

# MALTA

## Key characteristics of the insurance market



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# 1 Introduction

## 1.1 General

At the end of 2017 (2017 Q4), 33 insurance companies<sup>1</sup> in Malta submitted their Solvency II related reporting package to the Maltese National Supervisory Authority (NSA). These companies accounted for 0,085% of Total assets of (re)insurance undertakings operating within the European Union (EU).

Table 1 depicts the number of Solvency II reporting submissions in Malta by insurance activities and the importance of the country within the EU, based on Total assets.

**Table 1 - Insurance reporting submissions**

Insurance reporting submissions	#
Life undertakings	4
Non-Life undertakings	23
Reinsurance undertakings	2
Composite undertakings	4
<b>Total</b>	<b>33</b>
<b>Total assets MT / Total assets EU %</b>	<b>0,085%</b>
<b>Ranking MT based on Total assets EU</b>	<b>18</b>

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

## 1.2 Balance sheet

At the end of 2017 (2017 Q4), Malta was the number 18 country in the EU insurance market in terms of assets held with an amount of 9 638 million EUR reported under Solvency II rules.

With regards to the Assets held for index-linked and unit-linked contracts, Malta ranked number 22 in terms of absolute amount with 1 005 million EUR invested in this category. However, with 10,4% of Total assets of this category, Malta was significantly below the EU average, i.e. 24,3% in terms of Total assets.

In terms of technical provisions, 3,0% of the total balance sheet relates to the life business (i.e. non index-linked and unit-linked business), while 14,6% represented non-life obligations.

**Table 2 - Solvency II balance sheet (S.02.01) and EU comparison (solo)**

in Mio EUR	MT			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Investments, deposits, cash and cash equivalents	7 377	18	76,5%	67,8%	67,3%	22,6%	90,1%	17,2%
Assets held for index-linked and unit-linked contracts	1 005	22	10,4%	24,2%	24,3%	2,5%	59,3%	16,2%
Other assets	1 256	18	13,0%	8,1%	8,4%	2,1%	19,5%	4,9%
<b>Total assets</b>	<b>9 638</b>	<b>18</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>0,0%</b>
Technical provisions - life	290	25	3,0%	46,3%	32,2%	3,0%	64,2%	17,9%
Technical provisions - non-life	1 404	19	14,6%	6,6%	12,9%	2,4%	38,5%	9,1%
Technical provisions - index-linked and unit-linked	987	22	10,2%	25,1%	23,4%	2,4%	58,4%	16,0%
Other liabilities	2 055	17	21,3%	8,9%	9,0%	4,0%	21,3%	3,9%
<b>Total liabilities</b>	<b>4 737</b>	<b>21</b>	<b>49,1%</b>	<b>86,9%</b>	<b>77,6%</b>	<b>49,1%</b>	<b>92,7%</b>	<b>11,1%</b>
Excess of assets over liabilities	4 901	16	50,9%	13,1%	22,4%	7,3%	50,9%	11,1%
<b>Total liabilities + Excess of assets over liabilities</b>	<b>9 638</b>	<b>18</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>0,0%</b>

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

<sup>1</sup> In the report, the term 'insurance companies' indicates both direct insurance and reinsurance companies. The insurance market covered in this factsheet therefore refers to insurers and reinsurers.

The balance sheet item Investments, deposits, cash and cash equivalents will be further detailed in section 2, while section 3 will focus on Assets held for index-linked and unit-linked contracts.

### 1.3 Solvency II ratios

At the end of 2017 (2017 Q4), the Maltese (re)insurance market as a whole had available own funds that were more than double the Solvency Capital Requirement (SCR) levels required by the European Solvency II Directive. The reported SCR ratio amounted to 361% without long-term guarantee (LTG) and transitional measures and is significantly higher than that of the EU, which amounted to 237% at year-end 2017. Out of the 28 EU Member States, Malta is ranked at the 1<sup>st</sup> position in terms of the reported SCR ratios.

**Table 3 - Solvency II own funds and SCR (S.23.01) and EU comparison (solo)**

in Mio EUR	MT		EU				
	Amount	Rank	%	Avg	Min	Max	StD
Total available own funds to meet the SCR	4 671	16	-	-	-	-	-
SCR	1 289	18	-	-	-	-	-
<b>Surplus available own funds</b>	<b>3 382</b>	<b>15</b>	-	-	-	-	-
<b>Ratio of Eligible own funds to SCR</b>	<b>361%</b>	<b>1</b>	<b>237%</b>	<b>225%</b>	<b>135%</b>	<b>361%</b>	<b>52%</b>
Ratio of Eligible own funds to SCR (10th percentile)	136%	13	136%	138%	110%	193%	19%
Ratio of Eligible own funds to SCR (25th percentile)	169%	10	162%	164%	128%	214%	24%
Ratio of Eligible own funds to SCR (50th percentile)	219%	10	215%	208%	144%	300%	37%
Ratio of Eligible own funds to SCR (75th percentile)	277%	15	306%	280%	164%	445%	59%
Ratio of Eligible own funds to SCR (90th percentile)	386%	16	457%	396%	173%	643%	99%
<b>Ratio of Eligible own funds to MCR</b>	<b>889%</b>	<b>4</b>	<b>640%</b>	<b>613%</b>	<b>282%</b>	<b>933%</b>	<b>170%</b>

Source: EIOPA statistics and Deloitte-CEPS analysis

EIOPA's report on long-term guarantees measures and measures on equity risk published on 18 December 2018 mentions the average impact of the use of long-term guarantee (LTG) and transitional measures. At year-end 2017, no results were shown for Malta since the undertakings do not apply any of the measures.<sup>2</sup>

<sup>2</sup> [https://eiopa.europa.eu/Publications/Reports/2018-12-18%20\\_LTG%20AnnualReport2018.pdf](https://eiopa.europa.eu/Publications/Reports/2018-12-18%20_LTG%20AnnualReport2018.pdf)

## 2 Investments, deposits, cash and cash equivalents

### 2.1 Scope

The asset allocation of Maltese insurance undertakings is mainly analysed through the reported Solvency II Exposure List (S.06.02). The classification of the Solvency II Balance Sheet (S.02.01) follows the legal nature of the assets in terms of classification, which can differ, from the exposures reporting.

Based upon the comparative view below, we note that amounts reported in the Solvency II Exposure List (S.06.02) and Solvency II Balance Sheet (S.02.01) do not differ.

**Table 4 - Solvency II balance sheet (S.02.01) and Solvency II exposure list (S.06.02) comparison**

in number	Exposure list MT		Solvency II balance sheet MT		Difference
	#	%	#	%	#
Life undertakings	4	12,1%	4	12,1%	0
Non-Life undertakings	23	69,7%	23	69,7%	0
Reinsurance undertakings	2	6,1%	2	6,1%	0
Undertakings pursuing both life and non-life insurance activity	4	12,1%	4	12,1%	0
<b>Total</b>	<b>33</b>	<b>100,0%</b>	<b>33</b>	<b>100,0%</b>	<b>0</b>

in Mio EUR	Exposure list MT		Solvency II balance sheet MT		Difference
	Amount	%	Amount	%	%
Holdings in related undertakings, incl. participations and equities	536	7,3%	536	7,3%	0,0%
Holdings in related undertakings, including participations	n/a	n/a	133	1,8%	n/a
Equities	n/a	n/a	403	5,5%	n/a
Equities - listed	n/a	n/a	397	5,4%	n/a
Equities - unlisted	n/a	n/a	6	0,1%	n/a
Collective Investments Undertakings	1 008	13,7%	1 009	13,7%	0,0%
Bonds	3 856	52,3%	3 858	52,3%	0,0%
Loans and mortgages	610	8,3%	610	8,3%	0,0%
Property	177	2,4%	177	2,4%	0,0%
Deposits	761	10,3%	761	10,3%	0,0%
Cash and cash equivalents	425	5,8%	425	5,8%	0,0%
Other investments	0	0,0%	0	0,0%	0,0%
<b>Total Investments, deposits, cash and cash equivalents</b>	<b>7 377</b>	<b>100,0%</b>	<b>7 377</b>	<b>100,0%</b>	<b>0,0%</b>

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

#### 2.1.1 Listed and unlisted equity

The distinction between listed and unlisted equity is made based upon the reported Solvency II Balance Sheet (S.02.01). Table 5 compares the listed and unlisted equity, whereby Holdings in related undertakings (including participations) are excluded.

**Table 5 - Listed and unlisted equity exposure based upon Solvency II balance sheet (S.02.01)**

in Mio EUR	MT			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equities - listed	397	15	98,5%	83,7%	75,0%	12,8%	99,6%	21,1%
Equities - unlisted	6	24	1,5%	16,3%	25,0%	0,4%	87,0%	21,1%
<b>Total equities</b>	<b>403</b>	<b>15</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>0,0%</b>

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

Based upon the quarterly reporting as of Q4 2017, Maltese insurers invested 98,5% of their directly-held equity positions in listed equity in comparison to an average of 75,0% in the EU. With an amount of 397 million EUR, Malta ranked number 15 in the EU.

With an invested amount of 6 million EUR, unlisted equity constituted a non-significant portion of the equity investment category of the directly-held equity investments, i.e. 1,5%. This placed Malta as the number 24 in the EU.

## 2.2 Asset exposure

From an asset exposure perspective, the insurance market in Malta mainly invested in Government bonds and Corporate bonds (in total 42,9% of Total Investments, deposits, cash and cash equivalents), Collective Investment Undertakings (13,7%), and Deposits (10,3%).

Within the bond categories, the insurance market was not equally exposed to government securities (28,2%) than to corporate debt (14,7%), categories for which Malta ranked number 22 and number 19 respectively, in the EU. Comparing the different assets classes, we note that the government bonds asset class shows the highest standard deviation of 18,9%.

The category of Collective Investment Undertakings was the third most important for the Maltese insurance market in terms of asset exposures. Within this category, the industry was mainly exposed to Equity funds, Money Market funds, and Other funds for which Malta ranked respectively number 17, number 13, and number 13 in the EU.

Equity was the fifth category to which the Maltese insurers had the most exposure. Equity of real estate related corporation constitutes 0,3% within the 7,3% of the total equity exposure.

