YOUR GUIDE TO
Financial Services in Malta

Captives

FinanceMalta

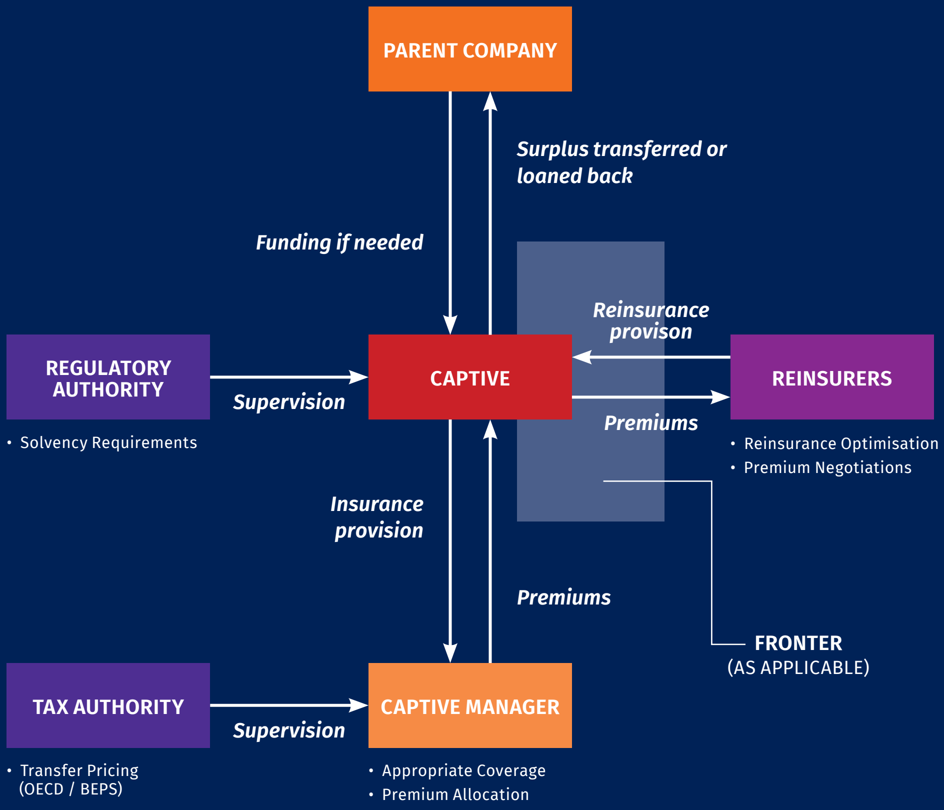
What is a Captive?

A captive is an ‘in-house’ insurance or reinsurance company, formed primarily to insure its owner and affiliated companies. It is a strategic enabler that gives companies control over their program design, allows them to fill coverage gaps and gives them access to the risk transfer market, allowing them to access alternative capacity whilst retaining control of their data.

	3RD PARTY UTILIZATIONS	ACCESS TO ALTERNATIVE CAPACITY	COST OF RISK TRANSFER IMPROVEMENT	RETAINED RISK FINANCE
BUSINESS PURPOSE	• Governance around retained risks; • Enhancing risk management efforts; • Better use of capital to retain risk than transfer; • Harmonization of risks across global portfolios.	• Reducing cost of risk transfer; • Reinsurance market cost of risk transfer is less than retail equivalent; • Managing TCOR; • Recapturing Ceding Commission.	• Transferring risk to alternative forms of capacity, which may not be otherwise accessible in commercial retail market.	• Accessing profitability imbedded in insurances sold to affiliates / consumers / partners; • Creating 'stickness' for core product offerings; • Further penetration into consumer / partner / affiliate wallets.
EXAMPLES	• Deductible buy-down; • Participation in excess programs; • Fronted global programs; • Multinational benefit pooling.	• Reinsurance pass through; • Excess Re placements; • Integrated risk programs; • Multinational benefit pooling.	• Credit risk transfer; • ART solutions; • Cat bonds; • Integrated aggregates; • Parametric triggers; • Terrorism pools.	• Consumer facing insurance programs; • Forced placed insurances; • Affiliate business; • Agency captives.
	CAPITAL EFFICIENCY: • Bringing together correlated and non-correlated risks to benefit from severity risk diversification effect; • Harmonizing and aggregating global and individual risk programs to maximize risk transfer leverage and diversify market concentration risk portfolios.			

