

INSURTECH AND PCCs: TRANSFORMING INSURANCE IN MALTA

Beppe Sammut from Ganado Advocates, a member of FinanceMalta, on the synergy between insurtech and PCCs in Malta and how this combination is shaping the future of the insurance industry on the island

The insurance industry has witnessed a significant transformation in recent years, driven by advances in technology and innovative business models. One of the key developments in this sector is the emergence of insurtech companies, which leverage technology to enhance the efficiency and effectiveness of insurance operations. Malta, a European island nation with an established, yet still growing, reputation in the financial services industry, has embraced this trend. In addition to the flourishing insurtech ecosystem, Malta is also a pioneer in the establishment of protected cell companies (PCCs) in Europe, a unique legal structure that offers many benefits to the insurance sector.

The rise of insurtech

Insurtech, a blend of insurance and technology, has rapidly gained momentum as a disruptive force within the global insurance industry. Insurtech companies leverage technological innovations such as artificial intelligence, data analytics, blockchain and the internet of things to streamline insurance processes, reduce costs and enhance customer experiences.

The growth of insurtech, both at a global and European level, as well as in Malta, has been notable. The nation's strategic location within the EU, its robust regulatory environment, the presence of a highly skilled workforce and its innovative PCC legislation and framework have made it an attractive destination for insurtech startups.



Beppe Sammut

Beppe Sammut is a senior associate within the insurance and pensions team of Ganado Advocates, where he specialises in the (re)insurance and pensions area, with a particular focus on insurance and reinsurance legal and regulatory matters, and corporate law-related matters.

These startups are not only transforming traditional insurance processes but are also creating new business models that cater to evolving customer needs.

Benefits of insurtech

Insurers' ESG scores improved in 2022, narrowing the gap with other industries, but overall results were mixed, with some prominent brands seeing declines. There are important hurdles to be overcome.

- **Enhanced customer experience:** Insurtech companies are focusing on offering user-friendly, digital-first solutions that make it easier for customers to research, purchase and manage insurance products. These innovations are helping insurers to connect with tech-savvy consumers and provide personalised offerings.
- **Operational efficiency:** Automation and data analytics are driving efficiency improvements across the insurance value chain. Insurtech solutions are reducing administrative overhead,

improving underwriting accuracy and expediting claims processing.

- **Cost reduction:** The use of technology is streamlining insurance operations, resulting in cost reductions for both insurtech startups and traditional insurance companies. This translates into cost savings for consumers as well.
- **Regulatory compliance:** Malta's robust legislative regulatory framework ensures insurtech companies operate in a secure and compliant environment. The Malta Financial Services Authority (MFSA) has been proactive in establishing a framework and measures to address the challenges posed by the integration of technology into financial services.

PCCs: A unique structure in Malta

Malta is home to a unique legal structure known as the PCC. PCCs are a distinct form of corporate entity that allows for the segregation of assets and liabilities into separate 'cells' within a single legal entity. Each cell operates independently and is protected from the liabilities of other cells, making it a flexible and efficient structure for insurance. PCCs offer several advantages:

- **Risk segmentation:** PCCs allow insurers to separate different lines of business into individual cells. This facilitates efficient risk management as well as capital allocation.
- **Cost savings:** By sharing administrative and operational costs across multiple cells, PCCs can reduce the overall cost of running an insurance business.

- **Regulatory compliance:** PCCs in Malta are subject to rigorous regulatory oversight by the MFSA, ensuring a secure environment for insurance activities.
- **Capital efficiency:** PCCs can allocate capital more efficiently as each cell can maintain its own capital base, providing financial security for policyholders.

The synergy between insurtech and PCCs

The combination of insurtech and PCCs in Malta has the potential to revolutionise the insurance landscape. Here's how they complement each other:

- **Digital infrastructure:** Insurtech startups in Malta can leverage the digital infrastructure to launch innovative insurance products more quickly. This is especially valuable in a fast-paced, technology-driven market.
- **Customised solutions:** PCCs allow insurers to create tailored solutions for specific customer segments or niche markets. Insurtech platforms can help deliver these products efficiently.
- **Cost optimisation:** Insurtech companies can work with PCCs to streamline operational processes, making insurance more affordable for customers and more profitable for insurers.
- **Regulatory compliance:** Malta's regulatory framework applies equally to both insurtech companies and PCCs, ensuring innovative insurance offerings meet stringent standards of security and transparency.