**Table 6 - Asset exposure based upon Solvency II exposure list (S.06.02)**

in Mio EUR	MT			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
<b>Equity</b>	<b>536</b>	<b>18</b>	<b>7,3%</b>	<b>12,0%</b>	<b>9,5%</b>	<b>1,1%</b>	<b>28,1%</b>	<b>6,5%</b>
Common equity	502	18	6,8%	10,4%	7,8%	1,0%	22,5%	6,0%
Equity of real estate related corporation	25	21	0,3%	1,0%	1,1%	0,0%	4,0%	1,2%
Other equity	9	19	0,1%	0,6%	0,6%	0,0%	2,0%	0,7%
<b>Collective Investment Undertakings</b>	<b>1 008</b>	<b>17</b>	<b>13,7%</b>	<b>19,2%</b>	<b>12,8%</b>	<b>1,5%</b>	<b>41,6%</b>	<b>9,3%</b>
Equity funds	271	17	3,7%	3,2%	2,7%	0,4%	10,9%	2,4%
Private equity funds	0	-	0,0%	0,5%	0,5%	0,0%	6,9%	1,3%
Debt funds	143	21	1,9%	7,8%	5,6%	0,8%	18,0%	4,9%
Money market funds	265	13	3,6%	2,3%	1,1%	0,0%	6,3%	1,6%
Asset allocation funds	75	15	1,0%	1,1%	0,8%	0,0%	3,9%	1,0%
Real estate funds	5	21	0,1%	1,6%	0,8%	0,0%	3,3%	0,9%
Alternative funds	2	20	0,0%	0,4%	0,3%	0,0%	3,1%	0,6%
Infrastructure funds	0	-	0,0%	0,2%	0,1%	0,0%	0,9%	0,2%
Other	247	13	3,3%	2,0%	0,9%	0,0%	7,2%	1,7%
<b>Government bonds</b>	<b>2 079</b>	<b>22</b>	<b>28,2%</b>	<b>28,7%</b>	<b>39,7%</b>	<b>10,0%</b>	<b>77,0%</b>	<b>18,9%</b>
<b>Corporate bonds</b>	<b>1 082</b>	<b>19</b>	<b>14,7%</b>	<b>26,9%</b>	<b>21,6%</b>	<b>1,8%</b>	<b>47,3%</b>	<b>11,2%</b>
<b>Structured notes</b>	<b>8</b>	<b>20</b>	<b>0,1%</b>	<b>1,3%</b>	<b>0,5%</b>	<b>0,0%</b>	<b>2,5%</b>	<b>0,6%</b>
<b>Collateralised securities</b>	<b>688</b>	<b>9</b>	<b>9,3%</b>	<b>0,6%</b>	<b>0,6%</b>	<b>0,0%</b>	<b>9,3%</b>	<b>1,8%</b>
<b>Mortgages and loans</b>	<b>610</b>	<b>15</b>	<b>8,3%</b>	<b>4,8%</b>	<b>3,8%</b>	<b>0,3%</b>	<b>26,3%</b>	<b>5,2%</b>
<b>Property</b>	<b>177</b>	<b>22</b>	<b>2,4%</b>	<b>2,0%</b>	<b>3,5%</b>	<b>0,8%</b>	<b>11,6%</b>	<b>2,6%</b>
<b>Deposits</b>	<b>761</b>	<b>14</b>	<b>10,3%</b>	<b>2,8%</b>	<b>3,6%</b>	<b>0,2%</b>	<b>16,6%</b>	<b>3,6%</b>
<b>Cash and cash equivalents</b>	<b>425</b>	<b>16</b>	<b>5,8%</b>	<b>1,4%</b>	<b>4,3%</b>	<b>0,5%</b>	<b>16,6%</b>	<b>3,5%</b>
<b>Other investments</b>	<b>0</b>	<b>-</b>	<b>0,0%</b>	<b>0,1%</b>	<b>0,1%</b>	<b>0,0%</b>	<b>0,9%</b>	<b>0,3%</b>
<b>Not reported</b>	<b>3</b>	<b>10</b>	<b>0,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>0,3%</b>	<b>0,1%</b>
<b>Total Investments, deposits, cash and cash equivalents</b>	<b>7 377</b>	<b>18</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>0,0%</b>

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

### 2.2.1 Asset exposures between Life, Non-Life and Composite insurance undertakings, and reinsurers

Table 7, based upon the Asset Exposure reporting (S.06.02) of Q4 2017, gives further insight into the investment behaviour of Life, Non-Life and Composite insurance companies, and reinsurers in Malta.

**Table 7 - Asset exposures based upon Solvency II exposure list (S.06.02) for Life, Non-Life and Composite insurance undertakings, and reinsurers**

in %	MT			EU		
	Life	Non-life	Composite and reinsurance	Life	Non-life	Composite and reinsurance
<b>Equity</b>	<b>14,8%</b>	<b>2,9%</b>	<b>3,0%</b>	<b>6,6%</b>	<b>18,3%</b>	<b>16,5%</b>
Common equity	13,6%	2,9%	2,9%	5,0%	16,2%	14,9%
Equity of real estate related corporation	0,9%	0,0%	0,0%	1,0%	0,8%	1,2%
Other equity	0,3%	0,0%	0,0%	0,6%	1,3%	0,4%
<b>Collective Investment Undertakings</b>	<b>18,3%</b>	<b>30,7%</b>	<b>4,6%</b>	<b>22,4%</b>	<b>22,3%</b>	<b>13,8%</b>
Equity funds	9,7%	0,7%	0,1%	3,7%	2,9%	2,7%
Private equity funds	0,0%	0,0%	0,0%	0,5%	0,5%	0,5%
Debt funds	2,2%	7,3%	0,0%	9,7%	9,7%	4,7%
Money market funds	1,0%	20,6%	0,0%	2,8%	1,4%	2,0%
Asset allocation funds	2,1%	1,7%	0,0%	1,3%	1,2%	0,9%
Real estate funds	0,1%	0,2%	0,0%	1,6%	1,8%	1,4%
Alternative funds	0,0%	0,2%	0,0%	0,3%	0,3%	0,5%
Infrastructure funds	0,0%	0,0%	0,0%	0,2%	0,2%	0,3%
Other	3,3%	0,0%	4,5%	2,3%	4,3%	0,8%
<b>Government bonds</b>	<b>31,8%</b>	<b>4,0%</b>	<b>33,3%</b>	<b>28,1%</b>	<b>19,1%</b>	<b>33,4%</b>
<b>Corporate bonds</b>	<b>12,3%</b>	<b>17,5%</b>	<b>15,5%</b>	<b>29,2%</b>	<b>29,3%</b>	<b>22,9%</b>
<b>Structured notes</b>	<b>0,0%</b>	<b>0,0%</b>	<b>0,2%</b>	<b>1,4%</b>	<b>0,6%</b>	<b>1,5%</b>
<b>Collateralised securities</b>	<b>0,1%</b>	<b>1,8%</b>	<b>18,7%</b>	<b>0,8%</b>	<b>0,6%</b>	<b>0,5%</b>
<b>Mortgages and loans</b>	<b>0,2%</b>	<b>6,5%</b>	<b>14,9%</b>	<b>7,4%</b>	<b>3,2%</b>	<b>2,3%</b>
<b>Property</b>	<b>4,5%</b>	<b>3,2%</b>	<b>0,6%</b>	<b>2,0%</b>	<b>2,5%</b>	<b>1,7%</b>
<b>Deposits</b>	<b>11,4%</b>	<b>15,2%</b>	<b>7,9%</b>	<b>0,8%</b>	<b>1,6%</b>	<b>5,8%</b>
<b>Cash and cash equivalents</b>	<b>6,4%</b>	<b>18,0%</b>	<b>1,3%</b>	<b>1,0%</b>	<b>2,5%</b>	<b>1,4%</b>
<b>Other investments</b>	<b>0,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>0,2%</b>	<b>0,0%</b>	<b>0,1%</b>
<b>Not reported</b>	<b>0,1%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>0,0%</b>
<b>Total Investments, deposits, cash and cash equivalents</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

At EU level Non-Life insurers invested a significantly higher portion of their Investments in Equity (18,3% equity investments) in comparison to pure Life insurers (6,6% equity investments). In Malta this difference was not apparent, and we note that Life insurers invested 4 times more of their assets into this category than their composite and Non-Life counterparts.

On the other hand, at EU level, pure Life insurers and also Composite insurers allocated a larger share of their investments to government bonds as compared to Non-Life insurers. Another observation was the contrast in behaviour between Maltese Composite insurers and their counterpart at EU level with regard to the collateralised securities: Maltese Composite insurers reported 18,7% of their investments in this category, in sharp contrast to the EU level which amounted to 0,5%.

## 2.3 Equity exposure

Based upon the information included in the Solvency II Exposure List (S.06.02) and Balance Sheet (S.02.01), equity exposures can be calculated and presented in different ways:

- Equity exposure as the sum of Equity (Common equity, Equity of real estate related corporation and Other equity), Equity and Private equity funds, and Equity risk included in structured notes;
- Equity of real estate related corporation could be seen as a property exposure. Therefore equity exposures are presented including and excluding Equity of real estate related corporation;
- The equity amounts of the Solvency II Exposure List does not provide further details whether the equity exposures relate to listed or unlisted equity positions. In addition, the Solvency II Exposure List does not mention whether the equity relates to Holdings in related undertakings, including participations;
- Therefore, the listed and unlisted share amounts reported in the Solvency II Balance Sheet are considered and integrated as an equity exposure indicator. A rescaling is performed in case a difference is noted between the two Solvency II information sets (Exposure List versus Balance Sheet). The adjusted equity exposure stemming from this analysis excludes the Equity exposure coming from Holdings in related undertakings, including participations. These holdings can potentially be important within insurance groups.

**Table 8 - Equity exposure based upon Solvency II balance sheet (S.02.01) and Solvency II exposure list (S.06.02)**

in Mio EUR	MT			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
<b>Equity</b>	<b>536</b>	<b>18</b>	<b>7,3%</b>	<b>12,0%</b>	<b>9,5%</b>	<b>1,1%</b>	<b>28,1%</b>	<b>6,5%</b>
Common equity	502	18	6,8%	10,4%	7,8%	1,0%	22,5%	6,0%
Equity of real estate related corporation	25	21	0,3%	1,0%	1,1%	0,0%	4,0%	1,2%
Other equity	9	19	0,1%	0,6%	0,6%	0,0%	2,0%	0,7%
<b>Collective Investment Undertakings - Equity funds</b>	<b>271</b>	<b>17</b>	<b>3,7%</b>	<b>3,8%</b>	<b>3,2%</b>	<b>0,4%</b>	<b>14,7%</b>	<b>3,5%</b>
Equity funds	271	17	3,7%	3,2%	2,7%	0,4%	10,9%	2,4%
Private equity funds	0	-	0,0%	0,5%	0,5%	0,0%	6,9%	1,3%
<b>Structured notes - Equity risk</b>	<b>0</b>	<b>-</b>	<b>0,0%</b>	<b>0,2%</b>	<b>0,1%</b>	<b>0,0%</b>	<b>0,6%</b>	<b>0,1%</b>
<b>Total Equity exposure</b>	<b>807</b>	<b>18</b>	<b>10,9%</b>	<b>16,0%</b>	<b>12,7%</b>	<b>2,5%</b>	<b>37,4%</b>	<b>8,4%</b>
<b>Equity without Equity of real estate related corporation</b>	<b>511</b>	<b>18</b>	<b>6,9%</b>	<b>11,0%</b>	<b>8,4%</b>	<b>1,1%</b>	<b>24,1%</b>	<b>6,1%</b>
<b>Equity exposure without Equity of real estate related corporation</b>	<b>782</b>	<b>18</b>	<b>10,6%</b>	<b>15,0%</b>	<b>11,7%</b>	<b>2,4%</b>	<b>33,3%</b>	<b>7,9%</b>
<b>Equities market value balance sheet (rescaled to CIC scope)</b>	<b>403</b>	<b>15</b>	<b>5,5%</b>	<b>3,6%</b>	<b>3,2%</b>	<b>0,1%</b>	<b>20,6%</b>	<b>4,0%</b>
Equities - listed (rescaled to CIC scope)	397	15	5,4%	3,0%	2,6%	0,0%	15,4%	3,2%
Equities - unlisted (rescaled to CIC scope)	6	24	0,1%	0,6%	0,6%	0,0%	5,2%	1,0%
<b>Equity exposure based upon (Un)Listed equities (rescaled)</b>	<b>674</b>	<b>16</b>	<b>9,1%</b>	<b>7,6%</b>	<b>6,5%</b>	<b>1,2%</b>	<b>29,8%</b>	<b>6,7%</b>

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

The observed standard deviations at EU level are relatively high given the asset allocation in percentage between the different asset classes at EU level.

