:

**Level 1 framework principles**


The Omnibus II Directive (currently in working draft form), when adopted, will amend the Directive in relation to implementation date, transitional measures and Level 3 technical standards.

**Level 2 implementing measures**

More detailed implementing measures that are needed to operationalise the Level 1 framework legislation.

After consultation, CEIOPS provided advice to the European Commission on Level 2 implementing measures.

The implementing measures are due to be finalised during 2012.

**Level 3 guidelines/binding technical standards**

Level 3 guidance/standards seek to advise and set requirements respectively for supervisors on how Level 1 and level 2 measures are implemented in individual Member States.

Currently Level 3 is in pre-consultation phase. Public consultation is expected to take place in 2012, with adoption expected by end 2012.
8.3 How can PwC assist you with Solvency II?

PwC Malta can provide you with an extensive range of services in relation to all aspects of Solvency II, also linking with other offices across the PWC network as needed:

<table>
<thead>
<tr>
<th>Area</th>
<th>PwC services</th>
</tr>
</thead>
</table>
| Risk framework design and implementation | Risk universe, identification and allocation  
Risk appetite development  
Risk policy development  
Governance structure evaluation and enhancement  
Risk Management Information (M.I.) - Board and operational level  
Risk Management Function design and operating model  
Embedding risk management into key business processes  
Defining and implementing Risk technology requirements  
Defining and implementing risk culture |
| Models, data and IT | Capital adequacy and model definition and support, Pillar 1  
Capital adequacy, Pillar 2, including ORSA processes  
Determination of SCR and MCR  
Risk measurement methods - insurance risk, market risk, credit risk, liquidity risk, operational risk  
Standard formula and QIS support  
Stress and scenario testing  
Technical provisions and reserving  
Data requirements  
Risk technology requirements - executive level  
Risk technology requirements - individual risk types |
| Disclosure and market communication | External communications to market/analysts/rating agencies  
SII reporting – Report to supervisors (RTS) and Solvency and Financial Condition Report (SFCR)  
Own Risk and Solvency Assessment (ORSA) reporting |
| Risk and finance process change | Risk and finance data integration analysis  
Process alignment and re-design  
M.I. change and implementation - Board and operational  
Outsourcing |
| Capital management and Business strategy | Business case development  
Business strategy changes  
Target operating model (Business and use test)  
Capital management and risk mitigation  
Group structures  
Pricing and distribution  
Business re-organisation and restructuring  
Capital structuring and tax support |
| Solvency II Assurance | Internal Model Approval Process (IMAP) support  
Model documentation  
Model validation  
Internal audit support  
Data assurance  
Programme assurance  
Internal controls framework enhancement  
Gap analysis and readiness assessments  
Regulatory requirements |

With Solvency II deadlines no longer a distant spectre on the horizon, companies are addressing the issues that implementation will bring and are increasingly looking to external firms for support.
Internal audit

1. Insurance and reinsurance undertakings shall provide for an effective internal audit function. The internal audit function shall include an evaluation of the adequacy and effectiveness of the internal control system and other elements of the system of governance.

2. The internal audit function shall be objective and independent from the operational functions.

3. Any findings and recommendations of the internal audit shall be reported to the administrative, management or supervisory body which shall determine what actions are to be taken with respect to each of the internal audit findings and recommendations and shall ensure that those actions are carried out.
Further guidance in relation to the internal audit function suggests that:

- it shall perform assignments impartially according to its own plan;
- it shall have unrestricted access to all information and processes it requires to perform its activities;
- all business units and processes are within the scope of internal audit;
- it is required to prepare an annual report to the management body;
- it shall not be instructed by management when performing audits and evaluating results;
- a formal document approved by the management body should set out objectives, scope, status, competence/tasks and responsibilities of the internal audit;
- establishment of an audit committee may be appropriate in large insurers with more complex risk profiles;
- the function shall have sufficient resources;
- there should be adequate procedures to track management’s remedial actions;
- audits should be documented in a way that makes it possible to retrace audit procedures.

Why outsource the internal audit function?

Outsourcing of the internal audit function can be the most effective solution for certain insurers, for instance where the latter do not have the resources, competence and infrastructure to retain the internal audit function internally.

Why PwC?

**Comprehensive** – we look at the insurer as a whole, considering the impact of Solvency II on all business areas now and in the future.

**Resources** – we have the largest insurance practice of any professional services company in Malta. Our staff have market leading training, access to tools and knowledge and share their delivery experiences.

**Responsive** – specialist skills are in short supply and insurers will hit the same critical programme delivery points at the same time. We help our clients plan ahead, gain the most from valuable members of staff and use our resources to assist at critical times.

**Experienced** – we have unparalleled experience locally of auditing the insurance industry, and in carrying out internal audit assignments. We have strong relationships with the supervisor locally and in Europe.

**Partnership** – we take a ‘teaming’ approach to working with our clients to meet your requirements. Bringing tools, people and skills to complement those within your organisation, to draw on the best industry practices and to supplement the gaps you have in your resource base.
How can we help in practice?

We offer practical solutions:

We can provide you with a comprehensive internal audit solution in the light of Solvency II requirements, guidance and best practice.

Alternatively, we can provide you with ad hoc support as and when it is required, without assuming responsibility for the function as a whole.

We can assist you in applying the concept of proportionality in complying with the demands of Solvency II in a practical and proportionate manner.

We are knowledgeable of Solvency II requirements and will plan and conduct our work to meet these requirements at all times.

We have a vast experience of internal audit assignments.

Gap analysis

What's in a gap analysis?

The most important starting point is your ambition level for Solvency II.

A gap analysis:

- Seeks to maximise business benefits and synergies with your business strategy and systems, and existing change projects.
- Is an honest assessment of current state.
- Is sufficiently detailed to inform an implementation plan.
  - Should not overstate compliance costs/avoid reinventing the wheel.
  - Builds the business case for change, including resources.

What's in a gap analysis?

- We are the leading firm for Solvency II support.
- We have invested in the market through our involvement in various working parties. We know the issues.
- Experience of gap analysis already – we know the pitfalls.
- Independent challenge against our technical expertise, wider market knowledge and practical experience.
- Partnership approach - working with your team to make findings relevant and get maximum knowledge transfer.
- Our approach delivers a practical and durable implementation plan than can be used as a reference point for your ongoing project.
**How can we help in practice?**

**We offer practical solutions:**

We can be provide you with a comprehensive internal audit solution in the light of Solvency II requirements, guidance and best practice. Alternatively, we can provide you with ad hoc support as and when it is required, without assuming responsibility for the function as a whole. We can assist you in applying the concept of proportionality in complying with the demands of Solvency II in a practical and proportionate manner. We are knowledgeable of Solvency II requirements and will plan and conduct our work to meet these requirements at all times. We have a vast experience of internal audit assignments.

**Gap analysis**

**What’s in a gap analysis?**

The most important starting point is your ambition level for Solvency II. A gap analysis:

- Seeks to maximise business benefits and synergies with your business strategy and systems, and existing change projects.
- Is an honest assessment of current state.
- Is sufficiently detailed to inform an implementation plan.
  - Should not overstate compliance costs/avoid reinventing the wheel.
  - Builds the business case for change, including resources.

**How PwC can help you achieve your objectives**

- We are the leading firm for Solvency II support.
- We have invested in the market through our involvement in various working parties. We know the issues.
- Experience of gap analysis already – we know the pitfalls.
- Independent challenge against our technical expertise, wider market knowledge and practical experience.
- Partnership approach - working with your team to make findings relevant and get maximum knowledge transfer.
- Our approach delivers a practical and durable implementation plan than can be used as a reference point for your ongoing project.
PwC Approach to gap analysis

During a gap analysis we conduct a comprehensive assessment of status, including internal capital model and risk management framework, against the supervisory requirements of Solvency II and our knowledge of market best practices.

The output of our review will be a summary of the key gaps, their relative priority and urgency alongside a view of the resource and time demands needed, and our recommendations.

Our experience has shown that overly detailed documents have not been as useful for our clients as interactive sessions. Hence, the output of the gap analysis is generally discussed with you to create a detailed implementation plan, sharing our recommendations. We will work alongside you to create that plan.

Risk management

Minimum key functions within risk management system under Pillar 2 of the Solvency II Directive are represented below.
Concept of three lines of defense

1st line of defence
Risks are identified and assessed on operational level at the respective operating departments
Focus on single risks

2nd line of defence
Risks are aggregated and included into undertaking-wide risk profile by risk management function
Focus on risk profile and undertaking as a whole

3rd line of defence
Efficiency and adequacy of risk management processes to identify and assess risks are regularly validated by the internal audit function and the risk management function
Focus on risk management system and underlying processes

How can PwC help you close the gap to excellent risk and capital risk management?

Components of Risk Management Framework and how we can help

Risk Appetite
- Design risk appetite framework
- Integrate with planning process
- “Operationalise” risk appetite
- Integrate with planning process

Policies and controls
- Gap analysis against best practice
- Risk governance design/policy formulation
- Framework review /assurance
- Control review/assurance

Risk and capital models
- Independent model review and evaluation
- Design and build models
- Fit for purpose internal models for Solvency II

Risk and Capital MI
- Develop more effective Management Information (MI)
- Help develop consistent Finance and Risk MI
- Align MI to risk performance and reward
Data quality management

Data quality imperatives: 3 key themes

The supervisor requires the undertaking to demonstrate that the data used to calculate capital adequacy is reliable as to completeness, accuracy and appropriateness.

The requirements concerning data quality are also referred to in consultation papers CP 33 “System of Governance” and CP 60 “Assessment of Group Solvency 2”. The data quality requirement applies to all indicators (Best estimate, Minimum capital requirement, Solvency capital requirement).

Implementation of Solvency II requirements

Data Directory
• The undertaking must compile a directory of any data used, specify their source, characteristics and usage.

Data quality control
• The undertaking must demonstrate that the data is appropriate, accurate and complete. To this end, the undertaking must perform regular data quality checks using specifically designed processes.

Data deficiencies
• The undertaking must document all instances in which data quality may be compromised, together with the related implications.

Data policy
• EIOPA requests that undertakings formulate their own policy on data quality and data updates, which must be approved by the undertaking’s senior management.

Source: CEIOPS Level 2 final advice on system of governance

How can PwC help?

PwC has developed a methodology to assist you in your data compliance project.

Map, analyse and take remedial action

<table>
<thead>
<tr>
<th>Data directory</th>
<th>Identification of all the data concerned based on model requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mapping of source systems</td>
<td>Record sources (management applications, InfoContre, other feed systems for relevant risk data)</td>
</tr>
<tr>
<td>Data quality reference frames</td>
<td>Express the three criteria for measuring data quality by the branch in terms of indicators and reference frames</td>
</tr>
<tr>
<td>Process and flow mapping</td>
<td>Model all feed channels</td>
</tr>
<tr>
<td>Internal control systems</td>
<td>Record and document all existing controls</td>
</tr>
<tr>
<td>General documentation</td>
<td>Mapping of risk universe coverage</td>
</tr>
<tr>
<td></td>
<td>Definition of risk/control/process matrices</td>
</tr>
<tr>
<td></td>
<td>Organise reference documentation into clear subjects aligned with risk process architecture</td>
</tr>
</tbody>
</table>
**Pillar 3 reporting**

Now is the time to start thinking about what Pillar 3 disclosures mean for your company and more specifically the finance function.

The following table illustrates PwC’s approach to preparing for Pillar 3 requirements.

