PROTECTION AND COMPENSATION FUND

Management Committee

Report on the Activities of the

Protection and Compensation Fund

For the Year 2020

Management Committee Meeting
Date: 26 May 2021

Scanned with CamScanner

Table of contents

I. Background 1
Dual Purpose of the Fund 1
II. The Management Committee 1
III. Activities 1
Collection of Contributions 1
Approval of Accounts 3
Funds allocated to meet expenditure 3
IV. Issues considered by the Management Committee 3
Investment strategy 3
Payment of claims 3
V. Motor Insurers' Bureau (MIB) 3
Claims handled by MIB 3
VI. List of contributors in relation to Part III of the Regulations (2020) 4
General Business 4
Long Term Business 4

Scanned with CamScanner

I. Background

This report is being drawn up pursuant to regulation 11(1) of the Protection and Compensation Fund Regulations, 2003, L.N. 435 of 2003 ("the Regulations") which requires the Protection and Compensation Fund Management Committee ("Management Committee") to submit to the Malta Financial Services Authority ("the Authority" or "MFSA") a report of the activities of the Protection and Compensation Fund ("the Fund" or "the PCF") during the year 2020.

Dual Purpose of the Fund

The Fund has been established to provide:

(1) For the payment of any claims against an insurer, remaining unpaid by reason of the insolvency of such insurer. Such claim must be in respect of *protected risks* (general business) situated in Malta and in respect of *protected commitments* (long term business) where Malta is the country of commitment.

(2) To compensate victims of road traffic accidents in certain specified circumstances (*protected liability*).

II. The Management Committee

In terms of article 51 of the Insurance Business Act ("the Act") and regulation 5 of the Regulations, the Authority has established the Protection and Compensation Fund Management Committee.

The Management Committee, re-appointed in 2019 for a period of three years, is composed of the following:

Chairman -

Dr Joseph Borg Bartolo

Members -

Dr Andrea Zerafa (appointed in March 2020)
Mr David G Curmi
Mr Benny Borg Bonello
Mr Joseph Naudi Montaldo

Secretary -

Dr Jessica Friggieri

During 2020, the Management Committee held three meetings.

The Committee has informed the MFSA about the resignation of two members in the past years and requested the MFSA to appoint two new members. The appointment of the new Members is still in process.

III. Activities

Collection of Contributions

Article 50 of the Act provides that the Fund shall consist of all contributions made to it under the Act and any regulations made thereunder. Contributions are made by insurance undertakings authorised under the Act carrying on risks situated in Malta or commitments where Malta is the country of commitment, and by a number of European insurance undertakings carrying out the business of insurance in Malta under the freedom of establishment. A list of contributors is found in Part VI of this report.

For the purposes of Part III of the Regulations, under regulation 7 of the Regulations, every insurer carrying on general business or long-term business in Malta, is to pay a pre-funded contribution of 0.125 per centum of gross premium

Scanned with CamScanner

I. Background

This report is being drawn up pursuant to regulation 11(1) of the Protection and Compensation Fund Regulations, 2003, L.N. 435 of 2003 ("the Regulations") which requires the Protection and Compensation Fund Management Committee ("Management Committee") to submit to the Malta Financial Services Authority ("the Authority" or "MFSA") a report of the activities of the Protection and Compensation Fund ("the Fund" or "the PCF") during the year 2020.

Dual Purpose of the Fund

The Fund has been established to provide:

(1) For the payment of any claims against an insurer, remaining unpaid by reason of the insolvency of such insurer. Such claim must be in respect of *protected risks* (general business) situated in Malta and in respect of *protected commitments* (long term business) where Malta is the country of commitment.

(2) To compensate victims of road traffic accidents in certain specified circumstances (*protected liability*).

II. The Management Committee

In terms of article 51 of the Insurance Business Act ("the Act") and regulation 5 of the Regulations, the Authority has established the Protection and Compensation Fund Management Committee.

The Management Committee, re-appointed in 2019 for a period of three years, is composed of the following:

Chairman -

Dr Joseph Borg Bartolo

Members -

Dr Andrea Zerafa (appointed in March 2020)
Mr David G Curmi
Mr Benny Borg Bonello
Mr Joseph Naudi Montaldo

Secretary -

Dr Jessica Friggieri

During 2020, the Management Committee held three meetings.

The Committee has informed the MFSA about the resignation of two members in the past years and requested the MFSA to appoint two new members. The appointment of the new Members is still in process.

III. Activities

Collection of Contributions

Article 50 of the Act provides that the Fund shall consist of all contributions made to it under the Act and any regulations made thereunder. Contributions are made by insurance undertakings authorised under the Act carrying on risks situated in Malta or commitments where Malta is the country of commitment, and by a number of European insurance undertakings carrying out the business of insurance in Malta under the freedom of establishment. A list of contributors is found in Part VI of this report.

For the purposes of Part III of the Regulations, under regulation 7 of the Regulations, every insurer carrying on general business or long-term business in Malta, is to pay a pre-funded contribution of 0.125 per centum of gross premium

Scanned with CamScanner

income accounted for by the insurers for the year ending last before the beginning of that calendar year in respect of general business or long-term business (in the latter case effected after 30 June 1986) to the Fund. These are to be utilised for the payment of claims which, by reason of the insolvency of an insurer, remain unpaid. Such funds shall be available to make payments of such claims made in respect of protected risks and protected commitments.

Since regulation 8 of the Regulations also requires every insurer to furnish the Fund with a statement of gross premium income, two forms devised by the Management Committee, one in respect of general business and the other in respect of long term business were sent to all insurers required to contribute to the Fund.

