

BOX 3: REVISITING THE METHODOLOGY FOR SELECTING DOMESTICALLY-RELEVANT INSURANCE COMPANIES¹

Insurance companies play a vital role in upholding the stability of financial systems. Their primary business of risk management for both individuals and businesses helps in the effective redistribution of risks, actively contributing to safeguarding financial stability. They are also significant investors in financial markets, while having important links with domestic banks further highlight their importance in the local context. When challenges arise for an insurer, the repercussions could trickle beyond their policyholders and could affect financial markets due to their investment actions. Similarly, they could negatively impact banks and other financial institutions through direct and indirect linkages. This underscores the importance of robust macroprudential oversight of insurance companies.²

Malta has positioned itself as an attractive destination for insurance companies, granting them direct entry to the EU internal market and pioneering innovative legislative frameworks, such as the possibility to have protected and incorporated cell companies. As at end June 2023, Malta hosted a total of 68 insurance companies, comprising 52 non-life insurers, ten specializing in life insurance, four in reinsurance, and two operating as composite insurers. Most of these entities' operations are focused overseas, with only a few oriented towards the domestic market. Given this landscape, it is essential for the Bank to determine the domestic relevance of these insurance companies. This assessment is crucial for implementing a risk-based approach to monitor sectoral developments and identify potential systemic risks to domestic financial stability.

Previous methodology

In 2011, the Central Bank of Malta published a methodology that utilised the following four indicators for the identification of domestically-relevant insurance companies:³

- Indicator 1: Whether the institution is a subsidiary of a core domestic bank;
- Indicator 2: The amount of domestic investment assets held;
- Indicator 3: Gross premia written for risks situated in Malta;
- Indicator 4: Gross claims paid for risks situated in Malta.

The scoring methodology is aimed at assigning a quantitative value to each indicator, and thereby distinguishing between domestically-relevant insurance companies and others. For Indicator 1, a binary value of 1 indicated ownership by a core domestic bank, while a value of 0 indicated otherwise. For Indicators 2-4, the insurer with the highest value in each category received a score of 1, while other scores were scaled proportionally, based on their respective values. As a result, all indicator values were constrained within a range of 0 to 1, providing a normalized basis for comparison. The maximum attainable composite score stood at 4, signifying the highest level of alignment with the evaluated criteria. This approach was employed separately for life and non-life insurers. The composite score was subsequently derived through the summation of the scores across each respective indicator, resulting in a comprehensive assessment of the insurer's performance in the defined indicators.

Revised methodology

While the new methodology maintains its foundation as an indicator-based approach, the first two indicators have been updated to capture the links with the domestic economy more effectively. This

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² European Central Bank Financial Stability Review 2009. [The Importance of Insurance Companies for Financial Stability](#).

³ Central Bank of Malta Financial Stability Report 2011. [Special feature: Methodology to categorise institutions for financial stability purposes](#).

is outlined as follows:

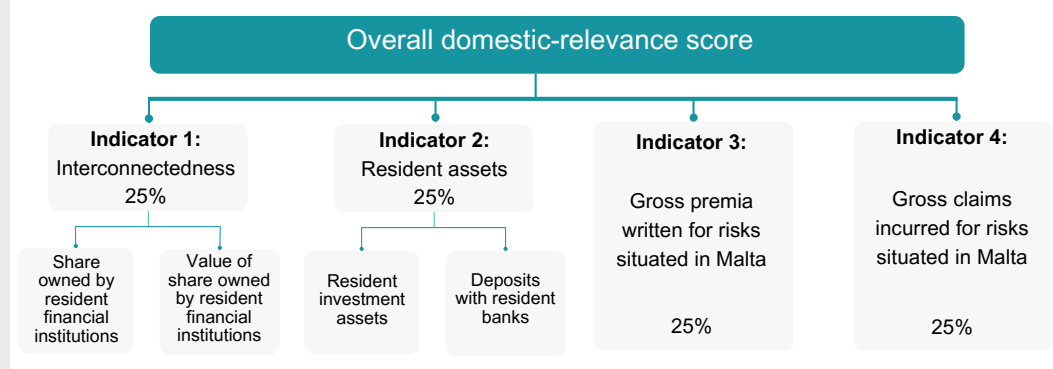
- Indicator 1: Interconnectedness between the insurers and other domestic financial institutions;
- Indicator 2: The amount of domestic investment assets and bank deposits held;
- Indicator 3: Gross premia written for risks situated in Malta;
- Indicator 4: Gross claims incurred for risks situated in Malta.

Indicator 1 is a comprehensive measure of interconnectedness with two primary components. The first component evaluates the extent to which resident financial institutions are investors or equity holders in the insurer. This component seeks to determine the share of ownership in each insurance company by resident financial institutions. The second component also considers the size of each insurance company, specifically focusing on the total value of equity issued and the proportion of it held by resident financial institutions. This aspect allows for assessing the potential ramifications in investment terms. These two equally weighted components are then combined to form a single indicator, which carries a weight of 25%, consistent with the weighting applied to the other indicators in this methodology (see Figure 1).

Indicator 2 is also now composed of two sub-components. In line with the previous methodology, the first sub-component considers holdings of resident investment assets. The second also accounts for links through deposits with domestic banks. Indicators 3 and 4 remained the same, looking at the gross premia written, and claims incurred for risks situated in Malta. For Indicators 2-4, each insurance company's specific indicator is divided by the total value of the respective category. For instance, the domestic gross written premia of each life insurance company are divided by the total value of gross written premia across all life insurers. The scores are then combined to calculate the overall score for each insurer. Moreover, to mitigate the risk of over-reliance on a single indicator, expert judgement is used to identify insurers as domestically-relevant when a minimum of two out of four indicators indicate important domestic ties.

This updated methodology improves our assessment of interconnectedness of the insurance sector by also evaluating its ownership and size (Indicator 1), and by introducing additional links within the assets side through the holdings of deposits in domestic banks (Indicator 2). The implementation of this methodology thus aims to improve the accuracy of the overall score in reflecting an insurer's market share within the entire sector. This improvement is achieved by assessing each insurer's indicator in relation to the total value within each specific category, rather than solely comparing them

Figure 1
CLASSIFICATION OF INSURERS – INDICATORS AND WEIGHTING



to the largest insurance company. This approach also closely aligns with the methodology applied for classifying banks, a framework that underwent its latest update in the *Financial Stability Report* of 2020.⁴ The methodology is applied separately to the different categories of insurers, including life and non-life.

Results

Based on the newly adopted methodology, the previously selected list of domestically-relevant insurance companies was reaffirmed. These companies hold the most significant linkages with the domestic economy. This includes four life insurance companies previously identified as domestically-relevant. However, within the non-life business, Argus Insurance Company (Europe) Limited was observed to have important ties with the Maltese economy, and thus was included within the list of domestically-relevant non-life insurance companies. Table 1 shows the revised list of domestically-relevant insurers by their respective lines of business, which will apply as from this edition of the *Financial Stability Report*.

Table 1
DOMESTICALLY-RELEVANT INSURANCE COMPANIES

Life Insurance Companies	Non-life Insurance Companies⁽¹⁾
HSBC Life Assurance (Malta) Limited	Argus Insurance Company (Europe) Limited
IVALIFE Insurance Limited	Atlas Insurance PCC Limited
LifeStar Insurance plc	Citadel Insurance plc
MAPFRE MSV Life plc	Elmo Insurance Limited
	Gasamamo Insurance Limited
	MAPRE Middlesea plc

⁽¹⁾ Citadel Insurance plc and MAPFRE Middlesea plc are composite insurers with licenses for both life and non-life insurance, but life insurance makes up only a small part of their total gross written premia.

⁴ Central Bank of Malta Financial Stability Report (2020). [The Categorisation of Banks According to Domestic Relevance](#).