<table>
<thead>
<tr>
<th>Assess</th>
<th>Design</th>
<th>Construct &amp; Implement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Understand impact of Pillar III on Finance Function</td>
<td>2. Define required changes to the finance function</td>
<td>3. Construct and implement changes</td>
</tr>
<tr>
<td>1a. Understand Pillar III requirements</td>
<td>2a. Tactical</td>
<td>A. Finance operating model</td>
</tr>
<tr>
<td>1b. Perform gap analysis to existing reporting</td>
<td>2b. Strategic</td>
<td>B. MI</td>
</tr>
<tr>
<td>1c. Define impact on MI strategy (include Pillars I and II)</td>
<td>Plan</td>
<td>C. Reporting process</td>
</tr>
<tr>
<td></td>
<td></td>
<td>D. Data and technology</td>
</tr>
</tbody>
</table>

In summary, the approach is based on three courses of action:

**Gap Analysis**

Perform Gap analysis and define solution strategy

**IFRS, Pillar I, Pillar II linkages**

Understand linkages with Pillar I, Pillar II and IFRS Phase II

**Implications for finance and resources**

Assess the implications for finance & resources (people and systems)

**How can PwC help you with Pillar 3 reporting?**

PwC has the people, tools and methodologies to assist you in every stage of the process detailed above. We can help you get ready in time for Pillar 3 reporting.
The PwC Malta team
9. The PwC Malta team

Assurance

Simon Flynn
Partner – Insurance Practice Leader
Phone: +356 2564 7605
Email: simon.flynn@mt.pwc.com

Simon Flynn has been an Audit Partner with PwC since 1998 and heads the firm’s Assurance practice. He handles a wide portfolio of clients, including a large number in the insurance sector. Simon also leads the firm’s insurance practice and lectures in Insurance Accounting at the University of Malta, both at under-graduate and at post graduate level. He has been a speaker at a number of financial services conferences, organised both by the firm and externally, on auditing, accounting and regulatory matters. Simon is also responsible for the firm’s internal training programmes and for PwC’s Academy, the firm’s external training arm. He is currently a member of the Accountancy Board and is a Council Member and Past President of the Malta Institute of Accountants.

Romina Soler
Assurance Partner
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Romina is actively involved in the Malta firm’s business assurance division, with a special emphasis in the insurance field, and has been a partner since 2006. She has led numerous insurance assignments over the years including statutory audits, IFRS conversions, and various advisory assignments including due diligences, regulatory projects, including various insurance company licensing processes, feasibility studies and recommendations for PCC structures. Her experience includes a one-year secondment to the insurance audit practice in PwC London. Romina was extensively involved in seminars and projects dealing with the transition to Solvency I in Malta. She is presently a leading member of the Solvency II local team of experts. She also represents PwC Malta during quarterly PwC Solvency II Co-ordinators’ workshops, involving all EU jurisdictions and aimed at staying alert of all developments, of topical issues and enabling ready access to network expertise, as and when required. She provides ongoing training support on insurance related matters internally and to the external market, through PwC Academy training programme and dedicated workshops.
Lucienne Pace Ross
Assurance Partner
Phone: +356 2564 7118
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Lucienne Pace Ross is a partner in the Malta Assurance practice. She joined the firm in 1997 and has since worked with the firm, obtaining experience on both local and international client assignments. Lucienne was appointed partner in 2006. She has specialised in the financial services industry, namely the insurance and the asset management industry. Her experience spans from audit engagements to a number of non-audit insurance assignments, including reviews, due diligences, IFRS conversions, and providing accounting insurance guidance on a number of accounting and regulatory matters. Lucienne also complemented her experience with a short term secondment to the PwC New York office. Lucienne is actively involved in the development of audit methodology at a local and global level and leads a number of training activities. Lucienne has also participated in seminars to the public on insurance related matters. She is a member of the Malta Institute of Accountants CPE Committee.

Michelle Agius
Assurance Senior Manager
Phone: +356 2564 7113
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Michelle is actively involved in the firm’s assurance practice, and has, for a number of years, had a special interest in work related to insurance and investment management. She joined PwC after graduating in Accountancy at the University of Malta. Michelle is part of the IFRS technical team in the PwC Malta office and is therefore actively involved in training courses for local staff and clients. She participated in quality reviews in London, Athens and Cyprus and worked at the Milan office while seconded to PwC Italy. For a number of years Michelle was involved in activities led by the Malta Institute of Accountants and served on the Council and on a number of technical committees.
Marisa Tanti
Assurance Senior Manager
Phone: +356 2564 7124
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Marisa joined the firm in 2000 after having successfully completed her Accountancy degree at the University of Malta. She has handled financial services clients since she joined the firm and is currently responsible for most of the office’s insurance audit clients, including both local and foreign insurance companies, managers and brokers, registered in Malta. Her experience was also complemented with a short term secondment to the PwC Jersey office. Marisa is a member of the Malta Institute of Accountants (MIA) and a Certified Public Accountant (CPA).

Owen Camilleri
Assurance Senior Manager
Phone: +356 2564 7235
Email: owen.camilleri@mt.pwc.com

Owen, a graduate in Accountancy from the University of Malta, joined the firm in 1999. He manages the audit of various insurance companies and banks registered in Malta. Owen extended his auditing experience in financial services during his secondment to the PwC Jersey and London offices. During his secondment in London he contributed to the preparation for PwC’s Illustrative Consolidated Financial Statements for a fictional insurance group for worldwide distribution. Owen is a member of the Malta Institute of Accountants (MIA) and a Certified Public Accountant (CPA).
Marvic O’Dwyer
Senior Manager – Insurance Regulatory Specialist
Phone: +356 2564 7228
Email: marvic.odwyer@mt.pwc.com

Marvic is a senior manager focusing on insurance specialist services. She holds an accountancy degree from the University of Malta. Previously a member of the PwC assurance team, she acquired 8 years’ audit experience mainly in insurance, including insurance audit engagements at the PwC London and New York offices. She was also involved in the implementation of Solvency I in Malta through conferences and assignments. Within her two years’ experience as an account manager in Dublin she managed a portfolio of captives, domiciled in Ireland. Marvic has recently rejoined PwC Malta to specialise in non-audit insurance assignments, with focus on Solvency II and other regulatory and accounting developments.

Stephen Mamo
Assurance Manager
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Stephen holds an accountancy degree from the University of Malta and currently works as an audit manager within the assurance department. He joined the firm in 2004 and furthered his experience in foreign PwC offices whilst on secondment in Canada and the Channel Islands. Stephen currently services a portfolio of high profile clients in a number of industries, including listed companies, and a number of insurance engagements. He is also active in in-house training and lectures on Audit and Assurance with BPP Malta. Steve is a member of the Malta Institute of Accountants (MIA) and a Certified Public Accountant (CPA).
Isabel Agius
Assurance Manager
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Isabel holds a degree in Business Accounting and Finance from the University of Newcastle and an Accredited Chartered Accountancy (ACA) qualification from the Institute of Chartered Accountancy in England and Wales. Isabel joined PwC Edinburgh in 2005, where she specialised in Insurance and Investment Management. She joined PwC Malta in 2009, where she continued to specialise in the financial services industry. She currently manages the audits of a number of investment management and life insurance related assignments.

Michael Formosa
Assurance Assistant Manager
Phone: +356 2564 7248
Email: michael.formosa@mt.pwc.com

Michael joined the firm in 2006 after having successfully completed the Accountancy degree at the University of Malta. His client portfolio includes listed companies and some of the major insurance and captive companies registered in Malta. During 2009, he worked in the Banking and Capital Markets unit of PwC New York office where he was seconded for 6 months. He is active in the learning and education programme in the local office. Michael is a member of the Malta Institute of Accountants and a Certified Public Accountant (CPA).
Alexander Abela
Assurance Assistant Manager
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Alexander joined the firm in 2006 after having successfully completed his Accountancy degree at the University of Malta. He has been involved in the audit of financial services clients, including insurance clients since he joined the firm. He also completed a six month secondment in PwC Florence where he mainly worked on assignments in the financial services industry. Alexander is a member of the Malta Institute of Accountants (MIA) and a Certified Public Accountant (CPA).
Tax and Legal
Neville Gatt
Tax and Legal Services Partner
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Neville graduated in law from the University of Malta in 1993 and joined the firm in 1994 after specialising in International and EC taxation at the University of London. Throughout his career, he has acquired material experience of international tax, EC tax and related issues. For a long number of years he has been in charge of a variety of cross-border tax and legal assignments in different industries. Throughout the last decade, Neville’s portfolio of clients has included a material number of insurance clients, in respect of which he has co-ordinated both local and international tax assignments. On various occasions he has also been involved in making submissions relative to innovations in respect of the Maltese tax treatment of insurance activities. Neville also lectures and examines in International and EC Tax legislation at the University of Malta and in Tax law at the Malta Institute of Taxation and has addressed various seminars and conferences on these subjects both locally and overseas.

Bernard Attard
Tax and Legal Services Partner
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Bernard holds a Bachelor of Accountancy (Hons.) degree from the University of Malta. After graduating from University in 1998, Bernard joined PwC Malta and in 2007 he was seconded to the International Tax Structuring Group at PwC Berlin. Over the past twelve years working in the Tax and Legal Services Unit of PwC, Bernard has been involved in various tax and related assignments both internationally and locally for clients in a wide variety of industries including insurance. Bernard has attended and addressed various technical seminars and conferences. He also lectures in tax law at the University of Malta. Bernard is a member of the Tax Committee of Finance Malta and a member of the Tax Committee of the Institute of Financial Services Practitioners of Malta.
Mirko Rapa  
Tax and Legal Services Senior Manager 
Phone: +356 2564 6738 
Email: mirko.rapa@mt.pwc.com

Mirko joined the firm in 2002 after having successfully completed the Accountancy degree at the University of Malta. He has worked for some time in the international tax department at PwC Berlin and currently provides tax advice to a varied portfolio of clients. In particular, Mirko has been involved in providing tax advice to entities operating in the financial services sector namely those carrying on the business of banking and insurance as well as funds and other entities in the asset management sector. Mirko also lectures in advanced taxation to students preparing for the ACCA and the Advanced Diploma in International Taxation examinations.

Steve Gingell  
Tax and Legal Services Senior Manager  
Phone: +356 2564 6732  
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Steve joined the firm’s tax practice in 2003 after completing his Accountancy degree at the University of Malta. In 2005, Steve continued furthering his studies at the University of London and read for a masters degree in tax law. Following this, Steve completed a two-year secondment in the firm’s London tax practice where he was involved in providing tax advisory services to a portfolio of FTSE500 clients. Steve returned to Malta in September 2008 and advises a wide variety of local and international clients that operate in the insurance sector. Steve has participated in various projects involving international and local tax structuring, corporate reorganisations and indirect taxation. He also lectures in advanced taxation to students preparing for the ACCA and the Advanced Diploma in International Taxation examinations.
Systems and Process Assurance

George Sammut
Systems and Process Assurance Partner
Phone: +356 2564 7608
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George is an information systems consultant with over 20 years experience. He has led a number of projects in Malta and abroad including Business Analysis, Systems Selection, Information Security Reviews, IT Governance, Procurement, Disaster Recovery Planning, Systems Certification, e-Business strategy and implementations. He has worked in a variety of sectors such as Financial Services including banking and insurance. George and his team also provide advisory services relating to IT systems and security effectiveness and performance improvement enabled by technology solutions.

Gordon Micallef
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Gordon is a Senior Manager within the Systems and Process Assurance (SPA) practice in Malta. He has over 10 years of information systems governance, security, and audit experience across various industries. Gordon has led several general IT controls reviews, including documenting and assessing controls over operations and management, application change control, computer operations, security administration, physical and logical security, and disaster recovery planning. Gordon was seconded to the Systems and Process Assurance (SPA) practice in Philadelphia, U.S. for a period of 3 months. During his secondment, Gordon was responsible to identify, document and assess business and IT controls over systems interfaces of a major health insurance provider in the U.S. as part of the Sarbanes-Oxley readiness assessment. He was also involved in a number of IT audits for other health insurance clients of the practice in Philadelphia.
Ivan Grech
Systems and Process Assurance Manager
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Email: ivan.grech@mt.pwc.com

Ivan joined the firm in October 2003 after successfully completing the Accountancy degree from the University of Malta. Ivan has been involved in several reviews of system-based and manual controls as well as cycle and system flow mapping in the insurance industry. He was also a member of a team that carried out an insurance specific investigation relating to the breakdown of controls and a fraud investigation. Ivan has been seconded twice to the SPA practice in London, UK, for a total of period of 12 months. During his secondment, Ivan was involved on the information systems audit of several insurance and investment management clients. He was also involved on a SAS 70 audit over the IT controls of a world leading financial services company. He was also involved on a dry run controls testing as part of a Sarbanes-Oxley Readiness Assessment.
Appendices
Appendix A – Doing business and investing in Malta

This Guide has been prepared for the assistance of those interested in doing business in Malta. It is not intended to cover exhaustively the subjects it addresses but rather to answer some of the important, broad questions that may arise for a potential investor. When specific problems occur in practice, it will often be necessary to refer to the laws, regulations and decisions of the country and to obtain appropriate accounting and legal advice.