Contributions were made by insurers carrying on general business amounting to €269,047 (2019: €246,095) and insurers carrying on long term business amounting to €416,570 (2019: €464,813). Therefore, the contributions for calendar year 2020 amounted to an aggregate amount of € 685,617 (2019: €710,908).

For the purposes of Part IV of the Regulations, regulation 7 also lays down that every insurer carrying on business of motor insurance in Malta is required to pay a post-funded additional contribution whenever the need arises to be utilised for the payment of compensation relating to protected liabilities. In terms of regulation 6 of the Regulations, the Management Committee has delegated the function to compensate victims of road traffic accidents to the Motor Insurers' Bureau. Therefore, this additional contribution is collected by the Motor Insurers' Bureau on behalf of the Management Committee.

On 25 May 2020, the MFSA answered PCF letter of 21 May 2019 in relation to the provisions of regulation 9 of Legal Notice 435 of 2003 – Protection and Compensation Fund Regulations ("The Regulation").

By virtue of the same letter MFSA confirmed that the Protection and Compensation Fund Committee should continue exercising its function and powers under regulation 7 of the Regulations and to require the contributions payable thereunder to be continued to be paid according to the percentage specified in the said regulation.

The MFSA took into consideration the following facts:

- Insofar as general business is concerned, the contributions held by the Fund in respect of each of general business and long-term business as at the 31st December 2020 now stand at €2,440,458 and €3,397,026 respectively.

- The amounts held by the Fund in respect of the long-term business and the general business do not equate solely to the contributions collected from insurers over the years but also include accumulated reserves and evaluation reserves.

- The MFSA has considered the technical liabilities of the domestic insurers carrying on general business and long term business contributing to the Fund and has noted that, in each case, the amounts held by the Fund are not sufficient to cover the liabilities of even the smallest insurer should the Fund be called to effect payments in case of the insolvency of such insurer.

Scanned with CamScanner

Approval of Accounts

The Annual Report and Financial Statements of the Fund for the year ended 31 December 2020 have been drawn up in accordance with regulation 14 of the Regulations. These were tabled at a Management Committee meeting of 26 May 2020 and approved by all the members present. As established by regulation 14(2), a copy of the profit and loss account, balance sheet and auditor's report were submitted to the MFSA.

Funds allocated to meet expenditure

As per regulation 7(6) of the Regulations, a sum not exceeding 5 per centum of the total amount of contributions payable to the Fund was kept at the disposal of the Management Committee to meet ordinary expenses incurred by the administration of the Fund. The Committee determined that part of the interest generated from investments during the year could be allocated for this purpose and therefore regulation 7(6) would not be invoked.

IV. Issues considered by the Management Committee

Investment strategy

The Fund's sub-committee coordinated with Lombard Bank Malta plc, the Fund's Investment Manager, on matters relating to the Fund's investment services requirements.

In 2020, the Fund's cash was invested in Malta Government Stock, Treasury Bills and/or placed in term deposit accounts.

The Investment Management Agreement with Lombard was renewed in December 2020. The Management Committee has requested Lombard to amend the Agreement.

Payment of claims

In so far as Part III of the Regulations is concerned, no claims were paid by the Fund in or for the year 2020.

V. Motor Insurers' Bureau (MIB)

In so far as Part IV of the Regulations is concerned, the following is a general overview of the issues discussed and handled by the MIB in 2020.

Claims handled by MIB

Number of outstanding claims submitted to MIB before 1 January 2020:

84 pending claims (plus another 32 in respect of Government vehicles claims);

Number of new claims submitted to MIB during 2020 (01-01-2020 - 31-12-2020) in respect of:

a) 23 uninsured vehicles: (7 of which were Government claims).

b) hit & run cases: 5

Amount paid during 2020 in connection with the new claims submitted during 2020 (item 1 above):

a) uninsured vehicles: €2,500 (€70.00 payments in respect of Government vehicles claims).

b) hit & run cases: NIL.

Scanned with CamScanner

Total amount outstanding in connection with the new claims submitted during 2019 (item 1 above):

a) uninsured vehicles: €55,300 (out of which €7,400 in respect of Government vehicles claims).

b) hit & run cases: €17,500.

Total amount paid in 2019 in connection with claims submitted before 2019:

a) uninsured vehicles: €25,750 (plus another €2,050 in respect of Government vehicles claims).
b) hit & run cases: €10,800

As at December 2019 the Bureau had 72 pending claims with a claim reserve of €1157,500 (inclusive of Government Vehicle claims)

VI. List of contributors in relation to Part III of the Regulations (2020)

General Business

- AIG Europe S.A
- Argus Insurance Company (Europe) Ltd
- Atlas Insurance PCC Limited
- Axeria Insurance Limited
- BUPA Insurance Ltd c/o GlobalCapital Health Insurance Agency Ltd , Gzira
- Citadel Insurance plc
- Elmo Insurance Ltd
- GasanMamo Insurance Limited
- International Diving Assurance Limited
- Lloyd's Malta Limited c/o Lloyd's Malta Ltd
- Mapfre Middlesea Insurance plc
- Multi Risk Indemnity Company Ltd
- Nissan International Insurance Limited
- Societa Italiana Assicurazioni e Riassicurazioni Spa (SIAT)

Long Term Business

- Citadel Insurance plc
- GlobalCapital Life Insurance Limited
- HSBC Life Assurance (Malta) Limited
- Mapfre Middlesea Insurance plc
- Mapfre MSV Life plc
- Zurich Assurance Ltd

Dr Joe Borg Bartolo
Chairman – Protection and Compensation Fund
Attachment: Audited Financial Statements of the Protection and Compensation Fund as at 31 December 2020

Scanned with CamScanner