In Malta, we note that equity exposures coming from Collective Investment Undertakings amount to 3,7% and are lower than the listed and unlisted equity exposures which in total amount to 5,5%. Hereby the listed and unlisted equities in Malta are not very similar to the asset allocation at EU level.

### 2.3.1 Direct and indirect equity exposure

**Table 9 - Direct and indirect equity exposure based upon Solvency II exposure list (S.06.02)**

in Mio EUR	MT			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
<b>Direct equity</b>	<b>536</b>	<b>18</b>	<b>66,4%</b>	<b>75,2%</b>	<b>73,4%</b>	<b>39,2%</b>	<b>94,5%</b>	<b>15,9%</b>
Common equity	502	18	62,2%	64,8%	59,4%	28,6%	93,3%	19,0%
Equity of real estate related corporation	25	21	3,1%	6,4%	8,4%	0,0%	39,1%	9,6%
Other equity	9	19	1,1%	3,9%	5,7%	0,0%	35,3%	8,8%
<b>Indirect equity</b>	<b>271</b>	<b>17</b>	<b>33,6%</b>	<b>24,8%</b>	<b>26,6%</b>	<b>5,5%</b>	<b>60,8%</b>	<b>15,9%</b>
Collective Investment Undertakings - Equity funds	271	17	33,6%	23,6%	25,9%	4,6%	60,6%	15,7%
Equity funds	271	17	33,6%	20,2%	22,8%	4,6%	52,9%	13,4%
Private equity funds	0	-	0,0%	3,3%	3,1%	0,0%	28,4%	5,7%
Structured notes - Equity risk	0	-	0,0%	1,3%	0,7%	0,0%	4,0%	1,0%
<b>Total Equity exposure</b>	<b>807</b>	<b>18</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>0,0%</b>

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

In 2017 Q4, the insurance market in Malta was invested twice as much in Direct equity (66,4% of Total equity) than in Indirect equity (33,6% of Total equity).

In terms of direct equity exposure, Malta ranked number 18 and number 21 in the EU, with regards respectively to the exposure amount to Common equity and Equity of real estate related corporation.

Within the Indirect equity category, Equity funds constituted the bulk of investments with 33,6% of Total equity.

### 2.3.2 Equity by location

**Table 10 - Equity exposure by location based upon Solvency II exposure list (S.06.02)**

in Mio EUR	MT			
	EU home	EU other	outside EU (1)	Total
<b>Equity</b>	<b>211</b>	<b>182</b>	<b>143</b>	<b>536</b>
Common equity	188	180	134	502
Equity of real estate related corporation	22	0	3	25
Other	0	2	6	9
<b>Collective Investment Undertakings - Equity funds</b>	<b>1</b>	<b>108</b>	<b>163</b>	<b>271</b>
Equity funds	1	108	163	271
Private equity funds	0	0	0	0
<b>Structured notes - Equity risk</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Equity exposure</b>	<b>211</b>	<b>290</b>	<b>306</b>	<b>807</b>

in %	MT			
	EU home	EU other	outside EU (1)	Total
<b>Equity</b>	<b>39,3%</b>	<b>34,0%</b>	<b>26,7%</b>	<b>100,0%</b>
Common equity	37,5%	35,8%	26,7%	100,0%
Equity of real estate related corporation	88,1%	0,0%	11,9%	100,0%
Other	3,7%	26,7%	69,6%	100,0%
<b>Collective Investment Undertakings - Equity funds</b>	<b>0,2%</b>	<b>39,8%</b>	<b>60,0%</b>	<b>100,0%</b>
Equity funds	0,2%	39,8%	60,0%	100,0%
Private equity funds	-	-	-	-
<b>Structured notes - Equity risk</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Equity exposure</b>	<b>26,2%</b>	<b>35,9%</b>	<b>37,9%</b>	<b>100,0%</b>

(1) The following countries are included in the class 'outside EU': IS, LI, NO, AU, CA, JP, US, CH and countries grouped under the caption 'Rest of World'. In addition some investments are not assigned to an individual country and are also included in this class.

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis



Based upon the Q4 2017 reporting with regards to the location of equity investments, insurers established in Malta favoured domestic investments to some extent, dedicating to these 39,3% of their direct equity investments, and 0,2% of their indirect investments.

Table 10 also showed that besides the home market, Maltese insurers invested less in equity of other EU Member States than that of non-EU Member States. France, the United States of America and the Rest of World and unassigned were the preferred destinations.

**Table 11 - Direct equity exposure by location based upon Solvency II exposure list (S.06.02)**

in Mio EUR	MT	
	Amount	%
<b>Home country</b>	<b>211</b>	<b>39,3%</b>
MT	211	39,3%
<b>Top 5 countries (outside home country)</b>	<b>225</b>	<b>41,9%</b>
FR	64	11,9%
US	55	10,2%
Rest of World and unassigned	52	9,6%
DE	31	5,7%
CH	24	4,6%
<b>Home + Top 5 countries (outside home country)</b>	<b>435</b>	<b>81,2%</b>
<b>Total Direct equity exposure (with real estate corporation)</b>	<b>536</b>	<b>100,0%</b>

in Mio EUR	MT	
	Amount	%
<b>Home country</b>	<b>189</b>	<b>36,9%</b>
MT	189	36,9%
<b>Top 5 countries (outside home country)</b>	<b>222</b>	<b>43,4%</b>
FR	64	12,4%
US	52	10,1%
Rest of World and unassigned	52	10,1%
DE	31	6,0%
CH	24	4,8%
<b>Home + Top 5 countries (outside home country)</b>	<b>410</b>	<b>80,3%</b>
<b>Total Direct equity exposure (without real estate corporation)</b>	<b>511</b>	<b>100,0%</b>

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

### 3 Index-linked and unit-linked investments

#### 3.1 Scope

Based upon the comparative view below, we note a slight difference with respect to the Assets held for index-linked and unit-linked contracts reported in the Solvency II Exposure List (S.06.02) and Solvency II Balance Sheet (S.02.01).

**Table 12 - Solvency II balance sheet (S.02.01) and Solvency II exposure list (S.06.02) comparison**

in number	Exposure list MT		Solvency II balance sheet MT		Difference
	#	%	#	%	#
Life undertakings	4	12,1%	4	12,1%	0
Non-Life undertakings	23	69,7%	23	69,7%	0
Reinsurance undertakings	2	6,1%	2	6,1%	0
Undertakings pursuing both life and non-life insurance activity	4	12,1%	4	12,1%	0
<b>Total</b>	<b>33</b>	<b>100,0%</b>	<b>33</b>	<b>100,0%</b>	<b>0</b>

in Mio EUR	Exposure list MT		Solvency II balance sheet MT		Difference
	Amount	%	Amount	%	%
Assets held for index-linked and unit-linked contracts	1 003	100,0%	1 005	100,0%	-0,2%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

#### 3.2 Asset exposure

Table 13 depicts a more detailed view of the Assets held for index-linked and unit-linked contracts, based upon the Solvency II exposure list (S.06.02).

**Table 13 - Asset exposure based upon Solvency II exposure list (S.06.02)**

in Mio EUR	MT			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
<b>Equity</b>	<b>45</b>	<b>18</b>	<b>4,5%</b>	<b>19,3%</b>	<b>4,5%</b>	<b>0,0%</b>	<b>30,1%</b>	<b>7,1%</b>
Common equity	42	18	4,2%	18,0%	3,9%	0,0%	28,8%	6,3%
Equity of real estate related corporation	0	-	0,0%	0,8%	0,3%	0,0%	1,5%	0,5%
Other equity	3	12	0,3%	0,4%	0,3%	0,0%	4,1%	0,9%
<b>Collective Investment Undertakings</b>	<b>654</b>	<b>22</b>	<b>65,2%</b>	<b>63,2%</b>	<b>73,1%</b>	<b>30,1%</b>	<b>97,5%</b>	<b>16,3%</b>
Equity funds	280	22	27,9%	26,5%	29,2%	11,2%	57,5%	10,5%
Private equity funds	0	-	0,0%	0,1%	0,2%	0,0%	2,9%	0,6%
Debt funds	195	22	19,4%	12,1%	19,0%	4,8%	47,5%	11,4%
Money market funds	54	17	5,4%	2,2%	1,7%	0,0%	7,5%	1,8%
Asset allocation funds	91	21	9,1%	14,8%	13,1%	0,4%	30,5%	7,7%
Real estate funds	0	-	0,0%	1,4%	0,6%	0,0%	6,2%	1,2%
Alternative funds	14	20	1,4%	1,6%	2,4%	0,0%	16,3%	3,8%
Infrastructure funds	0	-	0,0%	0,0%	0,1%	0,0%	2,4%	0,5%
Other	20	20	2,0%	4,6%	6,9%	0,0%	44,3%	10,0%
<b>Government bonds</b>	<b>108</b>	<b>14</b>	<b>10,8%</b>	<b>6,4%</b>	<b>6,9%</b>	<b>0,0%</b>	<b>31,4%</b>	<b>8,4%</b>
<b>Corporate bonds</b>	<b>174</b>	<b>16</b>	<b>17,3%</b>	<b>3,9%</b>	<b>6,0%</b>	<b>0,0%</b>	<b>22,7%</b>	<b>6,9%</b>
<b>Structured notes</b>	<b>5</b>	<b>24</b>	<b>0,5%</b>	<b>1,6%</b>	<b>4,1%</b>	<b>0,0%</b>	<b>18,9%</b>	<b>4,9%</b>
<b>Collateralised securities</b>	<b>0</b>	<b>-</b>	<b>0,0%</b>	<b>0,1%</b>	<b>0,1%</b>	<b>0,0%</b>	<b>0,9%</b>	<b>0,2%</b>
<b>Mortgages and loans</b>	<b>-37</b>	<b>-</b>	<b>-3,7%</b>	<b>0,2%</b>	<b>0,2%</b>	<b>-3,7%</b>	<b>2,5%</b>	<b>1,0%</b>
<b>Property</b>	<b>0</b>	<b>-</b>	<b>0,0%</b>	<b>1,3%</b>	<b>0,6%</b>	<b>0,0%</b>	<b>7,6%</b>	<b>1,5%</b>
<b>Deposits</b>	<b>0</b>	<b>-</b>	<b>0,0%</b>	<b>1,2%</b>	<b>2,0%</b>	<b>-0,3%</b>	<b>14,5%</b>	<b>3,3%</b>
<b>Cash and cash equivalents</b>	<b>55</b>	<b>18</b>	<b>5,5%</b>	<b>1,2%</b>	<b>2,2%</b>	<b>0,0%</b>	<b>8,5%</b>	<b>2,5%</b>
<b>Other investments</b>	<b>0</b>	<b>-</b>	<b>0,0%</b>	<b>0,4%</b>	<b>0,3%</b>	<b>0,0%</b>	<b>8,1%</b>	<b>1,5%</b>
<b>Not reported</b>	<b>0</b>	<b>-</b>	<b>0,0%</b>	<b>1,2%</b>	<b>0,1%</b>	<b>0,0%</b>	<b>2,3%</b>	<b>0,4%</b>
<b>Total Investments, deposits, cash and cash equivalents</b>	<b>1 003</b>	<b>22</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>0,0%</b>

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

The Collective Investment Undertakings (65,2%) and the Corporate bonds (17,3%) represent the most important asset classes of the index-linked and unit-linked investments. Overall, we note a significantly different asset exposure allocation in comparison to the

asset exposure for non index-linked and unit-linked investments. Hereby we refer to section 2 for further details.