This guide is available on the PwC Malta website www.pwc.com/mt
Appendix B – Regulatory framework

B1. Licence application process

The application procedure

Before granting an authorisation the MFSA must be satisfied that:

• an application has been made (refer checklist below for documents to be included with application)
• the company’s own funds are at all times appropriate;
• the company’s objects are limited to business of insurance and operations arising directly therefrom;
• sufficient information is made available on persons having any proprietary, financial or other interest in, or in connection with, the company;
• all qualifying shareholders, controllers, and all persons who will effectively direct the business of insurance are fit and proper;
• a scheme of operations has been submitted in accordance with Insurance Rule 6 of 2011,
• that the company discloses any close links that it may have with any other person.

An application is to be determined by the MFSA within 6 months (3 months for reinsurance or affiliated insurance)

• Authorisation to establish business of insurance is obtained from the MFSA to:
  (i) a company whose head office is in Malta to carry on the business of insurance in or from Malta, or in or from a country outside Malta;
  (ii) a company whose head office is in a country outside Malta to carry on the business of insurance in or from Malta.

A company shall not be authorised to carry on both long term business and general business unless:

• the long term business is restricted to reinsurance;
• the general business carried on by the company is restricted to accident and sickness classes, or to any class or part of a class of business within that group.

Non-EU insurance companies are required to appoint a representative who must fulfil the following requirements:

• must be a person resident in Malta or a company whose head office is in Malta and the company must itself have an individual representative resident in Malta;
• must be authorised to act generally and to accept service of any documents on behalf of the company;
• must not be the approved auditor or a partner or an employee of the approved auditor of the company.

### Checklist of information to accompany licence application (Insurance Rule 6 of 2011)

1. Application on prescribed form
2. Draft M&A of the company
3. A statement showing the components making up the own funds
4. Scheme of operations including details on the following:
   1. Background to the applicant and business planning
   2. Target markets and marketing plan
   3. Financial projections:
      1. A forecast statement of comprehensive income, broken down into a technical account and a non-technical account.
      3. A forecast statement of changes in equity.
      5. A forecast statement of the financial resources intended to cover technical or mathematical provisions.
      6. A forecast statement of solvency
4. Information related specifically to long term business
5. Additional information (inter alia - future capital expenditure, a breakdown of forecast expenses, estimates relating to expenses of management, a description of the types of assets that will represent the minimum guarantee fund)
6. Investment strategy
7. Personnel and internal controls
8. Business strategy
9. Outsourcing and agreements with third parties
10. Reinsurance or retrocession

5. Organisation set-up including number of employees and their qualifications.
6. Copies of all proposed reinsurance treaties.
7. Requirements specific to long term business
8. Requirements specific to Group 2 business and insurance of vehicles registered in Malta
9. Requirements specific to class 10 business
10. Requirements specific to protected risks situated in Malta or protected commitments where Malta is the country of the commitment – Protection & Compensation Fund
11. Personal Questionnaires (PQs) for individuals
    Each to include:
    a. An authenticated copy of an identification document
    b. A recent conduct certificate
    c. The Banker’s Authorisation Letter (*2 originals)
    d. The General Authorisation Letter (*2 originals)
    e. In the case of advocates only, Authorisation Letter to Commission for the Administration of Justice (*2 originals)
12. PQs for each qualifying shareholder that is not an individual
    Each to Include a Certified true copy of M&A
13. Application fee (as detailed in Appendix B2)
### B2. Application Fees

Below is a list of application fees for each group of insurance business.

<table>
<thead>
<tr>
<th>Application for Authorisation</th>
<th>Submission of application fee</th>
<th>Acceptance of application fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authorisation to carry on:</td>
<td>€ (Minimum)</td>
<td>€ (Minimum)</td>
</tr>
<tr>
<td><strong>Group A</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Business of insurance only / business of reinsurance only / business of insurance and reinsurance:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. long term business</td>
<td>250 per class 75 per class</td>
<td>1,000 per class 75 per class</td>
</tr>
<tr>
<td>b. general business</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Business of affiliated, insurance or affiliated, reinsurance</td>
<td>1,800</td>
<td>2,500</td>
</tr>
<tr>
<td>3. Authorisation to carry on business of reinsurance in the classes already authorised for business of insurance and authorisation to carry on business of insurance in the classes already authorised for business of reinsurance:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. long term business</td>
<td>125 per class 50 per class</td>
<td>125 per class 50 per class</td>
</tr>
<tr>
<td>b. general business</td>
<td>750 per class 50 per class</td>
<td>750 per class 50 per class</td>
</tr>
<tr>
<td><strong>Group B</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Authorisation to act as approved auditor:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Individual</td>
<td>125</td>
<td>125</td>
</tr>
<tr>
<td>(b) Partnership</td>
<td>250</td>
<td>250</td>
</tr>
<tr>
<td><strong>Group C</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Permit to open a branch in Malta</td>
<td>100 per branch</td>
<td>250 per branch</td>
</tr>
<tr>
<td><strong>Group D</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Permit to cease to carry on and subsequently to service: business of insurance only/ business of reinsurance only/ business of insurance and reinsurance:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) long term business</td>
<td>175 per class 50 per class</td>
<td>175 per class 50 per class</td>
</tr>
<tr>
<td>(b) general business</td>
<td>750 per class 50 per class</td>
<td>750 per class 50 per class</td>
</tr>
<tr>
<td>2. Business of affiliated insurance or affiliated reinsurance</td>
<td>1,200</td>
<td>1,200</td>
</tr>
<tr>
<td><strong>Group E</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Approval of a scheme to transfer general business</td>
<td>50 per class 750</td>
<td>50 per class 750</td>
</tr>
</tbody>
</table>

Source: Subsidiary Legislation 403.04 of 2004, Insurance Business (Fees) Regulations, "Schedule (Regulations 3 to 5, 7 and 8) Authorisation and Business Statements Fees".
B3. The regulatory framework – a further insight

This section provides further insight into the legislative framework governing insurance businesses in Malta.

This illustration gives a general overview of the regulatory framework governing the business of insurance in Malta.

### MFSA - the Regulator

**Main Legislation:**
- **Insurance Business Act 1998**
  - The main piece of legislation governing insurance
- **Insurance Intermediaries Act**
  - Governing intermediaries (agents, brokers, etc.)

**Regulations and Rules:**
- Subsidiary Legislation - Insurance Business Regulations
- Insurance Rules

### Other related legislation

Each of the components of the regulatory framework is analysed in more detail below:

**The Regulator - MFSA**

- The single regulator for financial services;
- Fully autonomous public institution and reports to Parliament on an annual basis;
- It regulates and supervises credit and financial institutions, investment, trust and insurance business;
- Carries out regular and proper inspections of licensed financial services business;
- Issues guidance notes, monitors local and international developments, works with relevant parties on legislative matters, and plays a major role in training.

The IBA provides for the authorisation and supervision of insurance companies and the MFSA is the Competent Authority for the purposes of the Act.

The Insurance and Pensions Supervision Business Unit is the department within the MFSA in charge of supervising the insurance industry.

Authorised insurance companies are required to periodically submit:
- Annual Financial Statements – to be submitted to the MFSA within 6 months from the end of the financial year.
- Business of Insurance Statements - to be submitted within 6 months from the end of the calendar year (including a report by the directors and a report by the appointed auditor).
- Management Accounts – to be submitted to the MFSA on a quarterly basis.

Compliance visits are carried out by MFSA Officials on a regular basis or when the MFSA has a specific reason to carry out such a visit.
Main legislation

The Insurance Business Act governs all operations of insurers and reinsurers authorised and enrolled under the Act. These are the areas covered by the Act:

- Preliminary
- Supervision of Business of Insurance
- Authorisation for carrying on Business of Insurance
- Conditions for carrying on Business of Insurance
- Accounts, Actuarial Investigations and Financial Statements
- Powers of Intervention
- Supervision of Authorised Companies
- Transfer of Business of Insurance
- Acquisition and Disposal of Shares, Withdrawal, Dissolution and Winding up
- Conduct of Business of Insurance
- Protection and Compensation Fund
- General Provisions

The main conditions for carrying on business of insurance contained in Part IV of the Act are summarised in Appendix B4 to this document.

The Insurance Intermediaries Act governs insurance agents, insurance brokers, insurance managers and tied insurance intermediaries. These are the areas that the Intermediaries Act deals with:

- Preliminary
- Regulatory Powers
- Registration or Enrolment of Insurance Agents, Insurance Managers and Insurance Brokers
- Powers of Intervention in relation to Persons enrolled under Part III
- Obligations of Persons enrolled under Part III
- Financial Year and Auditors
- Provisions applicable to Intermediaries carrying on business as Insurance Brokers
- Registration and Enrolment of Tied Insurance Intermediaries
- General Provisions
Insurance Business Regulations constitute subsidiary legislation ("SL") to the Act.

At the time of publication, there were 18 Regulations, covering various areas of insurance business, as follows:

| S.L. 403.01 Appointment of Competent Authority Order |
| S.L. 403.02 (Custodian of Assets)                   |
| S.L. 403.04 (Fees)                                 |
| S.L. 403.05 (Criteria of Sound and Prudent Management) |
| S.L. 403.06 (Penalties for Offences and Infringements) |
| S.L. 403.07 (Companies Accounts)                   |
| S.L. 403.08 (Linked Long Term Contracts)           |
| S.L. 403.09 (Approved Auditor)                     |
| S.L. 403.10 (Long Term Business Contract Statutory Notice) |
| S.L. 403.11 (Companies Carrying on Business of Affiliated Insurance) |
| S.L. 403.12 (Continuance of Companies Carrying on Business Insurance) |
| S.L. 403.13 Protection and Compensation Fund Regulations |
| S.L. 403.14 European Passport Rights for Insurance and Reinsurance Undertakings |
| S.L. 403.15 (Reorganisation and Winding Up of Insurance Undertakings) |
| S.L. 403.16 (Assets and Liabilities)                |
| S.L. 403.17 (Supplementary Supervision of Insurance and Reinsurance Undertakings in an Insurance Group) |
| S.L. 386.10 (Cell Companies Carrying on Business of Insurance) |
| S.L. 368.13 (Incorporated Cell Companies Carrying on Business of Insurance) |

| Custody of assets to be maintained in Malta |
| Fees to be paid to MFSA                   |
| Requirements for sound management         |
| Penalties                                 |
| Preparation of accounts                   |
| Linked long term contracts                |
| Policy requirements – long term business  |
| Specifics of captives                     |
| Continuance of companies                  |
| Contributions to the P&C fund             |
| Passporting into the EU                   |
| Winding up                                |
| Assets, liabilities and solvency requirements |
| Groups' supplementary requirements        |
| PCCs                                      |
| ICCs                                      |
The MFSA may issue Insurance Rules as may be required for carrying into effect any of the provisions of the Insurance Business Act (Cap. 403). The Authority may amend or revoke such rules as it deems necessary. To date, there are 29 insurance rules. Insurance rules govern various areas related to insurance:

<table>
<thead>
<tr>
<th>Insurance Rules</th>
<th>Subject matter in broad terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rule 1 of 2007 - Own Funds of Companies Carrying on Business of Insurance</td>
<td>Own Funds</td>
</tr>
<tr>
<td>Rule 2 of 2007 - Criteria of Fitness and Properness</td>
<td>Fit and Proper requirements</td>
</tr>
<tr>
<td>Rule 3 of 2007 - Information for Policyholders</td>
<td>Policy wording</td>
</tr>
<tr>
<td>Rule 4 of 2008 - Specified Effective Period with Respect to Certain Contracts of</td>
<td>LT business – effective period</td>
</tr>
<tr>
<td>Long Term Business</td>
<td></td>
</tr>
<tr>
<td>Rule 5 of 2008 - Mutual Associations</td>
<td></td>
</tr>
<tr>
<td>Rule 6 of 2011 - Schemes of Operations Relating to Business of Insurance</td>
<td></td>
</tr>
<tr>
<td>Rule 7 of 2009 - Separate Management of Long Term Business and General Business</td>
<td></td>
</tr>
<tr>
<td>Rule 8 of 2008 - Qualifications of Individuals Who Are Responsible for the</td>
<td></td>
</tr>
<tr>
<td>effective Management of Insurance and Reinsurance Companies or Branches Thereof</td>
<td></td>
</tr>
<tr>
<td>Which May Be Stated in the Objects of Companies Acting as Insurance Agents</td>
<td></td>
</tr>
<tr>
<td>Rule 10 of 2007 - Repeal of Insurance Directive 10 of 1999 - Schemes of</td>
<td></td>
</tr>
<tr>
<td>Operations Relating to Business of Insurance and Other Activities to be Carried</td>
<td></td>
</tr>
<tr>
<td>on in the Case of Insurance Agents and Insurance Managers</td>
<td></td>
</tr>
<tr>
<td>Fiduciary Capacity</td>
<td></td>
</tr>
<tr>
<td>Rule 12 of 2007 - Business of Insurance Statements</td>
<td></td>
</tr>
<tr>
<td>Rule 13 of 2008 - Publicity Given to Notices to Cease to Carry on Business of</td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td></td>
</tr>
<tr>
<td>Rule 14 of 2008 - Insurance Advertisement and Other Promotional Activities</td>
<td></td>
</tr>
<tr>
<td>Rule 15 of 2008 - Appointments and Changes of Director, Controller or Senior</td>
<td></td>
</tr>
<tr>
<td>Manager</td>
<td></td>
</tr>
<tr>
<td>Rule 16 of 2007 - Zone of Countries</td>
<td></td>
</tr>
<tr>
<td>Rule 17 of 2009 - Authorisation to act as approved auditor</td>
<td></td>
</tr>
<tr>
<td>Rule 18 of 2008 - Close Links</td>
<td></td>
</tr>
<tr>
<td>Rule 19 of 2008 - Legal Expenses Insurance</td>
<td></td>
</tr>
<tr>
<td>Rule 20 of 2009 - Assistance Insurance</td>
<td></td>
</tr>
<tr>
<td>Rule 21 of 2007 - Business of Affiliated Insurance</td>
<td></td>
</tr>
<tr>
<td>Rule 22 of 2009 - Exercise of Passport Rights by European Insurance Undertakings</td>
<td></td>
</tr>
<tr>
<td>and European Reinsurance Undertakings – Establishment</td>
<td></td>
</tr>
<tr>
<td>Rule 23 of 2009 - Exercise of Passport Rights by European Insurance Undertakings</td>
<td></td>
</tr>
<tr>
<td>- Services</td>
<td></td>
</tr>
<tr>
<td>Rule 24 of 2009 - Exercise of Passport Rights by Maltese Insurance Undertakings</td>
<td></td>
</tr>
<tr>
<td>and Maltese Reinsurance Undertakings - Establishment</td>
<td></td>
</tr>
<tr>
<td>Rule 25 of 2009 - Exercise of Passport Rights by Maltese Insurance Undertakings</td>
<td></td>
</tr>
<tr>
<td>- Services</td>
<td></td>
</tr>
<tr>
<td>Rule 26 of 2008 - Export Credit Insurance</td>
<td></td>
</tr>
<tr>
<td>Rule 27 of 2009 - Insurers’ Internal Controls</td>
<td></td>
</tr>
<tr>
<td>Rule 28 of 2008 - Insurance Companies carrying on Business of Insurance through</td>
<td></td>
</tr>
<tr>
<td>the Internet</td>
<td></td>
</tr>
<tr>
<td>Rule 29 of 2009 - Prudential assessment of acquisitions and increase of holding in authorised companies</td>
<td></td>
</tr>
</tbody>
</table>
Insurance Intermediary Rules

Rule 1 of 2007 - Own Funds of Persons Enrolled in the Agents List, Managers List or Brokers List Carrying out Insurance Intermediaries Activities
Rule 2 of 2007 - Criteria of Fitness and Properness of Insurance Intermediaries
Rule 3 of 2007 - Disclosure of Information for Clients
Rule 4 of 2007 - Code of Conduct for Insurance Intermediaries
Rule 5 of 2008 - Insurance Intermediaries Advertisement and Other Promotional Activities
Rule 6 of 2007 - Criteria of Sound and Prudent Management
Rule 7 of 2007 - Code of Insurance Selling Practice
Rule 8 of 2007 - Particulars of Individuals to be Entered in the Agents Register, Managers Register or Brokers Register
Rule 9 of 2007 - Qualifications of Individuals Applying for Registration
Rule 10 of 2007 - Particulars of Intermediaries to be entered in the Agents List, Managers List Brokers List or Tied Insurance Intermediaries List
Rule 11 of 2007 - Commercial Business Which May be Carried out by Enrolled Persons
Rule 12 of 2007 - Scheme of Operations Relating to Enrolment in the Agents List, Managers List or Brokers List and the Application for Enrolment
Rule 13 of 2007 - Monies Held in a Fiduciary Capacity
Rule 14 of 2007 - Fidelity Bonds
Rule 15 of 2007 - Business of Insurance Intermediaries Statements
Rule 16 of 2007 - Particulars of Persons to be Entered in the Tied Insurance Intermediaries Company Registers
Rule 17 of 2007 - Application for Persons to be Entered in the Tied Insurance Intermediaries List
Rule 18 of 2007 - Business of Insurance Not Subject to Tied Insurance Intermediaries Activities
Rule 19 of 2007 - Persons Qualified to Make Use of the word “Insurance”
Rule 20 of 2007 - Issuing and Registration of Underwriting Agreements
Rule 21 of 2007 - Personal Questionnaire to be submitted by specific individuals
Rule 22 of 2007 - Computer Link Arrangements
Rule 23 of 2008 - Carrying out Insurance Intermediaries Activities through the Internet
Rule 24 of 2009 – Introducers
B4. Principal capital, solvency and other regulatory requirements (Solvency I)

In this section, we summarise the main capital, solvency and other regulatory requirements under Maltese law. These generally vary by the type of insurance company formed and the classes of business of insurance written. The following table illustrates the classification of classes of business provided for by the Act:

Classes of Long term Business

Second Schedule (Article 5) to the Insurance Business Act, 1998

<table>
<thead>
<tr>
<th>Number</th>
<th>Class</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Life and annuity</td>
</tr>
<tr>
<td>II</td>
<td>Marriage and birth</td>
</tr>
<tr>
<td>III</td>
<td>Linked long term</td>
</tr>
<tr>
<td>IV</td>
<td>Permanent health</td>
</tr>
<tr>
<td>V</td>
<td>Tontines</td>
</tr>
<tr>
<td>VI</td>
<td>Capital redemption</td>
</tr>
<tr>
<td>VII</td>
<td>Pension fund management</td>
</tr>
<tr>
<td>VIII</td>
<td>Collective insurance</td>
</tr>
<tr>
<td>IX</td>
<td>Social insurance</td>
</tr>
</tbody>
</table>

Classes of General Business

Third Schedule (Articles 5 and 7) Parts I & II to the Insurance Business Act, 1998

Part I – Classes;

<table>
<thead>
<tr>
<th>Number</th>
<th>Class</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Accident</td>
</tr>
<tr>
<td>2</td>
<td>Sickness</td>
</tr>
<tr>
<td>3</td>
<td>Land vehicles (other than railway rolling stock)</td>
</tr>
<tr>
<td>4</td>
<td>Railway rolling stock</td>
</tr>
<tr>
<td>5</td>
<td>Aircraft</td>
</tr>
<tr>
<td>6</td>
<td>Ships (sea, lake and river and canal vessels)</td>
</tr>
<tr>
<td>7</td>
<td>Goods in transit (including merchandise, baggage, and all other goods)</td>
</tr>
<tr>
<td>8</td>
<td>Fire and natural forces</td>
</tr>
<tr>
<td>9</td>
<td>Other damage to property</td>
</tr>
<tr>
<td>10</td>
<td>Motor vehicle liability</td>
</tr>
<tr>
<td>11</td>
<td>Aircraft liability</td>
</tr>
<tr>
<td>12</td>
<td>Liability for ships (sea, lake and river and canal vessels)</td>
</tr>
<tr>
<td>13</td>
<td>General liability</td>
</tr>
<tr>
<td>14</td>
<td>Credit</td>
</tr>
<tr>
<td>15</td>
<td>Suretyship</td>
</tr>
<tr>
<td>16</td>
<td>Miscellaneous financial loss</td>
</tr>
<tr>
<td>17</td>
<td>Legal expenses</td>
</tr>
<tr>
<td>18</td>
<td>Assistance</td>
</tr>
</tbody>
</table>
Part II: Groups of Classes

<table>
<thead>
<tr>
<th>Number</th>
<th>Description</th>
<th>Composition</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Accident and Health</td>
<td>Classes 1 and 2</td>
</tr>
<tr>
<td>2</td>
<td>Motor</td>
<td>Classes 1 (d), 3, 7 and 10</td>
</tr>
<tr>
<td>3</td>
<td>Marine and Transport</td>
<td>Classes 1 (d), 4, 6, 7 and 12</td>
</tr>
<tr>
<td>4</td>
<td>Aviation</td>
<td>Classes 1 (d), 5, 7 and 11</td>
</tr>
<tr>
<td>5</td>
<td>Fire and other Damage to Property</td>
<td>Classes 8 and 9</td>
</tr>
<tr>
<td>6</td>
<td>Liability</td>
<td>Classes 10, 11, 12 and 13</td>
</tr>
<tr>
<td>7</td>
<td>Credit and Suretyship</td>
<td>Classes 14 and 15</td>
</tr>
<tr>
<td>8</td>
<td>General</td>
<td>All classes</td>
</tr>
</tbody>
</table>
**Own funds requirements**

Insurance companies are required to have a minimum own funds amounting to not less than the amounts prescribed below. The required own funds of an insurance company must be unencumbered at all times.

<table>
<thead>
<tr>
<th>1. Affiliated insurance</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a) General business</td>
<td>(i) Euro 3,500,000; or (ii) Euro 2,300,000 where the business of affiliated insurance is restricted to classes 1 to 9, 16 to 18.</td>
</tr>
<tr>
<td>b) long term business</td>
<td>Euro 3,500,000</td>
</tr>
<tr>
<td>c) Business of reinsurance</td>
<td>Euro 1,100,000 where the business of affiliated insurance is restricted to the business of reinsurance.</td>
</tr>
<tr>
<td>d) Combined</td>
<td></td>
</tr>
<tr>
<td>(i) general business and reinsurance</td>
<td>(i) Euro 3,200,000; or (ii) Euro 3,500,000; or (iii) Euro 2,300,000 where the business of affiliated insurance is not restricted to classes 1 to 9, 16 to 18 and: 1. the reinsurance premiums collected do not exceed 10% of the insurer's total premium; 2. the reinsurance premiums collected do not exceed Euro 50,000,000; or 3. the technical provisions resulting from its reinsurance acceptances do not exceed 10% of its total technical provisions.</td>
</tr>
<tr>
<td></td>
<td>(ii) Euro 3,500,000; or (iii) Euro 2,300,000 where the business of affiliated insurance is restricted to classes 1 to 9, 16 to 18 and: 1. the reinsurance premiums collected do not exceed 10% of the insurer's total premium; 2. the reinsurance premiums collected do not exceed Euro 50,000,000; or 3. the technical provisions resulting from its reinsurance acceptances do not exceed 10% of its total technical provisions.</td>
</tr>
<tr>
<td></td>
<td>(ii) long term business and reinsurance</td>
</tr>
<tr>
<td>2. Long term business</td>
<td>Euro 3,500,000</td>
</tr>
<tr>
<td>3. General business</td>
<td>(i) Euro 3,500,000; or (ii) Euro 2,300,000 where the business of insurance is restricted to classes 1 to 9, 16 to 18.</td>
</tr>
<tr>
<td>4. Business of reinsurance</td>
<td>Euro 3,200,000 where the business of insurance is restricted to reinsurance</td>
</tr>
<tr>
<td>5. Combined</td>
<td></td>
</tr>
<tr>
<td>(a) long term business direct and reinsurance; or</td>
<td>Euro 3,500,000; or</td>
</tr>
<tr>
<td>(b) general business direct and reinsurance; or</td>
<td>(i) Euro 3,200,000 where: 1. the reinsurance premiums collected exceed 10% of the insurer’s total premium; or 2. the reinsurance premiums collected exceed Euro 50,000,000; or 3. the technical provisions resulting from its reinsurance acceptances exceed 10% of its total technical provisions.</td>
</tr>
</tbody>
</table>
(ii) Euro 3,500,000; or

