PKF Malta

Captive Insurance

What It Is and Why Global Businesses Should Consider It

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A captive insurance company, commonly referred to as a captive, is a structured form of self-insurance, established as a wholly owned, licensed insurance or reinsurance entity by its parent company. Captives enable organisations to exercise greater control over risk-related expenditures. They can also address coverage gaps that arise in a challenging insurance market. Furthermore, captives provide a mechanism for building reserves to address risks that are complex, specialised, or otherwise costly to insure through conventional channels.

Although captives first appeared in the 1950s, they gained popularity in the 1980s, often for tax benefits. Since regulatory changes, however, their role has shifted back to being primarily a risk management tool. A captive's main purpose is to lower a company's overall cost of risk. It may function as part of a multinational insurance program, focus on local exposures, or operate purely domestically. Their structure and coverage are flexible, tailored to the parent company's needs.

While traditionally used by large corporations, captives have become more accessible to small and mid-sized businesses through structures like protected cell companies, widening their reach beyond global multinationals.

Malta as a Captive Insurance Domicile

The Maltese captive insurance market was established in 2003. As of 2023, it has been recorded that there is a total of 57 non-domestic insurance companies and captives [1]. Given Malta's EU membership, Maltese captives are entitled to single passport rights, enabling them to operate across all EU/EEA countries under a single license.

Captive insurance companies in Malta must maintain their own funds at least equal to the applicable minimum guarantee fund, which varies by business type:

- **Reinsurance captives:** €1.2 million
- **General business captives:** between €2.5 million and €3.7 million, depending on the class of business (with the higher requirement applying to liability business)
- **Life insurance captives:** €3.7 million

[1] Ian-Edward Stafrace (2024, October)," Malta's insurance protected cells unlock EU & UK markets", refer to: https://bit.ly/4nn4jDb

Protected Cell Companies (PCC)

In 2004, Malta became the only full EU member state with Protected Cell Companies, "PCC", legislation. A PCC, which is also often referred to as a "segregated portfolio companies", is a single legal entity comprising of a core and multiple independent cells, each with separate assets and liabilities. This model is particularly attractive for captives, which often face significant resource and capital demands in their early stages.

PCCs in Malta offer a variety of advantages, such as:

- **EU Market Access** - Malta's PCCs are the only PCCs in the EU that can directly access the EEA market, lowering fronting costs.
- **Cost Efficiency** - Cells often prove more affordable than standalone captives, especially within the EU, where shared compliance under the PCC structure reduces costs.
- **Capital Efficiency** - Under Solvency II, cells are recognised as ring-fenced funds. Individual cells have no minimum capital requirement; obligations apply at the overall PCC level. Owners generally contribute only the solvency capital requirement for their own cell, which is far below standalone insurer thresholds.
- **Legal Protection** - Assets of one cell are legally protected from the liabilities of other cells or the core.
- **Operational Flexibility** - Some PCCs host direct third-party or consumer insurance products, with cores often capitalised well above regulatory minimums

PCC growth in Malta can be seen to outperform standalone company formations. In 2022, a total of 14 Protected Cell Companies and 77 cells were recorded.[2]

[2] John Stivala (2023, September), " Malta – The EU Domicile for protected cell companies", refer to: https://bit.ly/4oAIJMw

Legal, Regulatory and Business Environment

Maltese regulation and its insurance market have been adapted to both support the development of captives and ensure compliance with EU standards and requirements.

The Insurance Business Act and The Insurance Distribution Act (Cap. 487) form the cornerstone of Malta's insurance and reinsurance framework. Together, they provide a solid legal foundation that balances adherence to EU regulations with the flexibility to accommodate innovative structures such as Protected Cell Companies (PCCs).

The Malta Financial Services Authority (MFSA) serves as the jurisdiction's regulatory authority. It is widely regarded as a credible and approachable supervisor and is an active member of the European System of Financial Supervision, working alongside the European Insurance and Occupational Pensions Authority (EIOPA), the European Banking Authority (EBA), and the European Central Bank.
Key benefits for insurance companies in Malta include:

- A pro-business regulatory environment
- Access to the EU through passporting rights
- A broad network of Double Taxation Agreements
- Relatively lower operational costs compared to other EU domiciles
- An experienced, English-speaking workforce and established insurance management sector

Like other EU states, Malta follows the Solvency II Directive. This directive has been effective since 2016 and is the first common supervisory framework in the EU. Solvency II aims to harmonise insurance regulation across Europe whilst simultaneously introducing risk-based supervision, high standards for risk management, and consistent consumer protection. However, it has also increased regulatory complexity and compliance costs.

Moreover, from an accounting point of view, although IFRS 17 has been introduced for insurance companies in Malta that apply IFRS, local rules have also been issued to govern the accounting treatment of certain insurance entities, including captive (re)insurers.

These rules permit captives to opt for the General Accounting Principles for Eligible Entities (GAPEE) which is a local accounting framework, instead of applying IFRS 17.

Attractive Tax Framework

Malta operates a full imputation system of corporate taxation, recognised by the EU under both the State Aid rules and the Code of Conduct for Business Taxation.

- Captive insurance undertakings, like all Maltese-incorporated companies, are subject to the standard corporate income tax rate of 35% on their profits.
- When dividends are distributed, shareholders may claim a refund of up to six-sevenths of the tax paid, depending on the source of income, reducing the effective tax rate to around 5%.
- Malta's fiscal unity regime allows companies within the same group to offset profits and losses for tax purposes. Under this system, the group pays tax only on the combined taxable profits, generating further efficiency and cash flow benefits.
- Additionally, Malta has concluded over 75 double tax treaties with jurisdictions worldwide. These treaties facilitate cross-border operations by reducing withholding taxes on dividends, interest, and royalties, and provide mechanisms for eliminating double taxation.

Together, these features provide a highly efficient, EU-compliant structure, giving captive insurers both fiscal flexibility and regulatory credibility.

Malta has introduced a new optional 15% corporate tax regime through Legal Notice 188 of 2025 – the Final Income Tax Without Imputation Regulations, 2025. Under this system, companies, bodies of persons treated as companies, and certain trusts may elect to be taxed at a flat final rate of 15% on their chargeable income, as an alternative to the traditional full imputation system. Profits taxed under this regime are allocated to a Final Tax Account (FTA), and distributions from this account carry no shareholder refunds. Once elected, the regime must be applied for a minimum of five consecutive years, offering a simplified and transparent approach to corporate taxation.

The new regime aims to streamline Malta’s corporate tax framework and provide a more predictable effective tax rate, aligning with international tax developments such as the OECD’s Pillar Two rules. It may particularly benefit companies seeking administrative simplicity or wishing to avoid the shareholder refund mechanism. The 15% tax is final, subject to a safeguard ensuring it is not lower than the effective tax under the current system. The rules apply from the Year of Assessment 2025 (income year 2024 onward), with elections made by notifying the Commissioner for Tax & Customs.

About PKF Malta

PKF Malta provides a broad range of services to organizations in both the private and public sectors, tailored to their specific needs. Our approach combines technical expertise with local insight. Our clients value our sound business judgment and disciplined application of specialized skills, ensuring both quality and cost-effectiveness.

Fundamental to our business philosophy is the harmonising of our services to provide the most effective solutions for our clients' businesses. Our professional consultants, across all disciplines, are skilled in working together to deliver integrated results.

A wide range of services allows us to provide clients with constructive and proactive advice from the inception of an idea, through its establishment as an operation, its growth and expansion, to the eventual realisation of capital. Specialists in each area enable us to provide clients with the best advice in a timely manner, thereby enabling them to take full advantage of opportunities arising.

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