Insurtech cells in Malta

Malta's innovative approach to the insurance industry, particularly through the use of the PCC model, has positioned it as a leading hub for legal and regulatory development within the EU. The PCC model offers a flexible and forward-looking framework that is especially attractive to insurtech companies. In the past, Malta has reflected a prime example of innovation, providing a platform for insurers, captives and intermediaries to explore new ideas and business models. Originally used for captives and fronting arrangements, the PCC model has evolved to accommodate various insurance-related activities, such as direct insurance business, insurance intermediaries and ad hoc structures for specific insurance cover. This expansion of use cases evidences the versatile nature of the PCC model that can be used for multiple business models, including insurtech.

Therefore, as insurtech products continue to evolve, the market is actively seeking structures that support their introduction. Malta's legislative framework, particularly the PCC model, is well-suited to insurtech firms, seeing how it offers the flexibility required for testing, incubating, developing, launching, implementing and maintaining insurtech products. The PCC model enables insurtech companies or intermediaries to create cells within the PCC structure that can directly write or intermediate insurance business using their technology. The use of insurtech cells may lead to more accurate pricing, better claims estimation and innovative, user-friendly solutions for policyholders.

Malta's flexible legal framework, which allows insurance underwriters, insurance managers and insurance brokers to use the PCC model, offers insurtech firms a wide range of options for developing and expanding their businesses within the European market. Here are three key ways insurtech companies can leverage the PCC model in Malta:

1. Direct underwriting: One of the primary advantages of the PCC model is its reduced capital requirements for each cell. Insurtech intermediaries can establish their own insurance cell with lower capital commitments, making it more accessible for startups and those looking to experiment with new underwriting models. The PCC model also provides cost savings in governance and reporting, which can be beneficial for insurtech companies. They can shift from a commission-based business model to directly earning underwriting profits, potentially increasing their profitability.

2. Insurance manager: Malta's unique legislation allows insurance managers to manage various aspects of a (re) insurer's business, including entering into insurance contracts on behalf of the (re)insurer. Insurtech managing general agents (MGAs) can take advantage of this by using the Maltese PCC model to accept management appointments from insurtech MGAs looking to underwrite business across the EU. Therefore, the PCC model allows insurtech MGAs to underwrite insurtech business via binder arrangements, which provides access to a broader European market. This can be particularly valuable for insurtech firms looking to expand their footprint in the EU.

3. Insurance broker: The PCC model can be used by insurtech brokers to expand their operations across Europe. By establishing a dedicated cell within the PCC structure, insurtech brokers can offer their services in various EU/EEA Member States. The PCC model facilitates efficient intermediation for insurtech brokers, allowing them to tap into a broader market and leverage the benefits of the shared structure and cost-sharing inherent in the PCC framework.

Malta's PCC model provides insurtech firms with a versatile and adaptable framework for different business models within the insurance industry. Whether it's direct underwriting, insurance management or brokerage, the lower capital requirements, cost-sharing and access to the EU market make the PCC model an attractive option for insurtech companies seeking to innovate and expand their operations in the European insurance sector. Malta's supportive regulatory environment and its commitment to technological advancement make it a favourable destination for insurtech startups.

Conclusion

In summary, Malta's PCC model is an attractive option for insurtech firms seeking a supportive environment for innovation and growth. Its regulatory flexibility, reduced capital requirements, shared resources and access to industry expertise make it an ideal choice for insurtech companies looking to develop and launch technology-driven insurance products within the EU and beyond. Malta's commitment to advancing the insurance industry through innovative legal and regulatory frameworks ensures it remains at the forefront of insurtech development in the region.

The combination of insurtech and PCCs in Malta is reshaping the insurance industry on the island. The digital revolution is enhancing the customer experience, increasing operational efficiency and reducing costs. The synergy between these two developments is creating a fertile ground for innovation in the insurance sector and positioning Malta as a leading hub for insurtech within the EU. As the industry continues to evolve, it's clear the marriage of technology and regulatory ingenuity is driving the insurance market towards a more dynamic, customer-centric and cost-effective future. 