

REPORTING INSTRUCTIONS FOR INSURANCE BROKERS & AGENTS

1 Reporting policies & procedures

- 1.1 The Excel file – Insurance Brokers & Agents Template - contains three sheets (Profit & Loss Account, Assets and Liabilities). Retain this Excel file as your Master Copy.
- 1.2 Reporting should be in thousands of euro. Conversion of foreign currencies to euro should be based on the end of month exchange rates.
- 1.3 The Questionnaire is to be prepared in accordance with the following reporting requirements. Accounting Standards are to be in line with the latest International Accounting Standards issued by the International Standards Committee and in conformity with the Malta Financial Services Authority (MFSA) reporting requirements.
- 1.4 The Questionnaire has been designed in such a way as to simplify - whenever possible the collation of data for statistical purposes. As a result, a number of cells in the matrix may be irrelevant and should therefore be left blank.
- 1.5 The Questionnaire should be completed and submitted to the Central Bank within **6 to 8 weeks** of the reference period.
- 1.6 The Questionnaire should be submitted either electronically by e-mail or in paper format. Questionnaire may be submitted by e-mail to Mr Michael Caruana or Ms Marilyn Grech at mufa@centralbankmalta.com .
- 1.7 The authorised official completing the questionnaire must be able to provide information on the developments implied by the data supplied and breaks in the data supplied compared with the previous period's figures.
- 1.8 Any queries regarding Table 1 should be directed to Ms Caroline Porter at caroline.porter@gov.mt or by phone on 25997252.
- 1.9 Any queries regarding Tables 2, 3, and 4 should be directed to Mr Michael Caruana or Ms Marilyn Grech at mufa@centralbankmalta.com or by phone on 25504404.

2 Scope of the reporting schedule

- 2.1 Apart from the Profit and loss account, the reporting Questionnaire includes a balance sheet highlighting the main asset and liability items with further analysis by instrument and by residence of the counterparties to the transaction in conformity with the European Central Bank, International Monetary Fund and Eurostat norms.
- 2.2 The row classification requires that all major assets and liabilities are shown, with additional instrument breakdowns, specifying those instruments particularly important for statistical purposes. The column classification shows the sector of the counterparty for each major type of instrument, split up into the main resident sectors (detailed below) and the non-resident sector. Each asset category is thus cross-classified by the sector of the debtors, and liabilities are cross-classified by the sector of the creditors.
- 2.3 Counterparties in the domestic territory are broken down into five main categories, namely the General Government, the Monetary Financial Institutions (sub-classified into: the Central Bank of Malta, Credit institutions, the Other Financial Institutions (sub-classified into Collective Investment Schemes, Insurance Companies and Other), Non-financial Private and State Enterprises, and the Households and Non-Profit organisations. A breakdown of counterparties located outside the domestic territory is not required, and all transactions with non-residents should therefore be classified under the 'Non-resident' category.

3 Concept of 'Residence'

- 3.1 Residence is based on the transactor's centre of economic interest. A transactor has a centre of economic interest in Malta when there exists some location - dwelling, place of production or other premises (owned or rented by the transactor) - within the economic territory of Malta in, or from which, the transactor engages and intends to continue engaging, either indefinitely or over a finite but long period of time, in economic activities and transactions on a significant scale. As a guideline, this period should be of one year or more. Thus, a transactor is said to have a centre of economic interest and to be a resident of Malta when engaged in a significant amount of production of goods and/or services or when owning land or buildings located in Malta. The **address** of his/her dwelling, office, the factory is deemed to be sufficient in itself to indicate whether the individual or company have a centre of economic interest in Malta. In the case of an enterprise, it must maintain at least one production establishment in Malta and must plan to operate the establishment indefinitely or over a long period of time. All other units of an economy not meeting the above criteria are to be considered as non-resident units.
- 3.2 International trading companies should be treated as non-resident units when, although the place of registration of such companies is in Malta, they do not have a centre of economic interest in Malta. These companies do not own/rent any dwellings, places of production or other premises from which the units engage and intend to continue engaging, either indefinitely or over a long period of time in economic activities and

transactions on a significant scale. Such companies should be classified as resident units when they engage local employees and/or expatriates for whom they pay social security contributions and PAYE, and/or own/rent premises in Malta and/or are engaging in a significant amount of production of goods and/or services in Malta.

- 3.3 Territorial enclaves such as diplomatic bodies, embassies, consulates, military establishments and other entities of a foreign general government located in other countries and used by governments that own or rent them for diplomatic, military, scientific or other purposes are considered extra territorial by the economies in which the embassies, etc. are physically located. This is an exception to the general rule. Foreign government bodies are to be considered as residents of the country they are representing and not of the country where they are located. Consequently, foreign embassies and diplomatic bodies located in Malta should be classified as non-resident units.
- 3.4 The economic territory includes free zones and bonded warehouses or factories operated by offshore enterprises under customs control. These form part of the economic territory or the country in which they are physically located. For statistical purposes, companies licensed to operate in a freeport zone under the Malta Freeport Act are to be considered as Resident units of Malta.

4 The sector classification of the Maltese economy

- 4.1 **General Government** includes the administrative departments of the State and other central agencies including Extra Budgetary Units whose competence extends over the whole economic territory. Local Councils are included in this sector.
- 4.2 The **Monetary Financial Institutions** sector includes the Central Bank of Malta and the Credit Institutions and the Money Market Funds.

4.2.1 The **Central Bank of Malta** is a distinct corporate body having specialised functions. It is assigned the responsibilities normally assigned to the monetary authority of a country.

4.2.2 **Credit Institutions** – The business of credit institutions is to receive deposits and/or close substitutes for deposits from entities other than MFIs and, for their own account to grant credits and/or make investments in securities. This sector is also subdivided into deposit money banks (DMBs) and international banking institutions (IBIs). DMBs are credit institutions that accept deposits and grant loans to both residents and non-residents. IBIs are credit institutions that accept deposits and grant loans predominantly to non-residents.

4.2.3 **Money Market Funds** – are defined as those collective investment undertakings of which the units are, in terms of liquidity, close substitutes for deposits and which primarily invest in money market instruments and/or in other transferable

debt instruments with a residual maturity up to and including one year, and/or in bank deposits, and/or which pursue a rate of return that approaches the interest rates of money market instruments.

4.3 **Other Financial Institutions** - This sub sector consists of all financial companies which are principally engaged in financial intermediation by incurring liabilities in forms other than currency, deposits and/or close substitutes for deposits from units other than Monetary Financial Institutions. For the purposes of these Schedules, this sector distinguishes between -

4.3.1 Locally-Based Collective Investment Schemes and

4.3.2 Others - mainly consisting of financial auxiliaries, such as foreign exchange companies and exchange bureaux.

4.4 **Insurance Companies** – comprise non-monetary financial companies principally engaged in financial intermediation as the consequence of the pooling of risks. Insurance companies consist of incorporated mutual and other entities whose principal function is to provide life, accident, health, fire or other forms of insurance to individual institutional units or group of units. Pension funds included in this sector are those that are constituted as separate from the units that created them. They are established for the purposes of providing retirement benefits for specific groups of employees.

4.5 The **Non-financial Private and State companies** include companies, partnerships or corporations that do not engage in financial intermediation but principally in the production of market goods and non-financial services.

4.5.1 Private non-financial companies are under private ownership or control and are collectively owned by shareholders that have the authority to appoint directors responsible for general management and may be a source of profit or other financial gain to their owners.

4.5.2 State corporations (or authorities) are those non-financial corporations that are subject to control by government, 'control' being defined as the ability to determine general corporate policy. Foreign controlled non-financial companies are not included in this sector as these are considered to be non-residents of Malta.

4.6 **Households and Non-Profit Organisations** mainly comprise individuals or groups of individuals as consumers and non-profit institutions which are principally engaged in the provision of non-market goods and services to their members, or to households, without charge or at prices that are not economically significant. These include trade unions, political parties, church or religious societies, social, cultural, recreational and sports clubs, charity and aid organisations.

5 Selected definitions of the main instrument categories

Liabilities

- 5.1 **Deposits** are those funds or other balances placed by entities other than those arising from the issuing of negotiable securities. A deposit consists of a sum of money paid-in on terms under which it will be repaid, with or without interest or a premium and either on demand or at a time or in circumstances agreed by or on behalf of the person making the payment and the person receiving it. Report all borrowings in the form of deposits or funds placed by clients with the reporting institution. These deposits are amounts owed to creditors, other than those arising from the issuing of negotiable securities. The distinction between 'deposits' and 'loans' may often be based on the basis of the party that takes the initiative for the transaction. In cases where the initiative to place funds is taken by the third party, the transaction is to be classified in the '*deposits*' category. In cases where the initiative to acquire funds is taken by the reporting institution, the transaction is to be classified in the category '*loans*'.
- 5.2 **Securities other than shares:** This category consists of all securities excluding shares issued by the institutional unit (the insurance broker or agent) for borrowing purposes. Securities must be recorded in the balance sheet at **market value** and according to their **original maturity (i.e. a Corporate Bond maturing in 8 months time should be considered as long-term security)**. It includes bonds, commercial paper, debentures, financial derivatives and similar instruments normally traded in the financial markets.
- 5.3 **Loans** are created when creditors lend funds to borrowers, which may or may not be evidenced by non-negotiable documents. A loan is an unconditional debt to the creditor which has to be repaid at maturity and which is interest-bearing. The conditions governing a loan are either fixed by the financial company granting the loan or negotiated by the lender and the borrower directly or through a broker. By convention, short-term loans and overdrafts are normally classified separately. The latter are loans with an original maturity of one year or less. Long term loans have an original maturity of more than one year. The loans in both categories should be classified by currency, that is, whether in euro or in any other foreign currency.
- 5.4 **Shareholders' funds:** These comprise the Share Capital, Reserves and Profit and loss account. Capital and Reserves are amounts arising from the issue of equity capital to shareholders or other proprietors, representing for the holder property rights. The latter are generally an entitlement to a share in its profits and to a share in its own funds in the event of liquidation. Also included are funds arising from non-distributed benefits or funds set aside in anticipation of future likely payments and obligations. Own capital and reserves should not include shares issued to the investing customers by insurance companies.
- a) **Share Capital (if any):** These comprise amounts arising from the issue of equity

capital to shareholders or other proprietors, representing for the holder property rights and generally an entitlement to a share in its profits and to a share in its own funds in the event of liquidation. Own capital and reserves should not include shares issued to the investing customers by collective investment schemes.

- b) The item **Reserves** include funds arising from non-distributed benefits or funds set aside in anticipation of future likely payments and obligations. Reserves should be split to include separately (a) Disclosed Reserves and (b) Undisclosed Reserves, in line with the classifications of the Bank for International Settlements (BIS). Disclosed reserves should include capital reserve, share premium, retained profits, and minority interest. Undisclosed reserves include revaluation reserves, general provisions, debt capital instruments, subordinated debt and unrealised gains/losses on investments.

5.5 Creditors: This item should comprise any creditors arising out of direct insurance operations, reinsurance operations, amounts owed to banks, taxation and social security. Distinction should be made between long term creditors (over 1 year) and short term creditors (less than 1 year).

5.6 Accruals and deferred income: These include accrued formation expenses which will be written-off over a period of time and deferred income such as deferred interest.

5.7 Other liabilities: This item includes other items not classified elsewhere such items may arise in the ordinary course of business transactions, such as unpaid taxes, interests accrued, dividends and trade credit.

Assets

5.8 Currency (or cash) represents holdings of euro and other foreign notes and coins that are used to make payments

5.9 Bank deposits are those funds or other balances lodged with a bank or similar financial institution. Deposits are usually redeemable for cash at face value plus accrued interest. Deposits consists of current deposits, savings deposits split up into withdrawable on demand and redeemable at notice and time deposits. The term “withdrawable on demand” means that such deposits do not require an advance notice before their withdrawal. The term “redeemable at notice” means that such deposits can be withdrawn only subject to a pre-announcement. Bank deposits should also include deposits denominated in foreign currency.

5.10 Securities other than shares are those assets that are normally traded in the financial markets and that give the holders the unconditional right to receive stated fixed sums on a specified date or the unconditional right to fixed money incomes or contractually determined variable money incomes (e.g. government stocks, corporate bonds and debentures). A short term security (e.g. treasury bills) is defined as having an original

maturity of one year or less while a long term security has an original maturity of more than one year. All securities must be recorded in the balance sheet at **market value** and according to **their original maturity (i.e a 10-year Government Stock or a Corporate Bond maturing in 8 months time should be considered as long-term security)**.

5.11 Shares and other equity: Holdings of securities which represent property rights on companies. These securities generally entitle the holders to a share in profits of companies and to a share in their own funds in the event of liquidation. This category also includes units in other investment schemes, unit funds, investment trusts and other collective schemes, whether they are open-ended or closed-ended funds, quoted or unquoted. The value of Shares and other equity should be based on the **market prices or fair values**. Fair values must be used to estimate shares in situations where market price data are unavailable. It is that value that approximates the value that would arise from a market transaction between unrelated parties. The two methods used to establish fair values are:

- Establish a fair value based on the market price of a market-traded financial instrument, similar in nature to a non-traded financial instrument.
- Basing fair values on the present value of future cash flows.

5.12 Loans: Report loans, overdrafts and other advances, i.e. financial assets that are created when creditors lend to debtors, either directly or indirectly through brokers, which are not evidenced by negotiable documents or are represented by a single document (even if it has become negotiable). This category is sub-divided into short-term loans, consisting of all financial transactions whose original maturity is normally one year or less and in exceptional cases two years at the maximum, long-term loans, whose original maturity is normally more than one year.

5.13 Debtors: Debtors should be presented at their net realisable value after deducting provision for bad debts.

5.14 Prepayments and accrued interest: These include prepaid formation expenses which will be written-off over a period of time and accrued income such as accrued interest.

5.15 Other assets: This item includes other items not classified elsewhere. Such items can be other financial or other intangible non-financial assets which are created as a counterpart of a financial or non-financial transaction in cases where there is a timing difference between this transaction and the corresponding payment arising in the ordinary course of business transactions, such as Life Insurance's Present Value of In-force Business (PVFB), unpaid taxes, interests accrued, dividends and trade credit.

5.16 Fixed assets: This item incorporates non-financial tangible fixed assets which are intended to be used repeatedly for more than 1 year by the reporting institution. They include land and buildings occupied by the reporting institution, as well as equipment, software and other infrastructures. Under this item, include also investment property.

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