| (iii) Euro 2,300,000 | where the business of insurance is restricted to classes 1 to 9, 16 to 18 and: 1. the reinsurance premiums collected do not exceed 10% of the insurer’s total premium; or 2. the reinsurance premiums collected do not exceed Euro 50,000,000; or 3. the technical provisions resulting from its reinsurance acceptances do not exceed 10% of its total technical provisions. |
| (c) long term business and general business direct | Euro 5,800,000 | where the business of insurance is restricted to classes 1 to 9, 16 to 18; |
| (d) long term business and general business direct | Euro 7,000,000 | where the business of insurance is not restricted to classes 1 to 9, 16 to 18 and: |
| (e) long term business and general business direct and reinsurance | (i) Euro 6,700,000; | where: 1. the reinsurance premiums collected in respect of general business exceed 10% of the insurer’s total general business premium; or 2. the reinsurance premiums collected in respect of general business exceed Euro 50,000,000; or 3. the technical provisions resulting from its reinsurance acceptances in respect of general business exceed 10% of its total technical provisions in respect of general business. |
| (f) long term business of reinsurance and general business of reinsurance | Euro 6,400,000 | where, in the case of general business, the business of insurance is restricted to classes 1 to 9, 16 to 18 and: 1. the reinsurance premiums collected in respect of general business do not exceed 10% of the insurer’s total general business premium; or 2. the reinsurance premiums collected in respect of general business do not exceed Euro 50,000,000; or 3. the technical provisions resulting from its reinsurance acceptances in respect of general business do not exceed 10% of its total technical provisions in respect of general business. |
Own funds are to be composed of the following:

1. The initial paid up share capital must not be less than 50% of the value of the own funds of the company in respect of the business it carries on.
2. Reserves, other than reserves corresponding to the technical provisions and, where applicable, the equalisation reserve.
3. Profit or loss brought forward, after deduction of dividends to be paid.
4. Cumulative preferential share capital and subordinated loan capital can amount to up to 50% of the value of the own funds, (no more than 25% of which shall consist of subordinated loans with a fixed maturity, or fixed term preferential share capital). Specified minimum criteria are to be met.
5. Securities with no specified maturity date and other instruments, (including cumulative preferential shares other than those mentioned in paragraph 4 above), up to 50% of the value of the own funds of the company concerned for the total of such securities and the subordinated loan capital, referred to in that paragraph, provided they fulfil certain conditions.

Solvency margin

Companies authorised to carry on business of insurance in Malta are to maintain at all times a minimum margin of solvency.

As further prescribed by the Insurance Business (Assets and Liabilities), the margin of solvency is the excess of the insurer’s assets over the value of the liabilities and valuation of asset rules apply to assets to the extent that they are required to cover technical provisions.
A separate margin of solvency needs to be maintained for both long term and general business insurance.

**Valuation of assets**

The valuation of assets is a four-stage process, as illustrated below:

The first step is to value the assets covering technical provisions in accordance with Part IX of the Insurance Business (Assets and Liabilities) Regulations.
Regulations 42(5) provides that where an asset appears to be of a lesser value than the amount calculated in accordance with the rules, then the lesser value shall be taken. For the purposes of determining whether a lesser amount should be taken, regard should be made to the underlying security of the asset and, if applicable, the credit rating of the issuer. More comfort can be taken where the issuer belongs to the zone of countries, as determined in Rule 16, where it is an international organisation and where it includes at least one EAA state among its members.

The second stage in the valuation process, having ascertained the value of assets, is to determine the extent to which assets are admissible, i.e. the extent to which an asset is permitted to count towards the solvency margin.

The aim of the admissibility limits is to discourage concentration of the insurer’s assets in any one asset type or with any one single counterparty, with consequent increased risk for realisation in insolvency.

**Calculation of admissible assets – gross amount**

As valued in accordance with the asset valuation rules $X$

Less: Excess of gross amount above the permitted assets exposure $(x)$

Less: Excess of the permitted counterparty exposure $(x)$

Less: Excess of the permitted concentration with a number of counterparties $(x)$

Less: Value of assets transferred by way of an inadmissible derivative contract $(x)$

The admissibility of assets to count towards the solvency margin is based on an amount called the General Business Amount (“GBA”) or Long Term Business Amount (“LTBA”). The GBA and LTBA are calculated in accordance with the requirements of the Seventh Schedule to the Insurance Business (Assets and Liabilities) Regulations.

Certain asset exposures are specifically exempted from any limits. The exposures that are specifically excluded from these rules are set out in Regulation 54 (5) of the Insurance Business (Assets and Liabilities) Regulations:

(a) approved securities or any interest accrued thereon;
(b) debts secured on life policies up to surrendered value;
(c) debts due under reinsurance contracts, salvage and subrogation debts;
(d) debts in respect of premiums (but premiums that have been outstanding for more than three months are to be left out when valuing assets);
(e) moneys due from, or guaranteed by, the Government of Malta or a government of a State belonging to a zone of countries*;
(f) shares in or debts due or to become due from a dependant (a dependant is a subsidiary company the value of whose share are taken to be the value of its surplus assets under asset valuation rules previously described);
(g) holdings in a scheme falling within the UCITS Directive;
(h) deferred acquisition costs;
(i) assets matching index-linked liabilities (but counterparty exposures apply).
*Zone of countries is as prescribed in Insurance Rule 16 of 2007. In summary, the zone includes countries:

- that are member states of the European Union or European Economic Area;
- full members of the Organisation for Economic Co-operation and Development; and
- which have concluded special lending arrangements with the International Monetary Fund associated with the Fund’s general arrangements to borrow.

The third and fourth stages are to determine the extent to which the value of an asset is admissible by reference to exposure to any one counterparty, as follows:

**Permitted counterparty exposure**

Exposure to any one counterparty, including its connected companies, is also subject to an upper limit. The value of all investments, debt and rights against a counterparty, after taking account of the permitted asset exposure rules, are aggregated to calculate the counterparty exposure. Where this aggregate value is in excess of the permitted limit, the excess is inadmissible.

The limits are set out in the Seventh Schedule to the Insurance Business (Insurers’ Assets and Liabilities). The relevant limits for the following counterparties are:

<table>
<thead>
<tr>
<th>Counterparty</th>
<th>Permitted counterparty exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregate of individual and unsecured debt</td>
<td>5%</td>
</tr>
<tr>
<td>Body corporate or group that is not an approved counterparty</td>
<td>10%</td>
</tr>
<tr>
<td>Approved counterparty</td>
<td>15%</td>
</tr>
<tr>
<td>Approved credit institution – excluding short term deposits</td>
<td>15%</td>
</tr>
<tr>
<td>Approved credit institution – including short term deposits</td>
<td>30%</td>
</tr>
</tbody>
</table>

**Excess concentrations with a number of counterparties**

The Regulations also include an aggregate limit for “large counterparties”. This is the fourth stage in determining the value of admissible assets for solvency purposes. The excess concentration limit means that in aggregate the total exposure to such “large counterparties” cannot exceed 40% of the business amount.

**Valuation of liabilities**

Liabilities are required to be determined in accordance with the rules set out in the “Rules for determining provisions” of Title II of the First Schedule to the Insurance Business (Companies Accounts) Regulations, 2000. Implicit discounting of technical provisions is prohibited and explicit discounting is only allowed where certain conditions are satisfied. However, subject to Regulation 10(4) of the Insurance Business (Assets and Liabilities) Regulations, effects of discounting for claims outstanding should be reversed for solvency purposes.

Preference shares should be treated as liabilities for solvency purposes but Regulation 10(2) of the Insurance Business (Assets and Liabilities) Regulations permits some allowance toward the margin of solvency. Liabilities may be left out of account in respect of cumulative preferential share capital and subordinated loan capital paid up to 50% of the value of the margin of solvency of the insurer or pure reinsurer, provided that no more than 25% of the margin of solvency consists of subordinated loans with a fixed maturity or fixed term preferential share capital.
**Margin of solvency calculation**

The margin of solvency to be maintained in respect of general business carried on by an insurer or a pure reinsurer, and in respect of long term business carried on by a pure reinsurer, shall be determined by taking the greater of –

(i) the higher of the two sums resulting from the first method of calculation (premium basis) and the second method of calculation (claims basis) set out in the Second and Third Schedule respectively to the Insurance Business (Assets and Liabilities) Regulations; and

(ii) the Minimum Guarantee Fund, set out in the Fourth Schedule to the same Regulations.

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**First method of calculation (Premium basis) – a summary**

<table>
<thead>
<tr>
<th>Calculation Stage</th>
<th>Formula</th>
<th>Refer to Second Schedule, paras.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross premiums receivable (+50% uplift for classes of business 11,12,13)</td>
<td>X</td>
<td>2,3,4</td>
</tr>
<tr>
<td>Less: Taxes/levies related to premiums</td>
<td>(X)</td>
<td>5</td>
</tr>
<tr>
<td>Annualise (if not a full year)</td>
<td>X</td>
<td>6</td>
</tr>
<tr>
<td>Analysed into portions:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>57.5 million Eur (50m for pure reinsurer) x 18%</td>
<td>X</td>
<td>7, 8</td>
</tr>
<tr>
<td>&gt; 57.5 million Eur (50m for pure reinsurer) x 16%</td>
<td>X</td>
<td>7, 8</td>
</tr>
<tr>
<td>For health replaced by 6% and 5 1/3% respectively (only if conditions in para. 10 are satisfied)</td>
<td>X</td>
<td>7, 9, 11</td>
</tr>
<tr>
<td><strong>Sub-total - adjusted premium threshold</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ratio of net to gross claims incurred</td>
<td>%</td>
<td>12-15</td>
</tr>
<tr>
<td>Multiply sub-total by % (or if &lt; 50% by 50%, and if &gt; 100% by 100%)</td>
<td>X</td>
<td>17</td>
</tr>
</tbody>
</table>
Second method of calculation (Claims basis) – a summary

<table>
<thead>
<tr>
<th>Description</th>
<th>Formula</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross claims paid over the most recent three years</td>
<td>X</td>
<td>13</td>
</tr>
<tr>
<td>Add: Outstanding claims at end of 3 year period</td>
<td>X</td>
<td>4.1,2</td>
</tr>
<tr>
<td>Less: Outstanding claims at start of 3 year period</td>
<td>(X)</td>
<td>4.1,2</td>
</tr>
<tr>
<td>Sub-total = Gross claims incurred over 3 year period (+50% uplift for classes 11,12,13)</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Conversion to annual figure (x12/no of months)</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Analysed into portions:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>40.3 million Eur (35m for pure reinsurer) x 26%</td>
<td>(X)</td>
<td>6,7</td>
</tr>
<tr>
<td>&gt; 40.3 million Eur (35m for reinsurer) x 23%</td>
<td></td>
<td>6,7</td>
</tr>
<tr>
<td>For health replaced by 8 2/3% and 7 2/3% (if conditions are satisfied - para 10 2nd sch.)</td>
<td>X</td>
<td>7,8</td>
</tr>
<tr>
<td>Sub-total - 6 to 8 - adjusted claims threshold</td>
<td></td>
<td></td>
</tr>
<tr>
<td>% applied in the 1st method</td>
<td>%</td>
<td>11</td>
</tr>
<tr>
<td>Multiply sub-total by % (or if &lt; 50% by 50%, and if &gt; 100% by 100%)</td>
<td>X</td>
<td>11</td>
</tr>
</tbody>
</table>

If the required margin of solvency for the current year (CY) is lower than the required margin of solvency of the prior financial year (PY), the margin of solvency must be adjusted so that it is at least equal to:

\[
\text{RMOS (CY)} = \text{RMOS (PY)} \times \frac{\text{Closing claims outstanding (PY)}}{\text{Opening claims outstanding (PY)}}
\]

In respect of Long Term Business, because of the diversity of insurance products offered, a different formula is adopted for the calculation of the minimum solvency margins for each class of long term business.