Relatively to the EU average, we observe a significant large difference between the portion of index-linked and unit-linked related assets that were invested in Mortgages and loans, - 3,7% in Malta compared to 0,2% in the EU.

### 3.3 Equity exposure

The Solvency II balance sheet (S.02.01) does not include a further split in different asset classes for the Assets held for index-linked and unit-linked contracts. Hence the rescaling exercise as presented in section 2 cannot be performed here.

**Table 14 - Equity exposure based upon Solvency II exposure list (S.06.02)**

in Mio EUR	MT			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
<b>Equity</b>	<b>45</b>	<b>18</b>	<b>4,5%</b>	<b>19,3%</b>	<b>4,5%</b>	<b>0,0%</b>	<b>30,1%</b>	<b>7,1%</b>
Common equity	42	18	4,2%	18,0%	3,9%	0,0%	28,8%	6,3%
Equity of real estate related corporation	0	-	0,0%	0,8%	0,3%	0,0%	1,5%	0,5%
Other equity	3	12	0,3%	0,4%	0,3%	0,0%	4,1%	0,9%
<b>Collective Investment Undertakings - Equity funds</b>	<b>280</b>	<b>22</b>	<b>27,9%</b>	<b>26,5%</b>	<b>29,3%</b>	<b>11,2%</b>	<b>57,5%</b>	<b>10,4%</b>
Equity funds	280	22	27,9%	26,5%	29,2%	11,2%	57,5%	10,5%
Private equity funds	0	-	0,0%	0,1%	0,2%	0,0%	2,9%	0,6%
<b>Structured notes - Equity risk</b>	<b>4</b>	<b>20</b>	<b>0,4%</b>	<b>1,2%</b>	<b>2,7%</b>	<b>0,0%</b>	<b>15,0%</b>	<b>3,5%</b>
<b>Total Equity exposure</b>	<b>328</b>	<b>22</b>	<b>32,7%</b>	<b>47,1%</b>	<b>36,5%</b>	<b>11,7%</b>	<b>58,6%</b>	<b>10,9%</b>
<b>Equity without Equity of real estate related corporation</b>	<b>45</b>	<b>18</b>	<b>4,5%</b>	<b>16,0%</b>	<b>4,2%</b>	<b>0,0%</b>	<b>29,2%</b>	<b>6,8%</b>
<b>Equity exposure without Equity of real estate related corporation</b>	<b>328</b>	<b>22</b>	<b>32,7%</b>	<b>40,0%</b>	<b>36,2%</b>	<b>11,7%</b>	<b>58,6%</b>	<b>10,8%</b>

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

In Malta, we note that total equity exposures related to index-linked and unit-linked contracts (32,7%) are significantly higher in comparison to non index-linked and unit-linked contracts (10,9%). Equity funds are the main contributors to the total equity exposures.

#### 3.3.1 Direct and indirect equity exposure

**Table 15 - Direct and indirect equity exposure based upon Solvency II exposure list (S.06.02)**

in Mio EUR	MT			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
<b>Direct equity</b>	<b>45</b>	<b>18</b>	<b>13,7%</b>	<b>38,3%</b>	<b>11,1%</b>	<b>0,0%</b>	<b>54,2%</b>	<b>15,2%</b>
Common equity	42	18	12,8%	35,4%	9,6%	0,0%	51,8%	13,2%
Equity of real estate related corporation	0	-	0,1%	1,7%	0,7%	0,0%	4,0%	1,1%
Other equity	3	12	0,8%	1,3%	0,8%	0,0%	9,7%	2,2%
<b>Indirect equity</b>	<b>283</b>	<b>22</b>	<b>86,3%</b>	<b>61,7%</b>	<b>88,9%</b>	<b>45,8%</b>	<b>100,0%</b>	<b>15,2%</b>
Collective Investment Undertakings - Equity funds	280	22	85,2%	59,1%	81,5%	45,7%	100,0%	15,5%
Equity funds	280	22	85,2%	58,6%	81,0%	44,9%	100,0%	16,0%
Private equity funds	0	-	0,0%	0,5%	0,5%	0,0%	6,9%	1,4%
Structured notes - Equity risk	4	20	1,1%	2,6%	7,4%	0,0%	35,8%	9,6%
<b>Total Equity exposure</b>	<b>328</b>	<b>22</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>0,0%</b>

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

In 2017 Q4, Maltese insurers invested almost all of their Assets held for index-linked and unit-linked contracts in Indirect equity (86,3% of Total equity), with Direct equity constituting 13,7% of Total equity.

In terms of direct equity exposure, Malta ranked number 18 in the EU, with regards to the exposure amount to Common equity.



Within the Indirect equity category, Equity funds constituted the bulk of investments, amounting to 85,2% of Total equity whereas allocation to Private equity funds were inexistent.

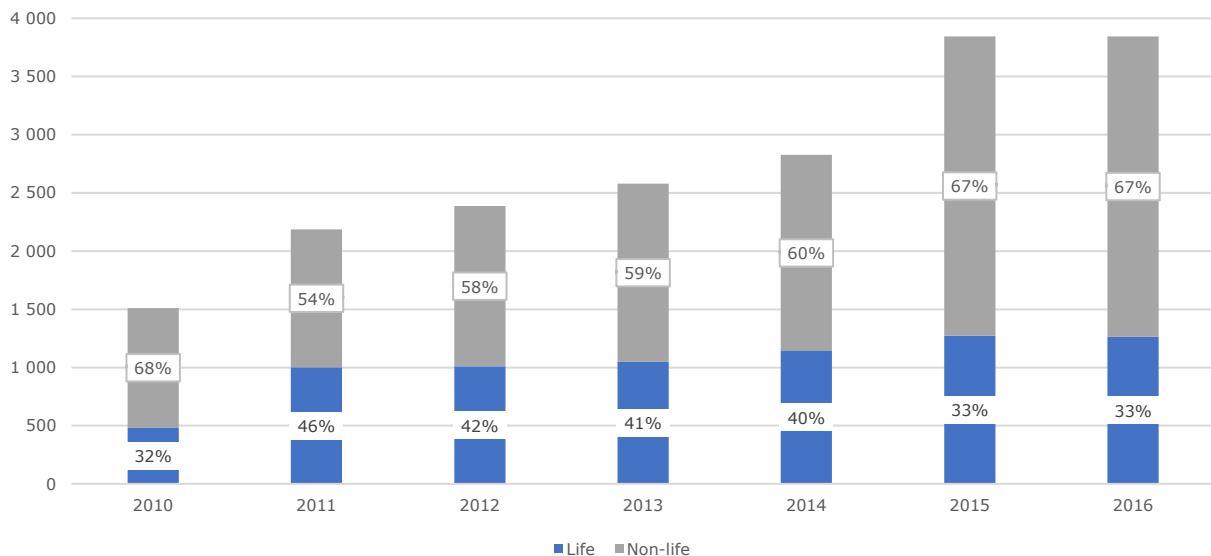
## 4 Insurance products

### 4.1 Overview

This section covers the most important insurance products offered in Malta and the volume of the market. Data reported in this section obtained from the Malta Financial Services Authority (MFSA).<sup>3</sup>

The total gross written premiums of insurance undertakings authorised in Malta increased by 61% between 2012 and 2015, from 2 388 million EUR to 3 844 million EUR. However, in 2016 premiums remained stable, as small reductions in long-term business (down by 0,8%) have been offset by gains in general business (up by 0,4%). Over the years, the market has shifted away from long-term insurance products and moved towards general insurance products: the share of long-term business declined from 42,2% to 33,0% between 2012-2016.

**Graph 1 - Gross written premiums (in Mio EUR)**



Source: MFSA

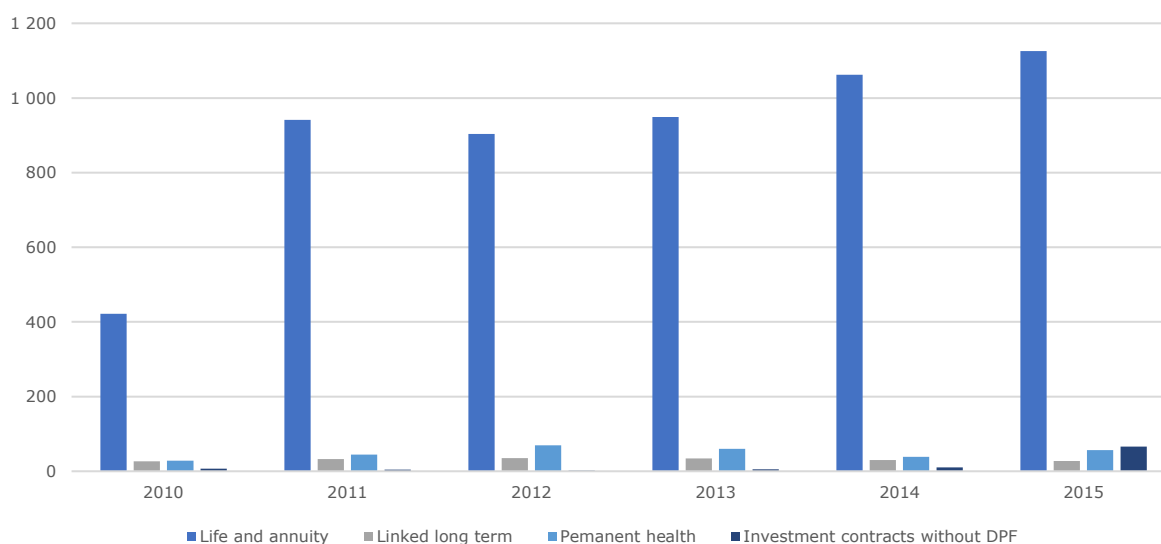
<sup>3</sup> Available at <https://www.mfsa.com.mt/pages/viewcontent.aspx?id=51>.

## 4.2 Life insurance products

The gross written premiums in respect of the long-term business decreased from 1 275 million EUR in 2015 to 1 265 million EUR in 2016. Long-term business mostly relates to life reinsurance obligations (43,6% or 551 million EUR) with smaller amounts from insurance with-profits (22,9% or 289 million EUR), other life insurance (protection business), linked and health.

