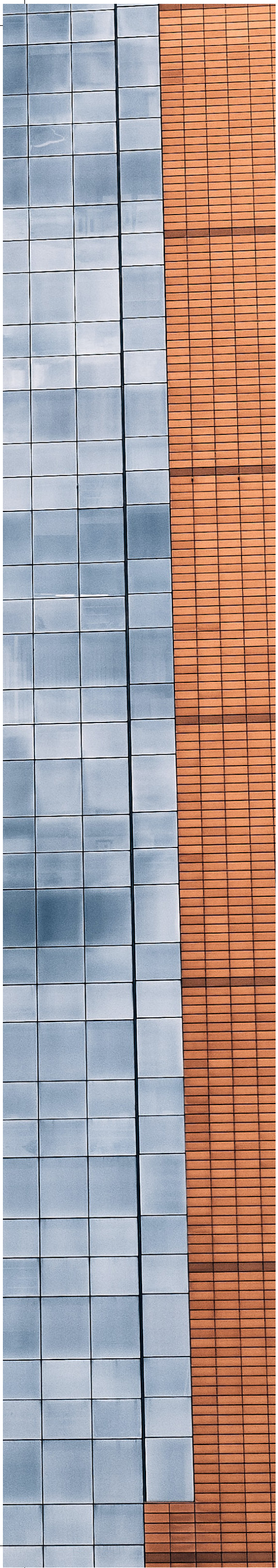
YOUR GUIDE TO
Financial Services in Malta

# Insurance-Linked Securitisation

FinanceMalta



# Malta for ILS: Destination of Choice

We are an emerging European ILS jurisdiction, with fully-fledged legislation for the formation and authorisation of Reinsurance Special Purpose Vehicles (RSPVs). We are also the only European jurisdiction to have enacted legislation for the formation of Securitisation Cell Companies (SCCs).

As a result of our robust ILS legal framework, we are able to offer a European-based ILS solution, that can be used by an insurance or reinsurance undertaking to cede risk by funding potential liabilities through the capital markets.

Our robust ILS legislation has been a cause of significant interest in the setting up of local ILS structures in the past years. Our ILS legislation permits the setting up of an RSPV for catastrophe bond issues and longevity risk transfer transactions. An RSPV may also be set up in Malta as a reinsurance sidecar.

We are home to a number of insurance companies, including professional reinsurers, captive insurers, protected cell companies and insurance managers. Our insurance sector boasts a workforce of more than 1,100 people, and the sector is backed by a large number of legal firms, as well as accounting and auditing practitioners.

# Benefits of doing business in Malta

## Malta is an optimal location for the setting up of RSPVs.

The main benefits of setting up an RSPV in Malta include:

- A robust legal framework for the setting up of RSPVs regulated by the Reinsurance Special Purpose Vehicles Regulations (Subsidiary Legislation 403.19 of the Laws of Malta) (RSPV Regulations);
- The presence of local service providers including all major international insurance managers, corporate service providers, audit firms and legal expertise in the field of insurance securitisation;
- The possibility of setting up a limited liability company within 2-5 business days;
- A double tax treaty network with over 80 countries based on the OECD model, making Malta an attractive fiscal jurisdiction;
- A single regulator of financial services, with a keen appetite when it comes to the authorisation of RSPVs and SCCs;
- Maltese company law and fiscal legislation fully compliant with all applicable EU legislation; and
- A deep insurance talent pool and a well-educated and multi-lingual and dynamic workforce.
- A strong insurance network and the ability to work in proximity to leading insurers, captives, reinsurance giants as well as the presence of both global and local insurance managers.

## A Single Regulator

The Malta Financial Services Authority (MFSA) is the single regulator of financial services in Malta. Its approach is reputed to be 'firm but flexible'. The MFSA's approach encourages informal discussion at all levels with applicants and other interested parties.