The Insurance Business Act, 1998 requires licence holders to submit audited insurance business statements within six months from the end of the calendar year. These businesses of insurance statements are to be accompanied by a report by the directors and a report by the appointed auditor. In the case of a company which carries on long term business of insurance, the statements are also to be accompanied by a report of the appointed actuary.

The MFSA requires that a company is solvent by a multiple of 1.5 of the margin of solvency.
**Guarantee Fund**

In addition to the above, a company is to maintain at all times a guarantee fund of an amount of assets equal to the greater of:

- the minimum guarantee fund or
- the value of one-third of the margin of solvency or Malta margin of solvency.

The amount of the minimum guarantee fund to be maintained by a company not being a non-directive insurer is, in respect of:

*Long-term business*

- in the case of a mutual, Euro 2,250,000;
- in the case of a pure reinsurer, Euro 3,200,000;
- in the case of an affiliated insurance company, Euro 1,100,000; and
- in any other case, Euro 3,500,000.

*General Business*

The minimum guarantee fund for general business shall be Euro 2,300,000.

Where insurance business is carried on in respect of some or all of the risks included in classes 10 to 15, the minimum guarantee fund shall be Euro 3,500,000.

In the case of an insurer, which is also authorised to carry on reinsurance where –

- the reinsurance premiums collected exceed 10% of the insurer’s total premium;
- the reinsurance premiums collected exceed Euro 50,000,000; or
- the technical provisions resulting from its reinsurance acceptances exceed 10% of its total technical provision, the minimum guarantee fund shall be Euro 3,200,000.

Where the business is restricted to that of affiliated reinsurance company, the minimum guarantee fund shall be Euro 1,100,000.

In the case of a pure reinsurer, other than an affiliated reinsurance company, the minimum guarantee fund shall be Euro 3,200,000.

In the case of a mutual, the Minimum Guarantee Fund shall be reduced by 25%.

*Long term business and general business*

In relation to a Malta margin of solvency or EEA margin of solvency maintained respectively, the minimum guarantee fund for long term business or general business shall be one-half the amount arrived at by applying the above mentioned provisions of the Schedule to the Insurance Business (Assets and Liabilities) Regulations, 2007.
**Non-directive insurers**

<table>
<thead>
<tr>
<th>General business class amount</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Class 10, 11, 12, 13, 14 or 15</td>
<td>Euro 400,000</td>
</tr>
<tr>
<td>Class 1, 2, 3, 4, 5, 6, 7, 8, 16 or 18</td>
<td>Euro 300,000</td>
</tr>
<tr>
<td>Class 9 or 17</td>
<td>Euro 200,000</td>
</tr>
</tbody>
</table>

In the case where the risks covered fall within class 14 and where the annual amount of premiums or contributions of the insurer due in respect of that class for each of the financial years in question and the two previous financial years exceeded Euro 2,500,000 or 4% of the total amount of premiums or contributions receivable or earned by the insurer, for the amount of Euro in the above table there shall be substituted the amount of 1,400,000 Euro.

An insurer which carries out insurance business for part of a class shall be regarded as carrying out business for the whole of the class. In the case of a mutual, the minimum guarantee fund required shall be reduced by 25%.

For non-directive insurers, the minimum guarantee fund for long term business is:
- in the case of a mutual, Euro 600,000; and
- in any other case, Euro 800,000.

B5. Affiliated Insurance Companies

In recognition of the fact that captives present a different kind of risk to commercial insurers, companies which are licensed as Affiliated Insurance Companies (AICs) benefit from a number of concessions otherwise applicable to insurance companies. These include:

• exemption from the custody of assets rules;
• exemption from contributions to the Protection and Compensation Fund;
• lower authorisation fees;
• exemption from a number of obligations upon ceasing to carry on business of insurance;
• exemption from the payment of duty on contracts of insurance relating to a risk situated outside Malta;
• shorter processing times (example when applying for authorisation).

While still regulated to proper industry standards, AICs can therefore provide corporate groups with an excellent risk management vehicle that also allows them to control insurance costs, invest retained premiums and gain access to the reinsurance markets.

Setting up a captive insurance company in Malta

Applicants are encouraged to hold informal discussions with the MFSA (generally through their representatives in Malta) before lodging a final application form. Applications and other documents may be submitted in draft initially and are reviewed by the MFSA in order to avoid hiccups at a later stage. The relevant application form and a list of documents that must be attached thereto are contained in Insurance Rule 6 of 2011 issued by the MFSA (schemes of operations relating to business of insurance). Refer to Appendix B1 for the list of contents to be included with the application. The MFSA is committed to process the application for the licensing of a captive within a statutory period of three (3) months provided the following conditions are met:

• an application is filed in writing on the prescribed form;
• the company has the appropriate own funds for the type of business to be carried on or being carried on by the company;
• the company’s objects are limited to business of affiliated insurance and operations arising directly therefrom to the exclusion of other commercial business;
• sufficient information is made available on persons having any proprietary, financial or other interest in, or in connection with, the company;
• all qualifying shareholders, controllers, and all persons who will effectively direct the business of insurance are fit and proper to ensure the company’s sound and prudent management;
• a comprehensive scheme of operations has been submitted in accordance with the relevant Rule.
Re-domiciliation

Malta’s re-domiciliation regulations enable captives (and other insurance companies) operating in other jurisdictions to carry out any insurance business in Malta subject to the authorisation of the MFSA. Such authorisation shall be granted if such body corporate:

- Originates from an approved jurisdiction;
- Approves such continuance by a corporate decision which is valid under the laws of its country of origin and that would be equivalent to an extraordinary resolution under Maltese Law.

Upon acceptance and registration and MFSA authorisation such company shall cease to be a body corporate under its previous jurisdiction and shall continue its corporate existence under the laws of Malta. The company will retain its assets, rights and liabilities as a company otherwise formed and registered under the Companies act and authorised under Maltese insurance legislation.

Financial Statements

AICs are permitted to draw up accounts in abridged form. Moreover, they are exempt from publishing accounts in local newspapers, subject to the condition that any person may apply for a copy of the audited financial statements of the company at a reasonable fee.

As for all authorised insurance companies, a licensed AIC is required to maintain:

Own funds - as prescribed for the purposes of the category of business undertaken, which own funds must remain unencumbered at all times. Refer to Appendix B4 for own funds requirements, including AICs.

Margins of Solvency - there is no difference from other authorised insurance companies when it comes to maintaining at all times a margin of solvency. AICs are also required to maintain such margins.

Guarantee Fund - equivalent to the greater of the minimum guarantee fund and one-third of the required margin of solvency.

Technical Provisions - AICs are required to maintain adequate technical provisions including mathematical provisions. Technical provisions must be supported by equivalent and matching assets. The spread of assets requirements for solvency purposes apply to both assets covering technical provisions and shareholders’ assets.
An Introduction
Companies Act (Cell Companies Carrying on Business of Insurance) Regulations, 2004 regulates PCCs in Malta.
The PCC structure is based on the ‘cellular’ concept which provides for the establishment of a cell within the cell company structure. Assets and liabilities are attributed either to the cell company itself (“non-cellular” or “core” assets and liabilities) or to a particular cell of the cell company (“cellular” assets and liabilities).

Main features of a PCC
- The PCC is a risk management tool, enabling different owners with varying interests to participate in one insurance company through the establishment of cells.
- The PCC and its cells are one company and represent one legal entity.
- Assets and liabilities of cells are ring-fenced from each other. Primary recourse of a cell is to cellular assets. If cellular assets are exhausted, there is secondary recourse to non-cellular (core) assets (but recourse can be restricted in some instances).
- A PCC structure appeals to smaller insurers or reinsurers (not limited to captives) principally due to lower capital requirements as opposed to a stand-alone company, arising from the fact that the regulatory burden imposed on (re) insurers is spread between the cells in the PCC structure. The lower overall capital requirements are achieved whilst ring-fencing the assets of each cell, a main feature of this type of structure.
- Apart from leveraging of capital to meet solvency requirements, other obvious ancillary advantages for the cell owners are access to the reinsurance market and a stronger position in dealing with the local Regulator.

Benefits
- Possibility of different shareholders across cells.
- Enables leverage of capital for solvency purposes.
- Economies of scale.
- Ring-fencing of each cell’s assets and liabilities.
- Non-recourse arrangements also possible for the core.
- Ancillary advantages to cell owners [such as access to reinsurance market and a stronger position in dealing with the Regulator].

Challenges
- Legislation has not yet been tested in Court.
- Increased onus on the PCC’s board of directors, with added reputational and financial risks.
- Industry is still awaiting greater certainty in relation to treatment of PCCs under Solvency II. This should be addressed in the Level 2 Implementing Measures text, which have not as yet (January 2012) have been shared with the public.
- Individual cells are not legal persons - cannot contract with each other or the core.
- Simple in theory but complex to manage.
**PCC financial reporting considerations**

The presentation of a PCC's financial statements is not prescribed by the PCC Regulations. In practice, this led to a spectrum of presentations being used by licensed PCCs with the two extremes being the “one total” approach and the “columnar” approach, as represented below:

“One total” Presentation = financial statements are presented on a total company basis. Limited information is disclosed on a cell basis.

“Columnar” presentation - Financial statements are presented in columnar form with all information being provided at a core and cell basis.

One may argue that the columnar presentation better reflects the ring-fencing principle, underlying the PCC structure.

Another financial reporting consideration for PCCs is the extent to which a particular cell could be considered a subsidiary of the cell investor. For example, it is not uncommon for a cell’s shares to be held by an intermediate holding company, or by a foreign parent. In those instances, the cell could be considered a subsidiary of the cell investor and therefore be consolidated with the investor’s results, even though it is not a legal entity in its own right.

**What is an ICC?**

The ICC Regulations also build on the “cellular” concept, described above for PCCs.

**Separate legal personality of incorporated cells**

The main difference between an ICC and a PCC structure lies in their legal status. An ICC, and each of its incorporated cells, are each separate legal personalities. Conversely, in a PCC, the cell company and its cells together represent one legal entity (i.e. cells do not have separate legal personality).

The lack of separate legal personality in a PCC creates complexities, for example, when it comes to cells transacting in their own name and with other cells of the PCC. Such complexities are eliminated by the separate legal personality of incorporated cells in an ICC structure. An ICC does not have the power to transact on behalf of any of its incorporated cells, and vice versa.
**Separation of assets and liabilities**

Both the ICC and the PCC regulations provide for separation of assets and liabilities between the cell company and each cell. Furthermore, in both cases, it is the cell company’s directors’ responsibility to ensure that this is achieved.

The difference is that in an ICC, liability is limited through the separate legal identity of each cell. In a PCC structure, limitation of liability is achieved through the ring fencing principle, whereby each cell is protected from third party claims attributable to other cells by the Regulations, provided that the appropriate procedures are in place.