While Solvency II reporting data have been used since 2016, for the period before a different classification of long-term products was available. As can be seen from the figure below, the bulk of the long-term business was written under life and annuity, which made up for approximately 90% of the total gross written premiums.

**Graph 2 - Gross written premiums for life insurance products (in Mio EUR)**



Source: FCMC and LIA

### **4.3 Non-Life insurance products**

The non-life insurance sector increased marginally by 0,4% to 2 579 million EUR, continuing a stable upward trend since 2012 (1 379 million EUR). As a result the share of non-life insurance to grow from 57,7% in 2012 to 67,1% in 2016. The increase is mainly due to an increase in the volume of business written in motor vehicle, financial loss and general liability.

#### **4.3.1 Fire and other damage to property**

Fire and other damage to property is the largest segment in the Maltese non-life insurance market. In 2016 the segment represented 29,1% or 738 million EUR of the total non-life income, down by 25,5% to 2015.

#### **4.3.2 Medical expense**

Accounting for 25,6% (or 650 million EUR) of the non-life premium income, medical expense insurance is the second largest segment of the market.

#### **4.3.3 Motor**

By the end of 2016, Maltese motor insurance market covered a fifth (20,2%) of the non-life income. Gross written premium amounted for 512 million EUR, up by 21,3% compared to 2015. Of these, 75,4% was due to motor vehicle liability insurance and the remaining (24,6% or 126 million EUR) due to other motor insurance.

#### **4.3.4 Financial loss**

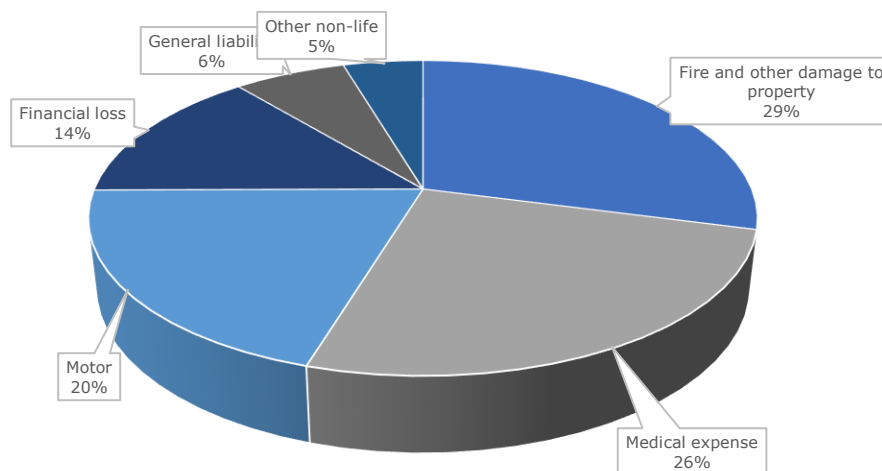
Insurance related to financial loss is an important part of general insurance market, covering 14% of the market, increased 33,3% in 2016 to 356 million EUR.

#### **4.3.5 General liability**

General liability premiums, which also include employers' liability, were up by 29,1% to 164 million EUR as of end-2016, and accounted for 6,5% of the total non-life premium income.

#### **4.3.6 Other non-life insurance**

Other forms of non-life insurance, which include credit and suretyship, legal expenses, assistance and marine, aviation and transport, had a total share of 4,6% or 75 million EUR.

**Graph 3 - Allocation of gross written premiums for non-life insurance products (in %)**

*Note: Motor includes motor vehicle liability insurance and other motor insurance. Other non-life insurance includes credit and suretyship, legal expenses, assistance and marine, aviation and transport.*

Source: MFSA

#### 4.4 Average duration

In 2016, EIOPA published their Insurance Stress Test Report<sup>4</sup>. No duration is provided as data for Malta are not shown or identified as the number of participants was less than three in this two country.

<sup>4</sup> EIOPA, 2016, 2016 EIOPA Insurance Stress Test Report. <https://eiopa.europa.eu/publications/surveys/eiopa-bos-16-302%20insurance%20stress%20test%202016%20report.pdf>



## 5 Accounting & Tax framework

### 5.1 Accounting framework

The EU has introduced rules, as laid down in Directive 2013/34/EU, to promote the convergence of accounting standards at global level and to ensure consistent and comparable financial reporting across the EU. Regulation 1606/2002/EC requires all listed companies to prepare their consolidated financial statements in accordance with a single set of international standards, the so-called IFRS.<sup>5</sup>

1. Applicable GAAP at consolidated level: IFRS required for all listed companies and non-listed companies that classify as significant to the local economy<sup>6</sup>;
2. Applicable GAAP at statutory level: IFRS required for all listed companies and non-listed companies that classify as significant to the local economy<sup>6</sup>;
3. Prudential regulatory framework: Solvency II for the calculation of the Solvency Capital Requirement.

### 5.2 Tax framework

#### 5.2.1 Capital gains on shares

Capital gains derived from the disposal of shares may be exempt from corporate income tax under the same conditions as dividends.

If one or more of the conditions is not complied with, the taxation will be whereby capital gains are fully taxable at the standard corporate income tax rate: 35%

#### 5.2.2 Capital losses on shares

Capital losses arising in a given year may not be set off against other income for that year, although they may be indefinitely carried forward and set off against capital gains in subsequent years.

#### 5.2.3 Taxation of dividends

A 100% exemption applies on dividends received by resident corporate shareholders if the following conditions are met:

1. A holding requirement: the shareholder holds directly at least 5% of the share capital or has invested a minimum sum of EUR 1.164.000 (or the equivalent sum in a foreign currency) in the company and that holding in the company is held for an uninterrupted period of 183 days (sometimes other criteria are used);
2. The company in which the participating holding is held must satisfy any one of the following three conditions: be resident or incorporated in a country or territory which forms part of the European Union, be subject to any foreign tax of at least 15% or not derive more than 50% of its income from passive income (i.e. interest or royalties);
3. Where none of the above three conditions are fulfilled, the company must fulfil both of the following conditions: the equity holding of the company registered in Malta in the non-resident company or partnership is not a portfolio investment. If one or

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<sup>5</sup> [https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/financial-reporting\\_en](https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/financial-reporting_en)  
<sup>6</sup> <https://www.ifrs.org/-/media/feature/around-the-world/jurisdiction-profiles/malta-ifrs-profile.pdf>



more of the above conditions is not met, the dividend is taxed at the ordinary tax rate.

Malta does not levy withholding tax (WHT) on outbound dividends (except for certain untaxed dividends where a non-resident person is owned and controlled by, or acts on behalf of, an individual ordinarily resident and domiciled in Malta).

An ordinary tax credit with per-country and per-source limitations may apply, or a (notional) flat rate foreign tax credit of 25% may apply to companies that receive, and are specifically empowered to receive, foreign-source income.

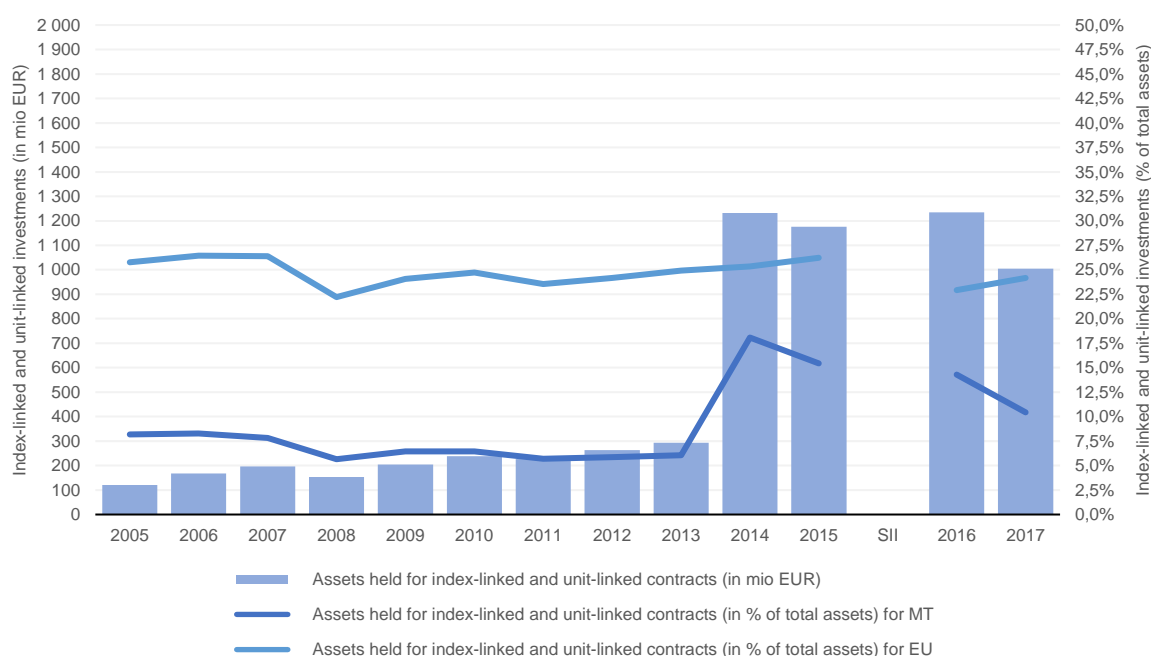
## 6 Historical data

The following section contains historical overviews of Solvency I, Solvency II and ECB data in order to provide insights on possible short and long-term trends.

### 6.1 Index-linked and unit-linked investments in comparison to total assets

Based upon the Solvency I and Solvency II (S.02.01) historical information, the evolution of the index-linked and unit-linked investments in comparison to total assets of Malta is compared to the EU. The break in Graph 4 shows the transition from the Solvency I to the Solvency II regulatory framework. Under Solvency II assets are presented based upon their market value.