## Taxation of SPVs and RSPVs

In terms of the Securitisation Transactions (Deductions) Rules (Subsidiary Legislation 123.128 of the Laws of Malta), a special tax deductions regime shall apply to securitisation transactions – hence the profits generated by an SPV would not be subject to tax in Malta if the special deductions regime applies. Similarly, if a Malta-based RSPV elects to be registered as a securitisation vehicle, the tax deductions applicable to securitisation transactions would also apply to an RSPV.

## The Authorisation Process of RSPVs

Malta-based RSPVs require authorisation by the MFSA on the strength of the provisions contained in the RSPV Regulations. In terms of the RSPV Regulations, the authorisation process of an RSPV commences with the submission of an application by the applicant to the MFSA, which shall include the submission of supporting documentation as laid out in Commission Implementing Regulation (EU)2015/462, including: (i) the proposed scheme of operations; (ii) the proposed ownership structure; (iii) details of the ceding undertaking; (iv) any outsourcing arrangements; as well as the submission of (v) transaction documents, including drafts of the prospectus or offering circular or private placement memorandum and rating assessments or a credit rating agency's report.

Authorisation is typically granted within a short period from submission of relevant documentation to the MFSA.

## RSPVs – Key Features

### Benefits of RSPVs

RSPVs may be utilised for catastrophe bond issues, longevity risk transfer transactions, collateralised reinsurance and reinsurance sidecars.

### Bankruptcy Remoteness

Bankruptcy Remoteness: shares in an RSPV are typically held by a Maltese purpose foundation thereby insulating the RSPV from the bankruptcy risk of the ceding undertaking. Maltese foundations are administered by authorised foundation administrators.

### RSPV Minimum Capital Requirement

The minimum share capital for Maltese limited liability companies is €1,165. RSPVs are to be fully funded at all times to the maximum aggregate exposure under the risk transfer contract. There are no additional solvency requirements for RSPVs.

### Eligibility Criteria

An RSPV shall be eligible for authorisation in terms of the RSPV Regulations if it satisfies the following conditions:

- The applicant is an undertaking whose head office is in Malta;
- Its objects or purpose are restricted to operating as a reinsurance special purpose vehicle; and
- Investors are professional clients as defined in Directive 2014/65/EU (MiFID II Directive)

## Securitisation Cell Companies – SCCs

Malta is the only EU Member State that offers Solvency II compliant insurance-linked securities cell platform structures. The Securitisation Cell Companies Regulations (SCC Regulations) provide the legal framework for the establishment of SCCs.

An SCC is a single legal entity that can establish one or more segregated cells for the purpose of entering into securitisation transactions such as catastrophe bond issuances, longevity risk transfer transactions, collateralised reinsurance transactions and cell sidecars. The main benefit of SCCs lies in their application as programme or platform structures, for instance if repeat transactions are envisaged, offering lower costs and quicker set-up time for each transaction.

An SCC can be used for asset-backed (or true sale) securitisation for virtually any type of asset class (e.g. loans, trade receivables and lease/charter receivables), whole business securitisation (i.e. granting of secured loans), as well as for insurance-linked securitisation transactions (e.g. catastrophe bonds, longevity risk transfer, collateralised reinsurance and cell sidecars). An SCC can have multiple originators provided that there is only one originator of securitisation assets for each cell. Each cell can have a different base currency. Furthermore, while a cell can have only one base currency, it can issue securities denominated in multiple currencies.

SCCs that are authorised as RSPVs under the RSPV Regulations are fully compliant with the EU Solvency II regime.

An SCC can be set up with a minimum share capital of €1,165. An SCC is required to obtain prior authorisation from the MFSA if it intends to enter into ILS transactions falling within the scope of the RSPV Regulations.

There are many things to consider when starting or moving your business to Malta, and we are sure you have got questions. We are here to help you. Contact us for a more personalised introduction to opportunities in Malta's financial services centre.

## GET IN TOUCH

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