How Captives Work

Support the execution of the organisation's risk strategy



Why Malta as your Captive Domicile

Primary advantages of Malta to Captive owners are the following:

- EU Single Passport thus avoiding fronting costs
- EU Member State positioned as an efficient and competitive European onshore base
- Approachable and responsive Regulator
- PCC Legislation that allows the captive to be set up as a Cell
- Over 75 Double Tax treaties creating an efficient fiscal system
- The ability to fully outsource the captive management to regulated captive managers thus ensuring the necessary expertise to manage the captive.
- Strong banking, legal and financial services sector
- English as a business language

Legal Framework

As a member of the European Union, captives have the ability to write directly cross border into all other EU countries, under the freedom of services regime, thereby removing the need for a fronting partner. Captives are governed by the Insurance Business Act Cap 403 plus various subsidiary legislation and rules, including Protected Cell Company (PCC) legislation specific to (re)insurance undertakings.

Captives can therefore be set up either as a separate legal entity or as a Cell within a PCC, thereby reducing further the running costs of the captive. Immaterial of the captive structure, in line with the Insurance Business Act, a Maltese captive can write both non-life business on a direct basis and life business on a reinsurance inwards basis, using the same vehicle. This creates significant efficiencies for Groups that wish to place both Group P&C risks and their Employee Benefits risks into their captive.

Outsourcing

Whilst captives fall squarely under the Solvency II Regime from a capital point of view, operationally, proportionality is fully applied and the Supervisory Authority allows the full outsourcing of all functions to a licenced captive manager. All major captive managers are present on the Island, thereby ensuring the high level of expertise needed to manage a captive and its insurance programs.

Taxation

Malta has over 75 Double tax treaties in place with countries across the globe, broadly based on the OECD Model Tax Convention. A Corporate Tax rate of 35 applies with imputation tax system allowing up to 6/7th tax credit on distribution of dividends delivering a possible 5% effective rate in the hands of the shareholders. If a holding company is also incorporated in Malta, the concept of a fiscal unity can also be applied, whereby the captive pays the effective 5% taxation, without the need for a dividend distribution.

Application Process

The Supervisory Authority, the Malta Financial Services Authority, is considered to be an 'approachable' Regulator, with Captives sitting squarely within its risk appetite. Accordingly the Licence application is streamlined, with applicants required to submit a comprehensive "Scheme of Operations" covering the scope and background of the business plan, financial and capital projections and resources, business, underwriting, investment & risk management strategies, such as loans to parent and details of reinsurance and retrocession structures, particulars of outsourcing and internal controls.

The Supervisory Authority will allow this application to be fully handled by the outsourced captive manager, however they would expect the Captive Owner to be actively involved in the process and a pre application meeting with the Regulator is normally encouraged.

The law prescribes a maximum 3 month legal timeline for the granting of the licence from receipt of a complete application.

Regulatory Reporting

The Supervisory Authority requires the submission of quarterly management accounts plus the solvency calculation in the prescribed format, however exemptions from submission of quarterly returns normally applies to captives. The annual audited accounts and solvency calculation, in addition to the annual Solvency and Financial Condition Report and Annual Quantitative Returns also require submission.

In terms of accounting standards, whilst Captives have the flexibility to apply IFRSs, Malta recently introduced a new simplified Accounting Standard for Captives and certain other insurance entities - General Accounting Principles in respect of certain Eligible Entities, Regulations, 2023 (Legal Notice 299 of 2023) ("GAPEE"). This has simplified the reporting requirements for captives, whilst still ensuring a robust reporting framework.

GET IN TOUCH

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