**Graph 4 - Evolution of index-linked and unit-linked investments based upon Solvency I and Solvency II**



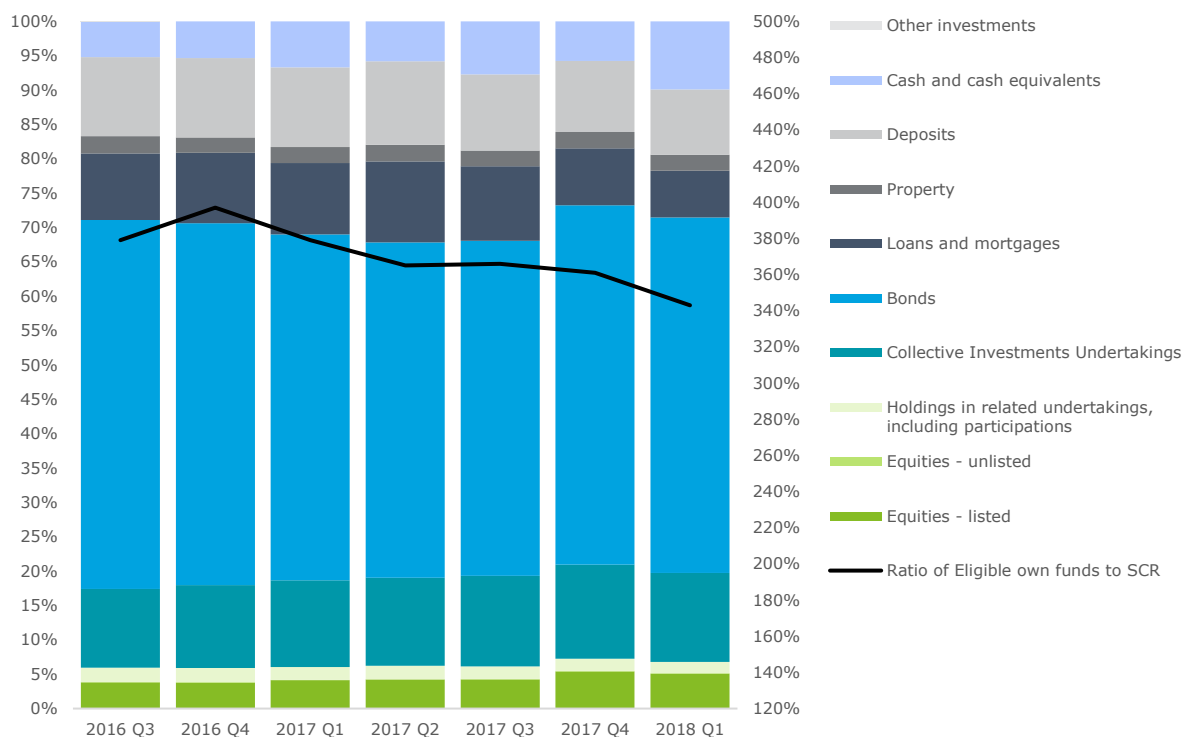
Source: EIOPA Solvency I and Solvency II statistics and Deloitte-CEPS analysis

As shown in Graph 4, the share of index-linked and unit-linked investments in comparison to total assets in Malta increased heavily from 2013 until 2014, before decreasing. The graph for the EU shows a relatively stable behaviour over the observation period, with a slightly increasing trend as from 2011.

## 6.2 Solvency II – excluding index-linked and unit-linked investments

Based upon the Solvency II (S.02.01) quarterly data from 2016 Q3 until 2018 Q1, the evolution of the different asset categories is depicted in Graph 5. Furthermore, the evolution of the SCR ratio is shown over the seven quarters.

**Graph 5 - Evolution Solvency II balance sheet (S.02.01) items (Total Investments, deposits, cash and cash equivalents) and SCR ratio**



Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

The composition of the Maltese insurers' balance sheet has remained relatively stable over the quarters since the introduction of Solvency II on 1 January 2016<sup>7</sup>. This seems to be confirmed by the fact that the most dominant assets classes such as Bonds, Collective Investment Undertakings and Deposits do not suggest a clear trend whether it be downwards or upwards.

Bonds have constituted the major part of the Maltese insurers' balance sheet since the introduction of Solvency II.

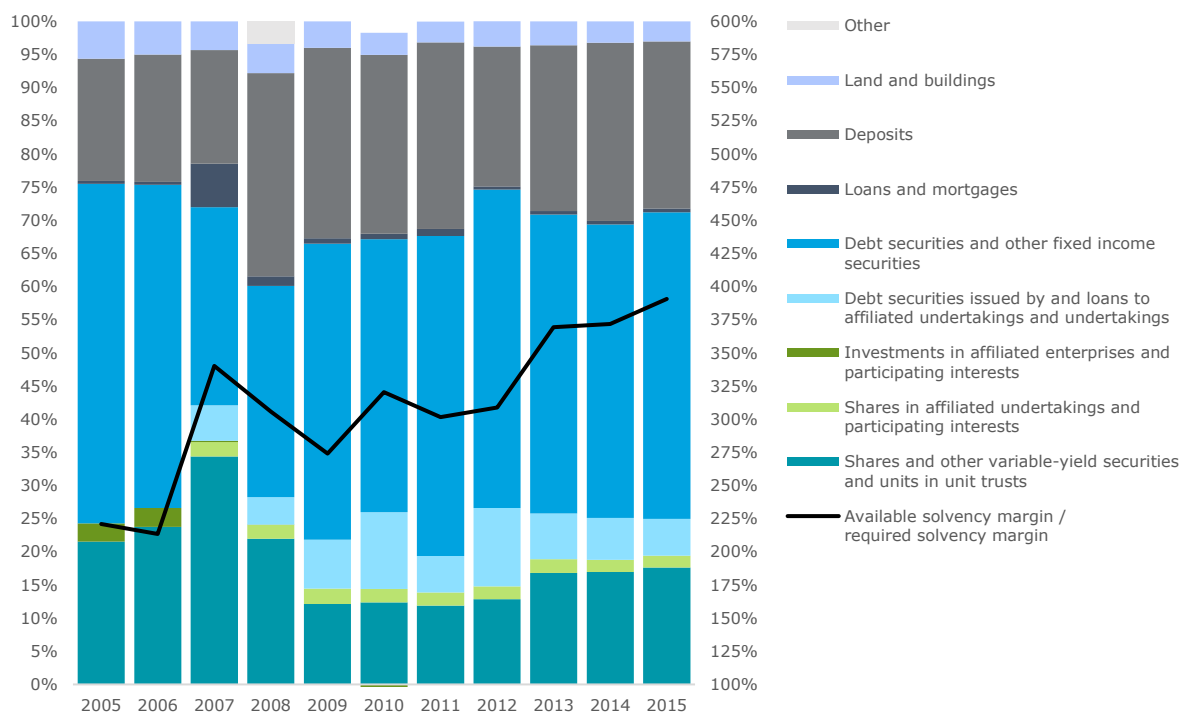
For Malta, the SCR ratio shows a decreasing trend as from 2016 Q4. Overall, this trend has not resulted into significant changes in the asset allocation of the overall Maltese insurance market.

<sup>7</sup> Day one reporting, 2016 Q1 and Q2 are not publicly available

### 6.3 Solvency I – excluding index-linked and unit-linked assets

Based upon the Solvency I yearly data from 2005 until 2015, the evolution of the different investment asset categories is depicted in Graph 6. Furthermore, the evolution of the solvency ratio is shown over the history.

**Graph 6 - Evolution Solvency I balance sheet items (Total Investments, deposits, cash and cash equivalents)**

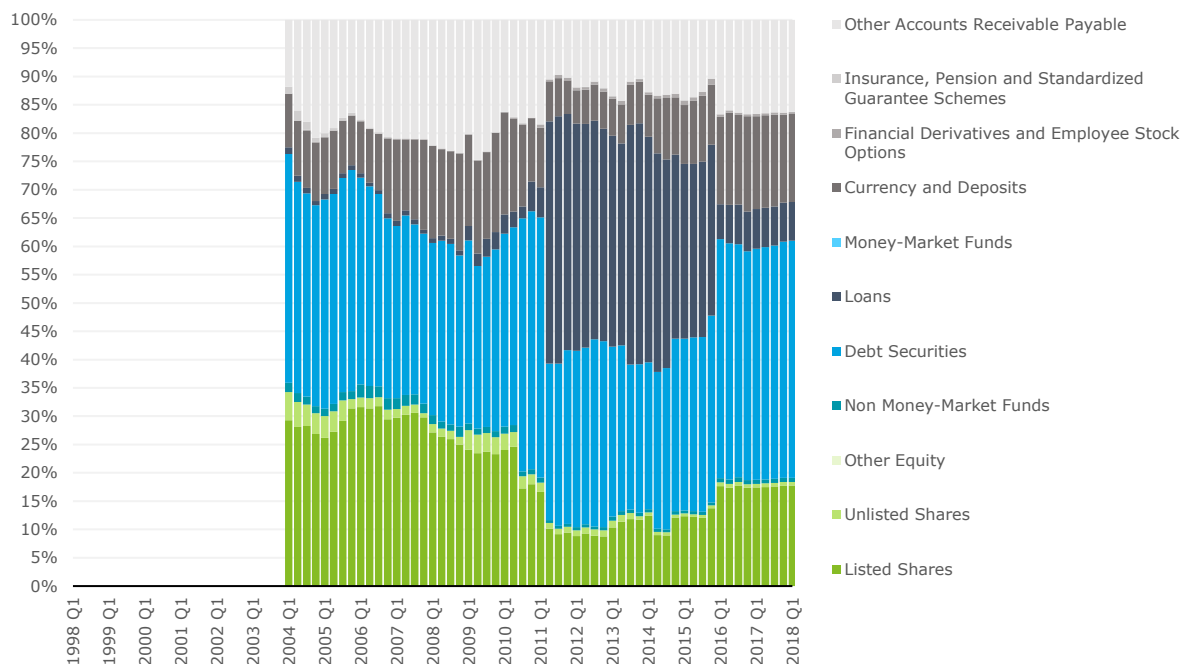


Source: EIOPA Solvency I statistics and Deloitte-CEPS analysis

Graph 6, which relates to Solvency I figures suggests the following observations. The dominance of Bonds that we observed under the rules of Solvency II has been a characteristic of the Maltese insurers' balance sheet for more than a decade. Deposits became increasingly important after 2008. Shares and other variable-yield securities and units in unit trusts increased from 2005 until 2007, decreased from 2008 to 2009, and remained relatively stable for the rest of the observation period. The solvency margin ratio showed a significant increase in 2007, decreased slightly over the next two years, but has shown an increasing trend since 2009.

## 6.4 European Central Bank – including index-linked and unit-linked assets

Graph 7 - Evolution ECB balance sheet items (asset categories)



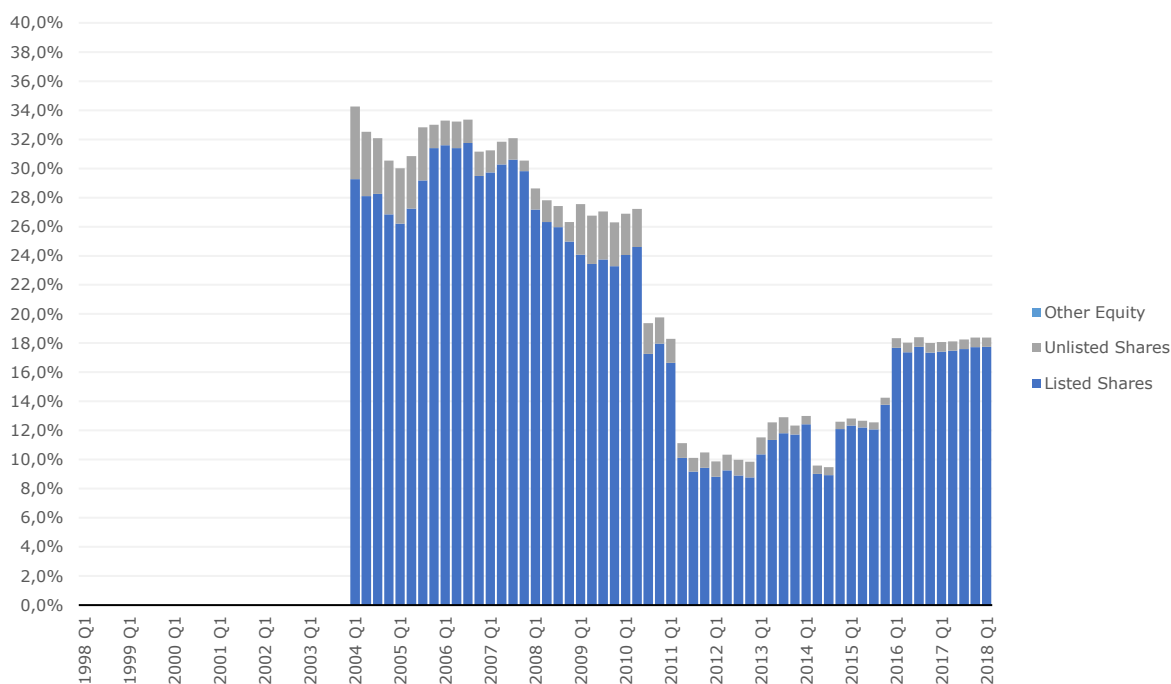
Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

Graph 7 relates to figures of investments by Maltese Insurers since 2004 Q1 as reported by the ECB. No data is available before 2004 Q1 as Malta was not a member yet of the European Union. It can be observed that the dominance of bonds in the investments, which is observed in Solvency I, and II (see graphs above) is confirmed as a long-standing characteristic of Maltese insurers. In 2010 Q4 Loans category significantly increased to 42,8%, then fluctuated between 46,0% and 27,6% between 2010 Q4 and 2015 Q4, but decreased again in 2016 Q1 to 6,2%. Over the observation period, there is also a decreasing importance of Listed Shares in the balance sheet.

