

BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

SPECIAL FEATURE: METHODOLOGY TO CATEGORISE INSTITUTIONS FOR FINANCIAL STABILITY PURPOSES

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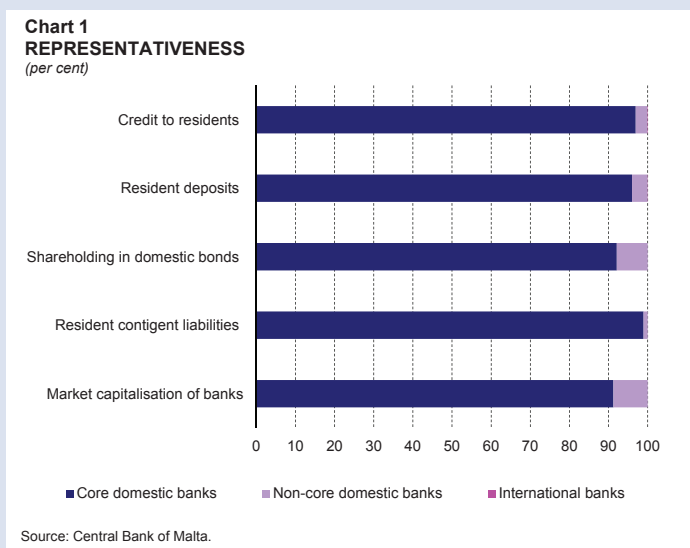
The Maltese financial system is dominated by banking institutions which undertake a broad range of intermediation activities. A growing number of insurance companies and investment funds also operate within this system. Some of the financial institutions established in Malta have minimal or no link at all with the domestic economy as they transact almost exclusively with non-residents. To better monitor developments associated with systemic risk, the Central Bank of Malta has traditionally categorised institutions as domestic or foreign-oriented, depending on the extent of links with residents. As from this issue of the *Financial Stability Report*, a new methodology of classification is being introduced. The methodology is derived from recent literature that analyses different ways of categorising institutions according to the risk they pose to the financial system.

The banking sector

To identify the systemic relevance of banks operating from Malta, five broad criteria reflecting size, substitutability and connectivity were considered. Weights were then assigned to each criterion as shown below:^{1,2}

- (i) credit to residents [30%]: credit to residents by bank *i* to total resident loans;
- (ii) resident deposits [30%]: resident deposits of bank *i* to total resident deposits;
- (iii) holdings of domestic bonds [13.3%]: domestic bonds held by bank *i* to total outstanding domestic bonds;
- (iv) resident contingent liabilities [13.3%]: resident contingent liabilities of bank *i* to total resident contingent liabilities of the banking sector;
- (v) market capitalisation [13.3%]: market values of equities or bonds of bank *i* to total market capitalisation of banks in Malta.

The weighted standardised values of each criterion for every bank were then added.³ On the basis of this methodology, three separate categories were identified: a group of five banks which scored highest; a group of 13 banks with very low scores; and a group of eight intermediate banks. These groups were also labelled as: “**core domestic banks**”, “**non-core domestic banks**” and “**international banks**”. The category “**core domestic banks**” consists of a set of banks which have strong



¹ The choice of weights was based on a subjective but realistic assessment of the relative importance of each criterion.

² Based on data as at end-September 2011.

³ Standardisation was determined on the basis of how each bank compares in relative terms with the bank having the maximum value of each specific criterion.

Table 1
SIZE AND LIST OF BANKS UNDER EACH CATEGORY

Core domestic banks	Non-core domestic banks	International banks
APS Bank Limited Banif Bank (Malta) plc Bank of Valletta plc HSBC Bank Malta plc Lombard Bank Malta plc	BAWAG Malta Bank Ltd Credit Europe Bank N.V. Branch Malta FIMBank plc IIG Bank (Malta) Ltd Izola Bank plc Mediterranean Bank plc Sparkasse Bank Malta plc Volksbank Malta Limited	Akbank T.A.S. CommBank Europe Limited Deutsche Bank (Malta) Limited Erste Bank (Malta) Limited FCM Bank Limited Fortis Bank Malta Ltd Investkredit International Bank plc NBG Bank Malta Limited Nemea Bank Ltd Raiffeisen Malta Bank plc Saadgroup Bank Europe Limited Turkiye Garanti Bankasi AS VoiceCash Bank Limited
Total assets (EUR billions)		
14,236.1	4,947.4	31,943.6
Total assets (as % of GDP)		
222.7	77.4	499.6

links with the domestic economy, and are thus more systemically relevant. These banks have a widespread branch network, provide a full spectrum of banking services and are core providers of credit and deposit services in Malta.⁴ The “non-core domestic banks” play a more restricted role in the economy, as the volume of operations and the banking services they offer to residents are somewhat limited. In turn, “international banks” have virtually no links with the domestic economy. Table 1 lists the banks which are classified under each of the identified three groups. As at end of 2011, the aggregate size of the core domestic banks in relation to Malta’s gross domestic product (GDP) was 223%, while the ratio for non-core domestic banks and international banks, was respectively, 77% and 500% of GDP. On the basis of the methodology applied, the core domestic banks amply satisfy the five criteria established for systemic relevance in a Maltese context, with each bank achieving over 90% representativeness (see Chart 1). They are thus the focus of the major part of the *Report’s* analysis.

The insurance and investment fund sectors

With regard to the insurance sector, the following four indicators of systemic relevance were considered:

- (i) whether the institutions were subsidiaries of core domestic banks;
- (ii) the amount of domestic investment assets held;
- (iii) the total gross premia written for risks situated in Malta;
- (iv) the total gross claims paid for risks situated in Malta.

In the case of the investment funds sector three indicators were used:

- (i) the extent to which the fund was managed by a core domestic bank;
- (ii) the amount of resident assets that it held;
- (iii) the proportion of resident shareholder units in each fund.

⁴ The number of core domestic banks on which the main text of the *Financial Stability Report 2011* is based is smaller than the sample of banks considered in previous *Financial Stability Reports*.

Table 2
LIST OF INSURANCE COMPANIES AND INVESTMENT FUNDS

Insurance Companies	Investment Funds
Atlas Insurance PCC Ltd	Amalgamated Investments SICAV p.l.c.
Citadel Insurance p.l.c.	APS Funds SICAV plc
Elmo Insurance Ltd	GlobalCapital Funds SICAV plc
GasamMamo Insurance Ltd	Global Funds SICAV p.l.c.
GlobalCapital Life Insurance Ltd	HSBC Malta Funds SICAV p.l.c.
HSBC Life Assurance (Malta) Ltd	HSBC No-Load Funds SICAV p.l.c.
Middlesea Insurance p.l.c.	HSBC Structured Funds SICAV p.l.c.
MSV Life p.l.c.	La Valette Funds SICAV p.l.c.
	LandOverseas Fund SICAV plc
	Malta Development Fund Limited
	Santumas Shareholdings p.l.c.
	Vilhena Funds SICAV p.l.c.
	Wignacourt Funds SICAV p.l.c.

With regard to the standardisation method applied to both insurance and investment fund sectors, this was similar to that adopted for banks but with an equal weighting used across the criteria considered.⁵ Table 2 lists domestic institutions that were selected for each category. All insurance companies and investment funds that were selected are highly representative. In the case of insurance companies, these accounted for around 97% of the gross premia written and claims paid for risks situated in Malta, whereas the selected investment funds represented 100% of resident shareholder funds.⁶

⁵ For each qualitative variable, the value was either 1 if that criterion was satisfied, or 0 if not.

⁶ The list of domestic insurance companies and investment funds is identical to that considered in previous *Financial Stability Reports*.