In the tables below, we provide a background of the ICC structure, by comparing to the PCC structure, on which the ICC itself has been built:

<table>
<thead>
<tr>
<th><strong>PCC</strong></th>
<th><strong>ICC</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>The PCC is a single legal entity.</td>
<td>The ICC and each cell are a separate legal entity.</td>
</tr>
<tr>
<td>Liability is limited by ring fencing principle.</td>
<td>Liability is limited by structure (separate legal personality of cells).</td>
</tr>
<tr>
<td>PCC directors transact on behalf of the cell. Directors obliged to notify and record when contracting for a cell.</td>
<td>Cells can contract because of separate legal personality. The ICC shall not have the power to contract on behalf of a cell by virtue of it being the ICC.</td>
</tr>
<tr>
<td>Directors to properly separate cellular assets. Primary recourse is to cellular assets. If cellular assets are exhausted, secondary recourse from non-cellular assets may be available.</td>
<td>Claims limited to assets of that cell. No recourse from ICC assets is envisaged.</td>
</tr>
<tr>
<td>Enables capital leverage for insurance solvency purposes</td>
<td>Does not enable capital leverage for insurance solvency purposes</td>
</tr>
</tbody>
</table>

**Key Similarities**

- Application is to companies carrying on business of insurance.
- “Cellular” concept exists whereby cells have their own constitution, share structure and shareholders.
- Cell owners, with varying interests, can participate in one vehicle.
- The cell company and its cells share the same Board of Directors, Company Secretary and registered address.
- Cell companies and cells are to indicate suitably in all their business letters, forms and correspondence that they are a cell company or a cell.
- A cell company is not intended to be the parent of its cells.
- A cell can be dissolved without affecting the use of any other cell or the cell company.
- Lower cost alternative to establish business of insurance through cells, when compared to setting up a stand-alone insurance company.
**Tax considerations**

Each cell in an ICC is a separate legal entity and, therefore, each cell and the ICC are considered to be separate companies for Maltese income tax purposes. In this respect, an ICC structure is similar to a PCC structure on the basis that, solely for Maltese income tax purposes, each cell and the core of a PCC are considered to be separate entities (even if they are not separate legal entities).

Each cell of a PCC or an ICC will benefit from the fiscal advantages that Malta offers to any other company registered in Malta, including companies carrying on the business of insurance in Malta. Such advantages include that upon a distribution of profits by an ICC and each cell, the shareholders of such ICC and of each respective cell should be entitled to a refund of $\frac{6}{7}$th of the tax suffered on such distributed profits.

**The attractiveness of PCCs and ICCs in Malta to potential investors**

Both the PCC and ICC structures, offer a risk management vehicle to potential investors, with varying interests, to participate in one structure, with the potential cost leverage and other advantages associated with it. Malta is the only full EU member state to have both these vehicles in place, adding its attractiveness as an insurance and captive domicile.

The key difference between the two vehicles lies in the legal status of the cells, which will most likely be the determining factor in rendering one structure more attractive than the other to the potential investor.
Appendix C – Taxation of insurance companies in Malta

Malta’s taxation system

In terms of the Income Tax Act, any person (including a body corporate) who is both domiciled and ordinarily resident in Malta is subject to tax on a worldwide basis. Companies incorporated under Maltese laws are deemed automatically to be both resident and domiciled in Malta. Companies incorporated under foreign laws are regarded as resident in Malta only if the control and management of their business are exercised in Malta. Such companies are subject to tax only on Malta source income (including capital gains) and income arising outside Malta (excluding capital gains) remitted to Malta.

Companies that are redomiciled to Malta from another jurisdiction are considered incorporated in Malta from the date of redomiciliation and should be deemed to be resident and domiciled in Malta with effect from such date.

Companies are taxed on their business profits at the normal corporate rate of 35%. Profits are arrived at after deducting expenses. The general rule is that tax deductions are allowed only with respect to expenses incurred wholly and exclusively in the production of the income but the law contains special rules on various items of deductions including capital allowances (in lieu of depreciation) on industrial buildings and structures, and on plant and machinery. Amortisation for business expenses on scientific research, patents, royalties and other intellectual property is also available.

Malta operates a full imputation system for the taxation of dividends. Consequently, when a company distributes dividends out of profits on which it has paid tax, no further tax is due from the shareholder and a credit for the tax paid by the distributing company is available to the shareholders.

Furthermore, tax refunds are available upon a distribution of profits out of profits allocated to the Foreign Income Account (FIA) and Maltese Taxed Account (MTA). Income allocated to the FIA consists of an exhaustive list of distributable profits resulting from taxable income arising or closely connected with income arising outside Malta. On the other hand, the MTA consists of taxed profits that have not been allocated to the Final Taxed Account or the Immovable Property Account.
Subject to certain conditions, upon a distribution of profits, tax refunds are available without discrimination both to Maltese and non-Maltese resident shareholders. The refund is typically of six-sevenths of the Malta tax suffered – this is defined as the Malta tax paid grossed up with any amount of foreign tax actually suffered on foreign source profits. Other refunds are the fifth-sevenths refund where the profits derive from passive interest and royalties and the two-thirds refund where the distributable profits are allocated to the FIA and the company claims double taxation relief for such income. Refunds are increased to 100% where the profits are derived from a participating holding or its disposal. A participating holding is commonly satisfied through a direct holding of at least 10% in the equity capital of a foreign company/limited partnership. In lieu of the said 100% refund, a direct exemption may apply for income derived from a participating holding or its disposal. The result after the distribution of profits and tax refunds is an effective tax burden in Malta ranging from 0% to 10%.
Some of Malta’s fiscal advantages

Apart from a low effective tax burden Malta’s tax system offers a number of other attractive features:

• a network of over 55 double-tax treaties concluded both with developed and developing countries;
• as an EU member state, access to parent-subsidiary, interest and royalties and mergers directives;
• no withholding taxes on dividends, interest, royalties and capital gains (other than capital gains arising from transfer of immovable property and shares in property companies) paid to non-residents, irrespective of the existence of a double tax treaty or not, subject to certain straight-forward conditions;
• availability of unilateral tax sparing relief in respect of foreign tax – in case of foreign source dividends unilateral relief extends to underlying tax;
• no thin-capitalisation rules;
• no controlled foreign company regime;
• no capital duty on share issues and exemption from duty on transfers of shares in companies having the majority of their business interests outside Malta (this is subject to a number of other conditions).

Taxation of insurance companies

The major components of the income tax computation of an insurance company would include:

• Gross premiums written less reinsurance premiums;
• Investment income;
• Movement in technical provisions including equalisation reserves;
• Deductions for claims paid less reinsurance recoveries and administrative expenses.

Companies will be taxed on profits (after any adjustment for income tax purposes) at the standard corporate rate of 35%. However, on the assumption that all taxed profits are distributable and are in fact distributed, the company’s shareholders should, upon a distribution of such profits be entitled to a total refund of six-sevenths of the Malta tax suffered on the distributed profits resulting in an effective Maltese tax burden of about 5% - refer to illustration above. The overall effective Maltese tax burden may, in certain circumstances, be reduced even further if the company suffers any foreign tax on its profits, given that the refunds are calculated on the Maltese tax paid gross of any credit for actual foreign tax suffered.
Appendix D – Insight into our audit process

Our audit methodology

Gaining an understanding of your business

Our risk based audit methodology seeks to align our work with how management assess the risks in the business and ensure that appropriate processes and controls are in place.

We deploy our people according to how the client is organised, for example by management unit or business process. We look at how management – not just the finance function, but also across all key functional areas – runs the business and manages risk on a day-to-day basis. This entity-wide view of risk enables us to identify conditions within the organisation that could potentially pose audit risks and endanger the accuracy and integrity of the organisation’s financial reports.

These areas of audit risk serve as the foundation for planning and guiding all subsequent audit activities in terms of judging how well the organisation’s control structures mitigate risk and verifying that judgement through a test of underlying information and transactions where necessary.

PwC Audit is an iterative process by which the audit team tests and retests and makes successive judgements about the reliability of management’s assertions. Throughout this process, we recalibrate our audit work to address the significant risks that could result in material misstatement of your financial information.
The starting point of our audit approach is our assessment of the risks of material misstatement. We then identify the controls that management have in place which mitigate these risks.

Then we undertake our work:

• testing of internal controls;
• analytical review, such as reasonableness testing; and
• detailed substantive testing of balances, such as obtaining third party confirmations of balances or agreeing transactions to member files.

Where we believe that appropriate controls are in place we plan to test and rely upon these controls. In other areas, or where it is more efficient to do so, we plan to take a largely substantive approach to the audit. Some substantive procedures will be carried out for each material account balance.

**Obtaining substantive audit evidence**

If we consider the control environment to be strong over a majority of business processes, we accordingly aim to obtain a high level of assurance from assessing and testing management’s controls.

In addition, we will obtain substantive audit evidence. The extent of our detailed audit testing will depend on the materiality of the area, our risk assessment, the effectiveness of management’s control processes and the relevance to the financial statements.

Where we consider further audit assurance is required having applied the audit comfort cycle and analytical review procedures, we will perform additional tests of detail to address the financial statement assertions.

**Assessing financial statements**

Management is responsible for the fair presentation of the financial statements. In representing that the financial statements are true and fair, in all material respects, in accordance with the applicable financial reporting framework, management implicitly makes a number of assertions.

We assess risks of material misstatement at an assertion level by considering the different types of potential misstatements that may occur, and then ensure that the audit procedures we designed and performed are sufficient to address the financial statement assertions.

In reviewing the financial statements, we consider whether management’s selection and application of accounting and reporting principles in the financial statements are appropriate to your business and industry and clearly reflect the underlying transactions to users of your financial statements.
Key areas of focus

Below are key areas of focus, that we would typically consider during an audit of an insurance company. Note that while these constitute key areas of focus for the various elements of insurance, they do not constitute a complete list.

<table>
<thead>
<tr>
<th>Key areas of focus</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment valuation</td>
<td>Investment markets have been subject to periods of significant volatility. For most companies, the valuation of investments remains a complex and difficult area which often requires the use of significant management judgement.</td>
</tr>
<tr>
<td>Solvency position</td>
<td>Directors are responsible for ensuring that adequate solvency positions are maintained at all times. Failure to maintain an adequate solvency position not only represents a breach to regulatory requirements, but may also have implications for the statutory audit and the financial statements.</td>
</tr>
<tr>
<td>Management oversight of outsourced functions</td>
<td>Where business processes and back office functions have been outsourced there is an increased risk of control weaknesses occurring where the responsibility for transaction processing is transferred to a third party.</td>
</tr>
<tr>
<td>Subjectivity in Mortality and Longevity Assumption</td>
<td>The liabilities for certain lines of business are sensitive to the choice of assumptions regarding policyholder mortality and longevity (including the rates of improvement of mortality). Mortality and longevity assumptions are based upon experience analysis and are highly subjective. In particular, the assumptions for the future rate of mortality improvement are very judgemental and may be impacted by new guidance from industry bodies. Firms should, therefore, be actively considering the appropriateness of their mortality assumptions in light of their own experience, industry developments and regulatory direction.</td>
</tr>
<tr>
<td>Life - Subjectivity in Persistency Assumption</td>
<td>Actuarial reserves and embedded value are sensitive to changes in persistency assumptions. During 2010, many companies experienced a significant worsening of persistency, particularly in relation to unit linked pension products as a result of the increase in the normal retirement age and advisor led lapses in response to the upcoming Retail Distribution Review. There is a risk that persistency experience may deteriorate further and this is not reflected in the Company's persistency assumptions.</td>
</tr>
<tr>
<td>Life - Investment yield calculations</td>
<td>Actuarial reserves are sensitive to movements in the valuation interest rate, which is in turn derived from investment yields. There is a risk that changes in investment yields are not appropriately reflected in the actuarial calculations, particularly where there have been changes to the structure of investment portfolios.</td>
</tr>
<tr>
<td>Life - Credit default assumptions (annuity business)</td>
<td>Most firms held credit default allowances consistent with those from the prior year. The lack of market liquidity presents a challenge to management in determining the attribution of the credit spread margin between liquidity and credit risk. It is challenging to determine the duration and quantum of expected defaults.</td>
</tr>
</tbody>
</table>
Loss reserves are a material estimate in the financial statements and their valuation involves a significant degree of judgment. The main areas of focus include:

- The use of appropriate reserving methodologies and assumptions and the consistency of their application from year to year;
- Understanding the impact of the current pricing environment upon the loss reserves;
- The evaluation as to the degree of ‘estimation uncertainty’ including the consideration of the ranges around significant risks;
- The consideration by management of alternative assumptions and inherent bias when developing an estimate;
- The adequacy of management’s process to quantify the impact of large loss events and the degree of uncertainty around those estimates; and,
- Prior year development and the appropriateness of prior year estimates.

Reinsurance recoveries are a material asset on the balance sheet; the risks of material misstatement include:

- The adequacy of the provision for doubtful debts, considering (i) a deterioration in the financial condition of reinsurers may lead to the inability or unwillingness to pay and (ii) the number and nature of disputes; and
- The degree of complexity involved in the process of netting down provisions for claims outstanding.

In March 2011, the European Court of Justice announced a ruling on the Test-Achats case. Under this ruling, from 21st December 2012 it will be prohibited to use gender as a basis for pricing insurance contracts. It is currently unclear how this ruling will apply (retrospective or prospective etc) and what the impact on insurers will be. In any event there will be a number of accounting implications.
Use of Systems and Process Assurance (SPA) in audit

The following diagram maps the links between the audit of the financial statements and the systems related work.

Typically, SPA perform an assessment of the components of the control framework in order to understand the level of reliance that can be placed on controls and the underlying IT systems including assessment of the:

- Control environment
- Control activities
- Management's risk assessment process
- Information and communication controls
- Monitoring of controls.

SPA also evaluate and test system based and other controls relating to the following key areas, as may be appropriate:

- New policy underwriting
- Policy renewals
- Claims processing
- Claims reserving
- Re-insurance activities
- 3rd party service providers
- Financial Statement preparation.
Appendix E – Third party assurance: ISAE 3402 services

Introduction

Times are changing and the business world is seeing new delivery models. The rise of service-orientated architecture within the insurance industry is increasing the need for trust and transparency around services provided by insurance managers. Privacy and security concerns around the handling of data are also high on the agenda. There is also the added pressure of regulatory change which in turn drives the demand for greater and more frequent assurance.

If your organisation provides insurance management services and your customers’ control environment is dependent on your systems, procedures and controls then it may well be in your best interests to provide a report on your internal controls so that you can demonstrate that you are doing the right things and doing things right. Moreover, in today’s rapidly changing and increasingly regulated world your customers or your future customers may demand it.

Description of ISAE 3402 services

The International Standard on Assurance Engagements (ISAE) 3402 is an auditing standard developed by the International Auditing and Assurance Standards Board (IAASB). ISAE 3402 is the new authoritative guidance that allows service organisations to disclose their control activities and processes to their customers and their customers’ auditors in a uniform reporting format. It is the first international standard on third party assurance that provides a reporting option for service organisations that need a global attestation standard to deliver consistent reporting worldwide. It is a widely recognised standard, because it signifies that a service organisation has had its control objectives and control activities examined by an independent accounting and auditing firm. A formal report including the auditor’s opinion is issued to the service organisation at the conclusion of a ISAE 3402 examination.

An ISAE 3402 report typically consists of 5 sections:

1. Section One: The service Organisation’s description of its system
2. Section Two: Written assertion by the Organisation
3. Section Three: Independent Service Auditor’s Report (the “Opinion”)
4. Section Four: Information provided by the Independent Service Auditor
5. Section Five: Other Information provided by the Organisation
Benefits to an organisation

By obtaining an ISAE 3402 report, an organisation will:

• Obtain additional comfort on risks, systems and controls. This will assist in building trust and strengthening relationships with business partners and customers.
• Demonstrate leadership and market differentiation – can be highlighted in marketing materials because of the high value placed on the audit by the business community.
• Gain a competitive advantage over rivals lagging in development of a comprehensive internal control assurance process.
• Achieve enhanced business performance through value added recommendations.

Our approach

• We typically suggest a phased approach with various key decision points along the way. We have executed this approach with clients, i.e. starting from a readiness review that is followed by a Type I report in the first period and a Type II report in the second and subsequent periods.
• The advantage to this staged approach is that management can fully identify the breadth and depth of the reporting framework and also ensure that controls are designed and placed into operation before an independent auditor’s report on the operating effectiveness of those controls is issued.
• The initial ‘Readiness Review’ is crucial to this approach. This health check is the next phase. The benefit of a readiness assessment is making sure there are no surprises which could cause the ISAE 3402 exercise for an insurance manager to fail or be qualified.

Our suggested approach

A **readiness assessment** to make sure there are no surprises and that you are ready before the reporting phase commences.

**Type I report** that gives assurance that controls are suitability designed and have been placed in operation as of a specified date.

**Type II report** that gives assurance that controls are operating effectively over a period of time.
Appendix F – IFRS4 Phase II

The move to a harmonised International Financial Reporting Standard (IFRS) for insurance Contracts (IFRS Phase II) is gathering pace, with a new standard on the horizon. The International Accounting Standards Board (IASB) is expected to release a redraft/revision of the draft published in July 2010, in 2012. This will apply to all insurers in jurisdictions reporting under IFRS and will introduce a single accounting standard that will apply to all insurance contracts on a consistent basis.

IFRS 4 Insurance Contracts is the result of Phase I of the Insurance Contracts project. It is an interim standard that permits a wide variety of previous accounting practices for insurance contracts to continue until phase II is complete. Users of insurers’ financial statements find it difficult to understand and compare those practices. The IASB, jointly with the FASB, is undertaking Phase II of this project to develop a standard that will replace IFRS 4.

Measurement
The exposure draft proposes a single measurement model that focuses on a current assessment of the amount, timing and uncertainty of the future cash flows that the insurer expects its existing insurance contracts to generate as it fulfils them. The proposed measurement model uses ‘building blocks’ to measure an insurance liability. The following diagram illustrates these measurement building blocks.
The IFRS4 Phase II project’s timeline runs in parallel with preparations for Solvency II. A comparison highlighting key similarities/differences between the two is included below.

<table>
<thead>
<tr>
<th>Area</th>
<th>Solvency II</th>
<th>IFRS</th>
<th>Significance</th>
<th>Observation</th>
</tr>
</thead>
</table>
| Definition and scope          | All Contacts| Insurance plus some participating investment contracts | • The measurement of investment contracts in IFRS is likely to be significantly different to Solvency II.  
• In IFRS, participating contracts are not automatically in the insurance standard. |                                                                              |
| Recognition                   | Party to contract | Party to contract | Similar requirements.                                                      |                                                                              |
| Unbinding                     | No          | Not closely related (3 examples) | The scope of unbundling in IFRS is not clear. However, requirements to unbundle will have significant systems, data and process implications for some insurers. |                                                                              |
| Cash flows                    | Prescribed  | Incremental at portfolio level | There is the potential for certain cash flows, for example overhead expenses and tax to be different between Solvency II and IFRS. |                                                                              |
| Discount rate                 | Risk-free plus illiquidity premium | Risk-free plus illiquidity premium | • Potential grandfathering arrangements in Solvency II would significantly differ from IFRS.  
• The discount rate is prescribed in Solvency II. It is likely that the Solvency II discount rate will be used as the starting point for determining the IFRS discount rate. |                                                                              |
| Risk Adjustment               | Prescribed 6% cost of capital | One of three methods  | IFRS permits one of three methods, while Solvency II prescribes at 6% cost of capital approach. More diversification benefits will be permitted in Solvency II. |                                                                              |
| Residual margin               | No          | Eliminate day-one gain | Significant difference. The level of granularity required for the residual margin will impact modelling and data requirements. |                                                                              |
| Acquisition costs             | Expensed as incurred | Contractual cash flows | For IFRS, incremental acquisition costs are included in contractual cash flows. Additional data and modelling required compared to Solvency II. |                                                                              |
| Short duration contacts       | No difference | Unearned Premium Reserve | For IFRS, the Unearned Premium Reserve (UPR) model is mandatory for pre-claim liabilities with an onerous contract test at the portfolio level (by similar date of inception). There is no equivalent concept in Solvency II. |                                                                              |
The following are implementation considerations surrounding the major accounting (IFRS) and regulatory (Solvency II) changes that the industry will be facing:

- Uncertainties until both evolve to finalisation - especially surrounding IFRS since still at ED stage;
- Impact on business – gap analysis, assessment of priorities, implementation plan – aligned approach should minimise costs and prevent digging the road twice;
- New reporting requirements – development of new operating model, processes and reporting;
- Forward thinking for new data requirements – split of data analysed into fine detail required;

PwC recommends a five step approach to integration in preparing for implementation, which PwC can assist in.
Appendix G – Publications

Solvency II Publications


The first edition of the Guide, published in March 2010 was very well received. There are still no equivalent publications from any of our competitors and so the Guide continues to act as a real distinguishing feature of PwC's offering in this area. This second edition of the Guide has been updated to reflect developments during 2010.

Purpose of the guide
• To give users a detailed understanding of the new regulatory regime for insurance companies that will exist under Solvency II;
• To help its readers to navigate the numerous publications that shape the new Solvency II regulatory framework in a logical and clear manner; and
• To reflect the requirements of the Solvency II regime included in the entire Directive, all relevant CEIOPS Consultation Papers and Advice, the QIS5 technical specifications and other relevant consultations and publications.

Countdown to Solvency II articles

Countdown to Solvency II is PwC’s flagship Solvency II publication, exploring the insurers in assessing the implications of the Solvency II directive and in preparing for the changes ahead. The latest publication in the series, issued in December 2011 is featured here:

Risk of delay: Getting Pillar 3 on track

With supervisors likely to require extensive transitional disclosure in 2013 and getting ready for full reporting in 2014 set to demand a huge step up in data, systems and governance, preparing for Solvency II disclosure (Pillar 3) can’t be put off any longer.

Why is this important to you? It’s important to prepare Solvency II disclosure based on 2012 results, to allow you sufficient time to start identifying any divergence and be able to explain the reasons to internal management and analysts.

The article looks at how to get Pillar 3 implementation on track, who should be involved and what the potential bottlenecks to be overcome are.
Hot topics, breaking news and comments to consultation papers

PwC covers, in real time, latest developments in the development of the Solvency II legislation. Featured here is the latest of such publications, “Understanding where solvency I is heading” (August 2011) which deals with the Omnibus II Directive, and in particular the debate surrounding implementation date (European Council proposal is 1 Jan 2014) and transitional measures.

Our subject matter professionals have reviewed the consultation papers in relation to Level 2 implementing measures and have provided comment. These are available on the PwC website http://www.pwc.com/gx/en/insurance/solvency-ii/index.jhtml

IFRS 4 Phase II

PwC has followed the standard’s development since the IASB issued an exposure draft in July 2010. The proposals were the output of the IASB and the FASB’s joint efforts to develop a single converged insurance standard.

Staying close to developments, we have summarised the board’s new proposals in Setting the standard: How to make the proposed insurance accounting standard more useful.

In October 2010 PwC published Getting to Grip with the Shake-up, a publication which examines the differences and similarities between the two frameworks and start to assess how this will affect reporting systems, management evaluation and market communication.
Other developments

Insurance digest

This publication is dedicated to providing thought-provoking insights into some of the key strategic issues facing the insurance industry.

Insurance banana skins 2011

PwC has joined forces with the Centre for the Study of Financial Innovation (CSFI) to explore what risks insurers face and how they prioritise them. This year we have a record numbers of participants with 490 participants from 40 countries. The research questions insurers on three areas: current risks, future trends, and their preparedness to respond to the risk environment. It shows how the life, non-life, reinsurance and London Market sectors differ in outlook and provides valuable insights into the risk concerns at the top of the boardroom agenda.

PwC Illustrative IFRS consolidated financial statements 2011

This publication provides an illustrative set of consolidated financial statements, prepared in accordance with International Financial Reporting Standards (IFRS) for a fictitious insurance group.

Website and Insurance alerts

The firm communicates regularly with its clients by way email alerts, which include the latest technical updates. The firm’s website also carries all the latest literature issued by global and local technical teams.
Appendix H – Useful links

Central Bank of Malta
http://www.centralbankmalta.org/

Finance Malta
http://financemalta.org/

Government of Malta
http://www.gov.mt/

Laws of Malta
http://www.legal-malta.com/law/

Malta Financial Services Authority
http://www.mfsa.com.mt/

Malta Insurance Association
http://www.maltainsurance.org/pages/miaMain.asp

Malta Insurance Management Association

Malta stock exchange
http://host.borzamalta.info/
The insurance industry is an important pillar of the Maltese economy. This publication is one of an increasing number of initiatives, including surveys and newsletters, which are designed to share our knowledge with the industry. It presents an overview of how we perceive a steadily growing industry, and the services we are geared to provide.

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