On the next page, the Equity asset classes are presented in a more detailed view. Furthermore, the evolution of the listed shares (normalised to a start value of 100) of Malta is plotted against the aggregated EU data.

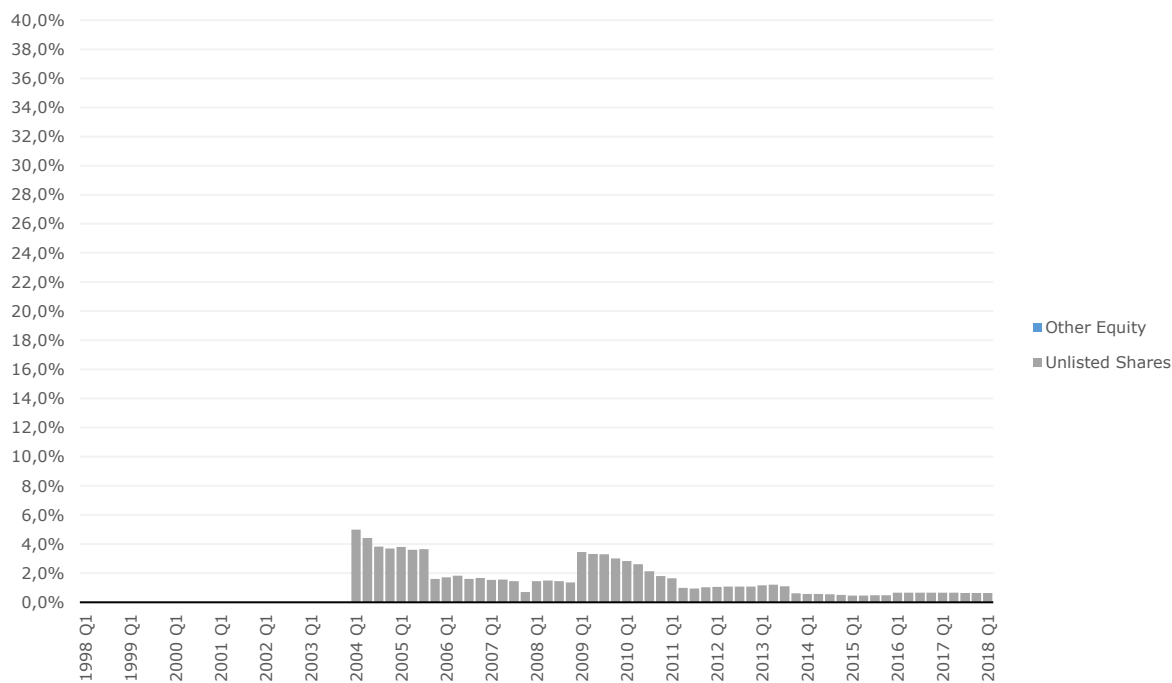
We remark that these graphs include index-linked and unit-linked assets, which cannot be individualised from the figures published by the ECB.

**Graph 8 - Evolution ECB balance sheet items (equity categories)**



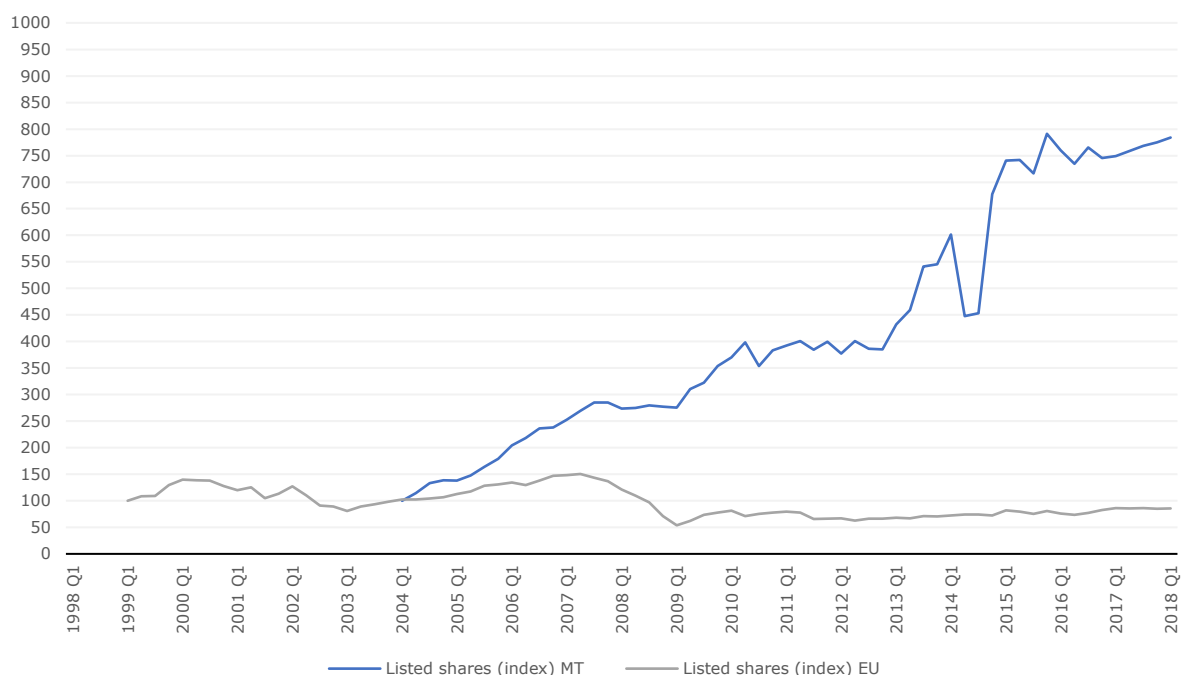
Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

**Graph 9 - Evolution ECB balance sheet items (Unlisted Shares and Other Equity)**



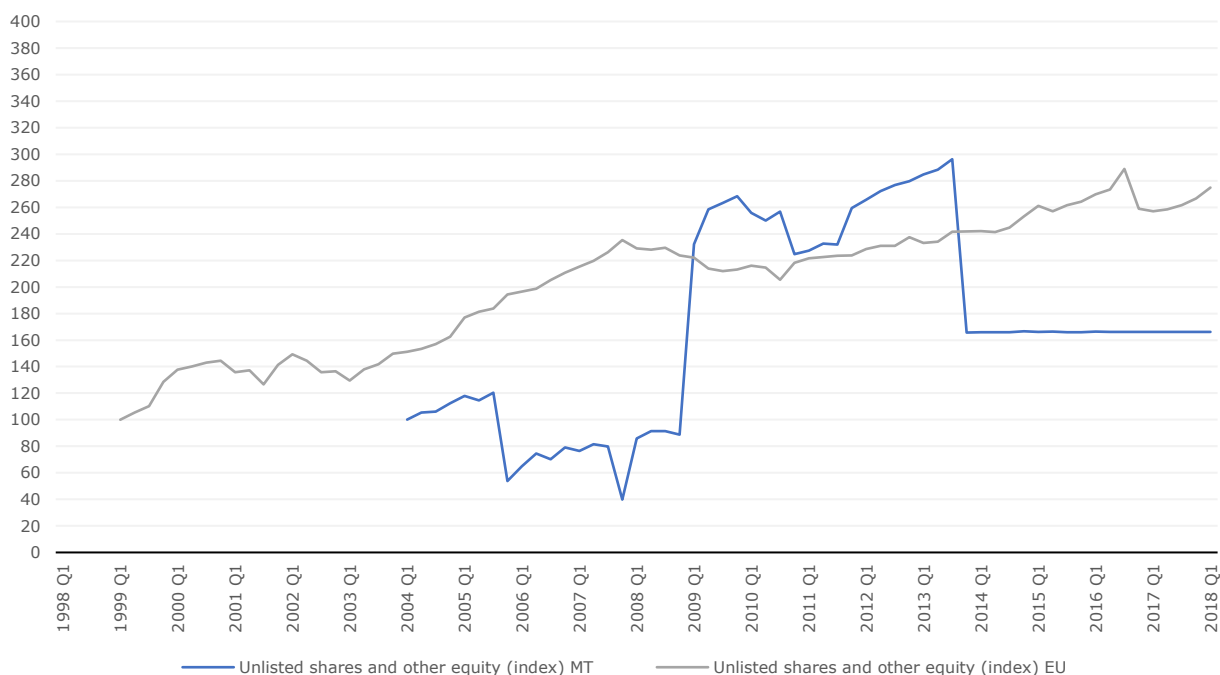
Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

**Graph 10 - Evolution ECB listed shares MT and EU (as index)**



Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

**Graph 11 - Evolution ECB unlisted shares and other equity MT and EU (as index)**



Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis



## 6.5 Trends in Equity Investments

This section provides a trend analysis of the equity investments of insurers in Malta using the balance sheet data of the insurance sector from the ECB Statistical Data Warehouse. Given the availability of the equity split in the ECB database, the analysis focuses on investments in listed shares and investments in unlisted shares and other equity.

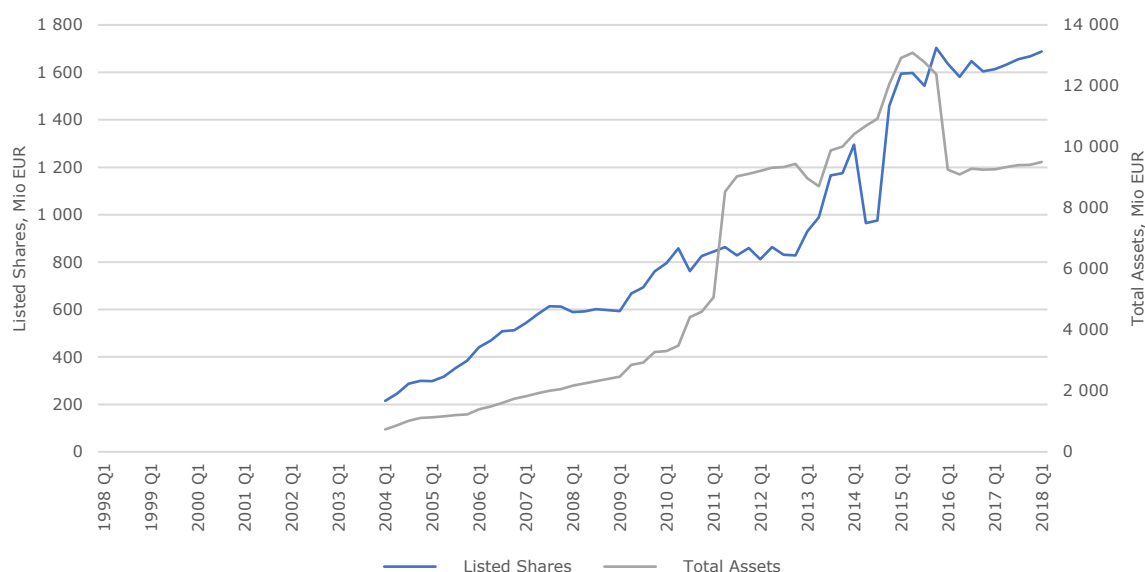
### 6.5.1 Listed Shares

In the analysis below, the listed shares of insurance corporations are plotted against the total assets in the industry both in amounts and in indexed values. The aim of this comparative analysis is to understand the evolution of listed shares in the overall insurance market. Similarity of the growth patterns in the listed shares and total assets can be considered as an indication of the extent that the equity investments are driven by a good (or bad) economic environment in the industry at a certain point in time. A presentation of the variables only in amounts might dilute the magnitude of the growths for countries with large assets because in such a representation, the listed shares will be overstated. Therefore, we also plot each series as indexed to the initial point in their available history.

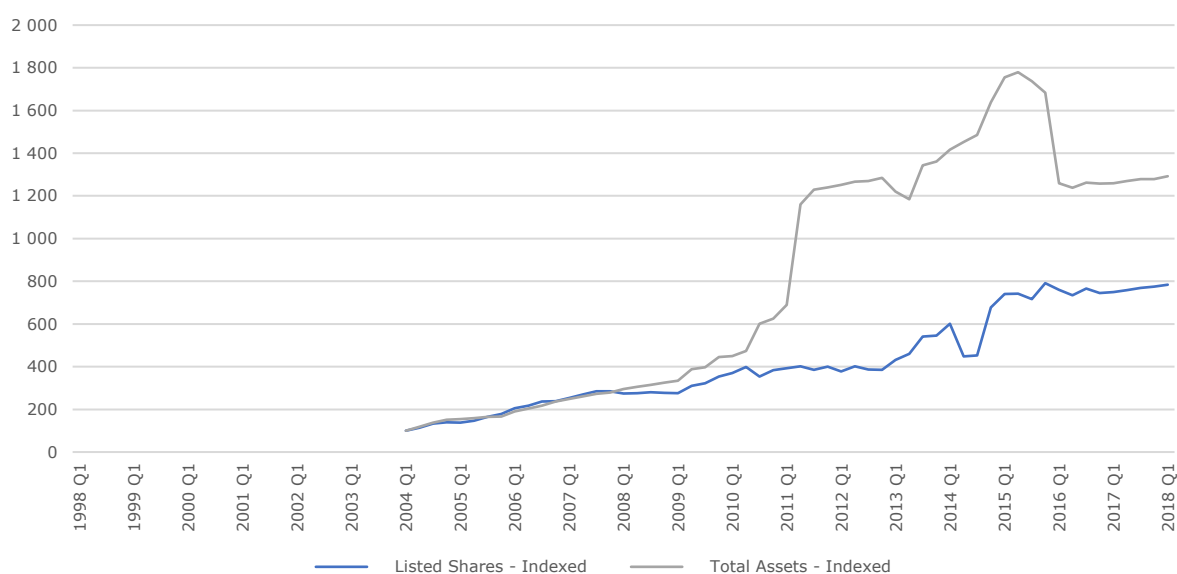
In the next step, we focus on the relationship with the listed shares and stock market indices. The ECB QSA balance sheet items are valued at market prices at the end of each quarter. Therefore, it is plausible to assume that the changes in the stock prices are reflected on the amounts held in listed shares. In order to remove this “price effect” from the observed amounts of listed shares and approximate the “real” amounts held in shares, we consider adjusting the observed amounts in listed shares. Even though we observe high correlations with listed shares and several stock indices, since the exact destinations of the portfolio invested in listed shares at each period is not observable, we build a “Weighted Equity Index” similar to the EIOPA Equity Dampener.

Amounts invested in listed shares and the total amount of assets of the insurance sector are plotted in Graph 12 while the indexed values of the series are presented in Graph 13. Investments in listed shares display an increasing trend over time. Listed shares grow from 215 million EUR in 2004 Q1 to 1 688 million EUR in 2018 Q1, translating in to an increase of 684%. However, listed shares exhibit a large drop of 25,50% in the second quarter of 2014 only to recover 49,47% in the last quarter of this year.

On the indexed values of total assets and investments in listed shares, differences in the growth pattern of these two series can be better observed. Over the period of 2004 – 2018, indexed value of total assets increases by 1 193%, while indexed value of listed shares increase by 684% of their initial starting value.

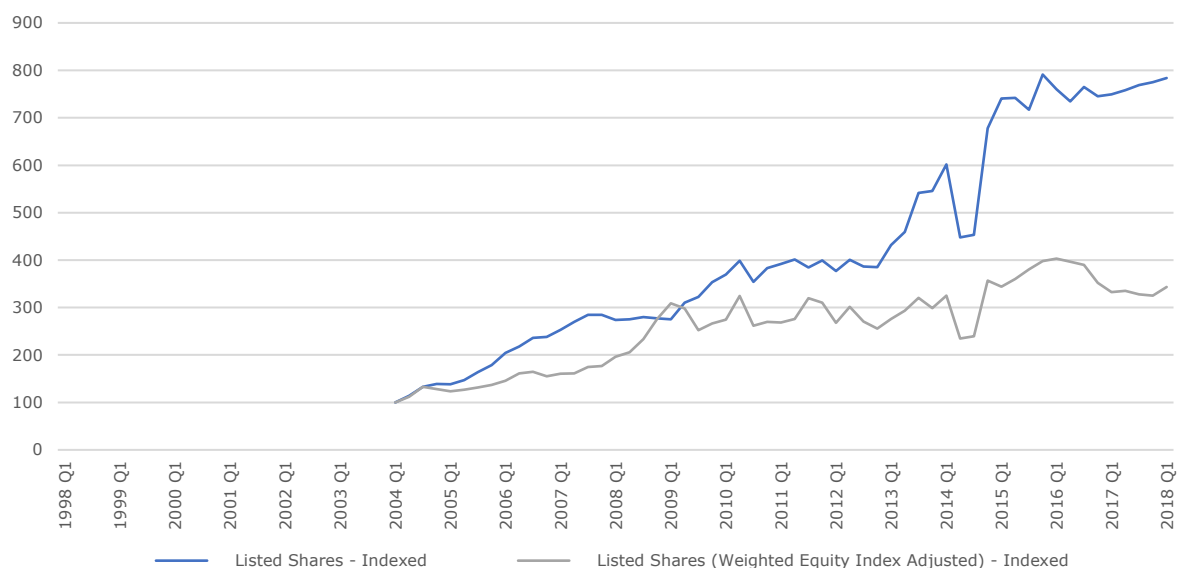
**Graph 12 - Evolution of Listed Shares and Total Assets (in Mio EUR)**

Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

**Graph 13 - Evolution of Listed Shares and Total Assets (indexed values)**

Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

Graph 14 presents the indexed values of the amounts invested in listed shares against its Weighted Equity Index adjusted counterpart. We observe that adjusted and unadjusted series follow a similar pattern over time. However, during most of the periods, the adjusted series are below the unadjusted series, which suggest that there is a price effect in the investments of listed shares.

**Graph 14 - Evolution of Listed Shares – Indexed (Weighted Equity Index Adjusted)**

Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

### 6.5.2 Unlisted Shares

Graph 15 depicts the amounts invested in unlisted shares and other equity plotted against the total assets in the insurance markets of while Graph 16 presents the indexed values of the series for an easier comparison of the movements in these two series. Investments in unlisted shares and other equity depict a volatile pattern. Unlisted shares and other equity experience several peaks and lows over the entire period. The highest accumulated amount is recorded in the third quarter of 2013. Over the period of 2014-2018 Q1, investments in this category of equities remain constant around a value of 61 mil EUR.

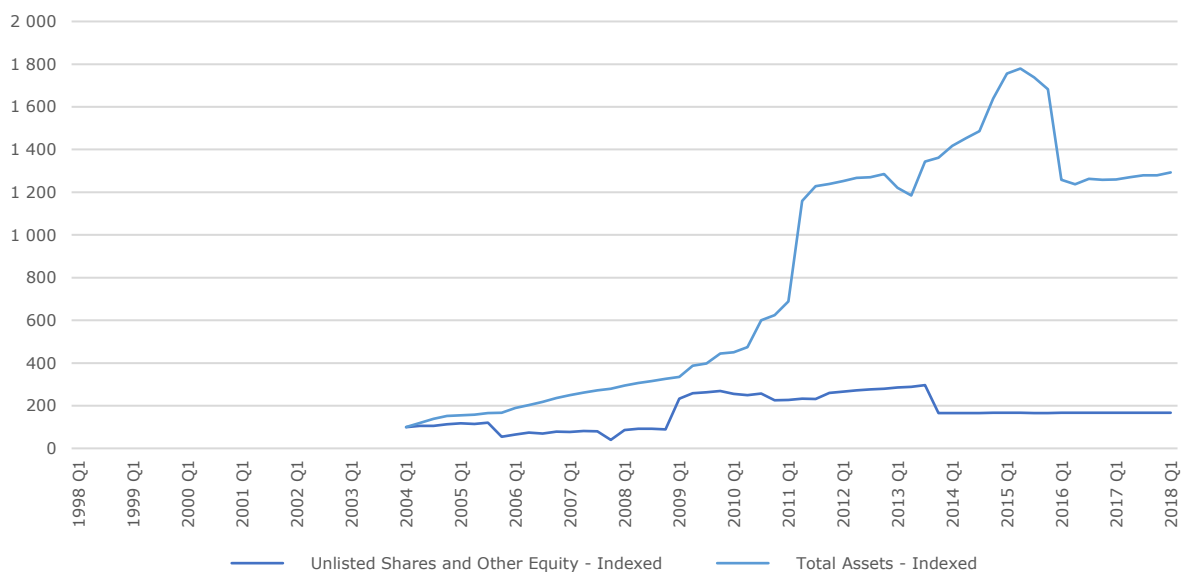
The growth patterns of total assets and unlisted shares and other equity can be compared on the indexed amounts. Over the period 2004 – 2018, indexed value of total assets reach 1 293 while indexed value of unlisted shares and other equity increases to 166.

**Graph 15 - Evolution of Total Unlisted Shares and Other Equity and Total Assets (in Mio EUR)**



Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

**Graph 16 - Evolution of Unlisted Shares and Other Equity (indexed values)**



Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis