



Malta

STRATEGY FOR FINANCIAL SERVICES

2023



GOVERNMENT OF MALTA
MINISTRY FOR FINANCE
AND EMPLOYMENT

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“Today Malta’s capabilities are influenced by this cultural DNA”

ABSTRACT

Malta’s history has been steeped in centuries of trading and negotiating with multitudes of civilisations. This fostered a culture of hard work and flexibility.

Today Malta’s capabilities are influenced by this cultural DNA. Many of the island’s advantages are enabled through this ethic while a strategic location, sound infrastructure and an outstanding digital backbone build the island’s advantage.

Malta is a competitive Financial Services jurisdiction committed to dialling up its capabilities to truly deliver on the vision presented in this strategy.

Malta Financial Services Advisory Council.

Foreword

The Malta Financial Services Advisory Council (MFSAC) was formed in 2021 in part to develop a long-term strategy for the Financial Services sector in Malta.

The island’s success in Financial Services in the last three decades has been marked by strong performance and foreign investment, adding some €1.2 billion in terms of Gross Value Added to Malta’s economy. The sector facilitates trade and investment and drives employment in the country, forming part of the island’s bedrock. As such, given its critical nature to the Maltese Islands, this strategy has identified over 175 substantive initiatives which would refocus energy, investment and growth into this sector.

This work represents a unique process: it was initiated by Government, with full and active participation from both the industry and the regulators. This will ensure that the strategy will be supported by all stakeholders through its full implementation, without which it would never achieve its full potential.

Well over 100 professionals actively invested their time and effort, working together to create specific strategies to address key opportunities and mitigate evident weaknesses. We are grateful to them all. In addition, a broad spectrum of stakeholders has been consulted, both across the industry as well as political perspectives.

This is an ambitious objective for Malta. While all arms of Government, the private sector and the regulators have worked hard together to get to this stage, these strategies will demand even more effort, investment and effective collaboration to be seamlessly put into practice. It is crucial to have clear and achievable targets: it would be all too easy to underestimate the task at hand, or to be so overwhelming that the work will not proceed to full implementation.

Beyond this strategy, this is a period of substantial change within the industry both globally and within the European Union, whether we are considering economic undercurrents or policy direction within the industry. Taxation, regulation and compliance are all areas where Malta will shift to further align with these directions in the context of financial services. We see this strategy as the best way to prepare the island to be in a strong and competitive position for success in this new environment.

Finally, a strategy can only be successful if it is able to look itself in the mirror and address its weaknesses. The process adopted in drawing up the strategy ensured that appropriate solutions were found for any current weaknesses identified. Eliminating bureaucracy, harmonising regulation, simplifying applications, and leveraging technology to drive compliance and transparency: these are all critical enablers embedded within the strategy.

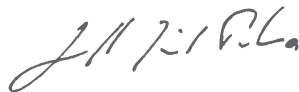
Looking forward, we envisage the strengthening of the alignment and a shared vision across Government and the private sector as well as across government entities themselves. It is through agile relationships and the deployment of cutting-edge underlying technologies that Malta can effectively respond to the rapidly changing global dynamics and emerging challenges and opportunities.

We are confident that through its implementation, this strategy will continue to further strengthen the island’s strong track record in Financial Services and serve to propel the sector into the future.



CLYDE CARUANA

Minister for Finance and Employment



JOSEPH ZAMMIT TABONA

Chairperson: Malta Financial Services Advisory Council

“The sector facilitates trade and investment and drives employment in the country”



Introduction

Malta has a long and rich history in providing financial services since the time of the Phoenicians within the Mediterranean. Its past has been steeped in centuries of trading and interacting with multitudes of civilisations. This has fostered a culture of hard work and flexibility.

Today, Malta’s capabilities are influenced by this cultural DNA. Many of the island’s advantages are enabled through this culture, complemented by a strategic location, sound infrastructure and an outstanding digital backbone.

As a full member of the European Union, supported by over 80 double taxation treaties, and comprehensive regulation and supervision, Malta offers a secure and compliant jurisdiction for Financial Services. Malta’s direct application of EU regulations and transposition of financial services directives enables the possibility of trans-EU product development and passporting. This provides access to the EU market, the world’s largest trading bloc, which in 2021 produced €14.5 trillion worth of goods and services. In addition, numerous Memoranda of Understanding have also been entered into with non-EU counterparts.

Economically, Malta is one of the top performing EU jurisdictions, with projected real GDP of €16.2 billion and expected to have the highest growth rate within the EU forecasted at 6.2%, coupled with relatively low inflation in comparison to the rest of the euro area at 5.9%¹.

The Rationale for Malta’s new Financial Services Strategy

Over the past 30 years, Malta has built a strong, performance-based Financial Services industry, attractive to a multitude of global players and providing a trusted and stable base for business.

Malta has been no exception in facing challenges. In response to the Financial Action Task Force greylisting in July 2021, Malta responded with urgency, resulting in it being removed from the greylist by June 2022. This was only possible because of the determination to identify the weaknesses which led to the greylisting in the first place, and to take decisive actions before the reputational damage spread further. Moreover, the collaboration across all stakeholders, from Government to regulators and the sector participants was a critical enabler in ensuring a strong outcome.

We realise, however, that this is not enough to make Malta a strong jurisdiction in a global and competitive environment. The island’s capabilities have been overtaken by countries that have leveraged smart technologies to build competitive advantage. While Malta retains strong fundamentals, we see the opportunity to target a new era of digitally enabled financial services and to re-assert Malta’s presence in a globally competitive marketplace from a unique European perspective.

The pandemic and the current geopolitical instability as well as the massive changes that FinTech and

technology in general have introduced to business are transforming the way business is done, both within legacy institutions as well as across emerging actors in Financial Services. This sheer tsunami of change requires different collaborative responses at all levels, both within enterprises as well as within the public sector, not to mention the impact it will have on regulatory and policy approaches.

The objective is to further strengthen Malta’s position and performance in a professional and regulatory compliant manner, creating a digitally enabled, easy to use financial system; this will drive this sector’s growth and, as a result, spur growth in other areas dependent on this sector.

The Importance of the Financial Services sector to Malta

In Malta, the financial sector has grown consistently and rapidly during the past few decades and in particular since membership in the European Union (EU) in 2004.

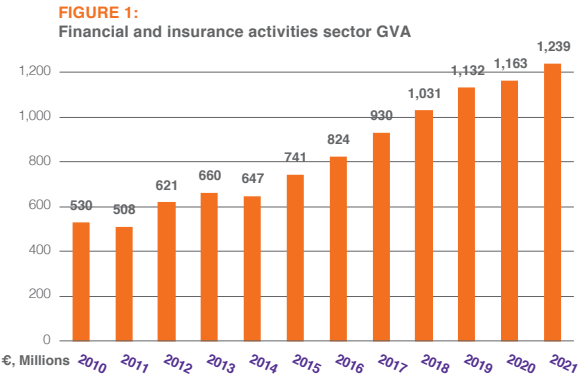
In terms of Gross Value Added (GVA), the industry contributed €1.24 billion to the Maltese economy² in 2021 and has grown at a compound rate of 8.3% since

SOURCE:

- 1 IMF Statistics <https://www.imf.org/en/Countries/MLT> referenced as USD 17.2 Billion
- 2 The data in this section is sourced from “The Contributions of the Financial Services Sector to the Maltese Economy,” Economic Policy Department Ministry for Finance and Employment, January 2023

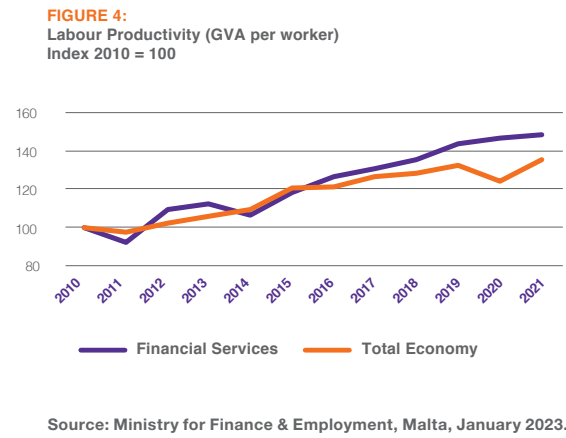
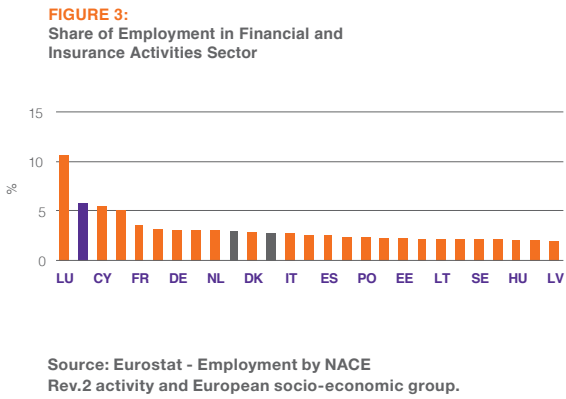
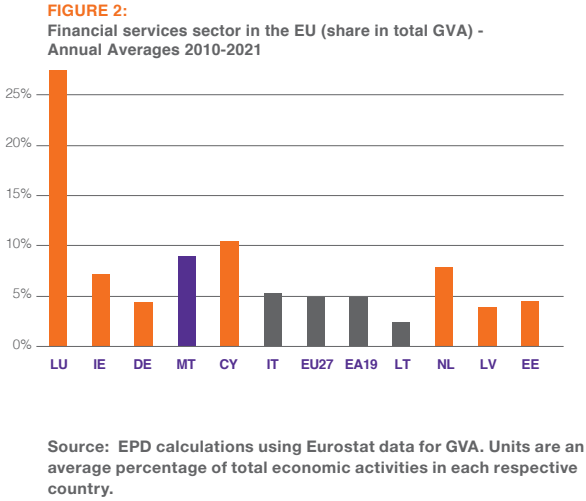
2010, with a 2021 sectoral share of 9.1%, making it the sixth largest sector in the Maltese economy. Such data compares favourably with a many of Malta’s European counterparts, incrementing the competitiveness of the Maltese financial services sector. Employment in the sector stood at 13,568 as at December 2022 with consistent improvements in labour productivity over the past decade. Other than Luxembourg, Malta’s share of gainful employment in the Financial and Insurance sectors, at 5.3%, is the highest of the EU 27.

The output multiplier effect for Financial Services is at 1.04 for Type I (direct and indirect effects taken together) whereas the Type II multiplier, which adds induced effects, is at 1.24. While small in terms of impact, this is a category that has significant leakage especially since financial services represent over 29% of service exports.



Source: EPD calculations using NSO data for GVA (NSO Releases 142/2020, 037/2022 and 218/2022).

Between 2010 and 2021, activities falling within the scope of financial and insurance activities sector, on average, amounted to a share of 8.9% of GVA; thus, constituting the sixth largest sector of the economy during this period. Indeed, as depicted in Figure 2 the share of sector K within GVA have been relatively maintained over the 12-year period under review, fluctuating between 8.3% and 9.7% of total GVA.



The sector is not without its challenges and this strategy is a critical way to rebuild momentum and take the sector to the next level of operations, crucial for the future sustainability of the island.

Malta’s Financial Services Sector today

The last three decades have seen Malta build its financial services offer through a focus on ground-breaking legislation, a regulatory regime that ensures high degrees of consumer protection without stifling innovation, and a service ethic that is second to none. Going forward, the country intends to focus on being an attractive and effective domicile across multiple verticals in financial services and is constantly seeking responsible growth in this sector.

CREDIT RATINGS	RATINGS	OUTLOOK	DATE
MOODY’S	A2	Stable	NOV 2022
FitchRatings	A+	Stable	NOV 2022
S&P Global Ratings	A-	Stable	SEP 2022
DBRS	A High	Stable	JUN 2022

Malta took determined and decisive action to exit from the FATF’s greylist. This systemic action to address all areas of weakness identified will serve to bolster the financial system’s ability to protect itself from the agents of financial crime head on and, through this strategy, will further develop the robust underpinnings of a futureproof financial system that more than delivers on its compliance and regulatory requirements.

In fact, the overhaul of the country’s compliance infrastructure and the strengthening of all its preventative mechanisms creates the opportunity to export Malta’s high standards abroad, especially as the Single Rulebook for financial services emerges within the European Union. These open up opportunities in RegTech that Malta can leverage both for the local and the international market.

As a member of the European Union, companies with financial products authorised in Malta can passport their offerings to all other EU countries, granting access to the full EU market, maintaining investor confidence in EU compliant regulatory standards while concurrently managing costs.

At present, and based on most current figures, Malta has over 500 investment funds with over €17 billion in assets under administration domiciled in Malta, with Maltese investment management companies overseeing over 200 additional funds domiciled in other jurisdictions having a net asset value of over €5 billion. Based on figures from the Maltese regulator for financial services, the Malta Financial Services Authority (MFSA), Malta has 21 credit institutions, a total of 52 financial institutions of which 38 provide payment services and 24 of which are authorised to issue electronic money³. On the insurance front, Malta has 71 active insurance licences, including 17 Protected Cell Companies with 73 protected cells and 10 enrolled insurance management companies. The Island has over 550 practising insurance intermediaries as either managers, agents, brokers or tied insurance intermediaries. Malta also hosts extensive business service providers, including over 300 registered Company Service Providers³ and a representation of all of the top international audit and advisory firms as well as a strong cadre of local, internationally affiliated law firms with specialist departments relating to financial services.

With regards to Virtual Financial Assets, Malta has been a global frontrunner in terms of creating a comprehensive legislative framework to regulate operators offering services in this sector as early as 2018. Currently Malta has 11 VFASPs licenced in Malta having over Euro 6.6 Billion assets under custody.

Malta’s Rankings, Digital Economy and Innovation

Although Malta had experienced a decline on some global rankings relevant to financial services, current performance is both encouraging and reflective of Malta’s commitment to the sector. As examples, Malta’s rating in the Global Financial Centres Index improved by 67 points, moving the jurisdiction up 27 places to rank 63rd. While a material improvement that puts Malta ahead of Cyprus and Liechtenstein, the rankings suggest that Malta still has much to do to reach the top quartile of these rankings⁴.

Overall, Malta’s performance on key innovation indicators is excellent with Malta ranking first within the EU for E-Government Services⁵. In addition, Malta’s performance is further substantiated through the Digital Economy & Society Index, where it ranked as the 6th most advanced digital economy within Europe, after Finland, Denmark, the Netherlands, Sweden and Ireland⁶.

3 MFSA Statistical Tables, Q3 2022 issued by the MFSA inclusive of both entities and individuals

4 <https://www.caproasia.com/2022/09/24/the-2022-global-financial-centres-index-32nd-edition-full-ranking/>

5 European Commission eGovernment Benchmark Report, 2021

6 DESI 2022 <https://ewropa.mt/funding-opportunities/latest-opportunities/digital-economy-and-society-index-desi-2022/> and file:///C:/Users/pierm/Downloads/DESI_2022__Malta__eng_pvWCYwnOA2nQGQ4nJ0r5yg_88716.pdf

Malta ranks 27th in WIPO's Global Innovation Index, 2021⁷, an extensive study based on roughly 80 indicators grouped around innovation inputs and outputs. In this latter study, Malta performs well both against high-income group economies as well as regional competitors, with strengths in infrastructure, business sophistication and creative outputs. Moreover, it is making progress through the transposition of the EU insolvency directive to ease issues relating to insolvency. However, it remains weak in market sophistication with issues highlighted in areas relating to access to credit, domestic market potential for scale and labour productivity growth. With the exception of domestic market size, these are all factors that are part of the current strategy.

At present, Business First[®], which has been developed as a first portal for those looking to start a business in Malta, is in the process of further expanding its services, bringing together the services of 38 government and regulatory entities under its electronic single point of contact. Anchored by a philosophy of a single point of data capture for small and medium enterprises and start-ups, this approach will benefit both the financial services strategy as well as those providers looking to set up in Malta.

A Strategic Policy framework

The impressive performance of the sector can, in part, be attributed to a consistent policy approach shared by successive Maltese Governments to develop this industry. The drafting of innovative legislation, effective government agencies and consistent decisions has made Malta an attractive destination for foreign investment in Financial Services.

In addition, there is recognition that the pace of regulatory and compliance changes has and will continue to accelerate, and that this must be incorporated into the tools and technologies developed to facilitate this industry.

This strategy will cover all aspects of this industry sector and, as such, will directly address the key aspects of policy — including regulation, adherence mechanisms, legislation, enforcement through the application of fines and other measures — to ensure that Malta's financial services operators operate at the highest possible standards globally.

The Approach to Strategy

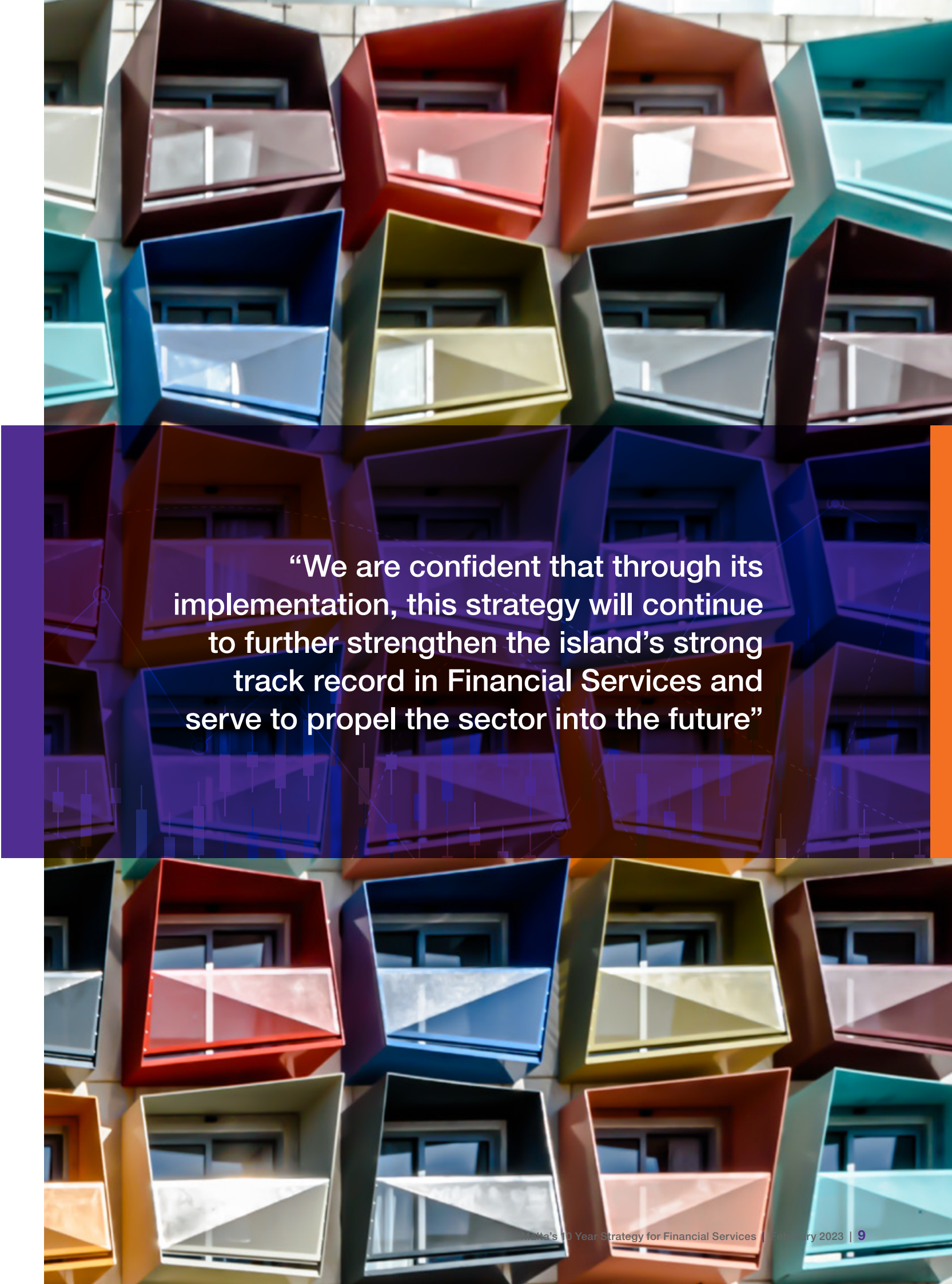
At this stage of maturity, Malta's approach to strategy is very much focused on building trust that the country, its leaders and its operators are further looking to pre-empt operational shortcomings and challenges, and are focused on competing on a sound and innovative foundation.

The strategy follows a two-step approach for the sector which would build up Malta's long-term, outward-focused efforts to strengthen its international appeal and draw additional investment into the sector.

As such the first step is to **Strengthen & Renovate:** in this context, the industry needs to, in earnest, directly address the foundational opportunities and weaknesses that will create a future-proof basis for credibility and sustained performance. This step will need to address the regulatory environment, including transparency of service levels as well as compliance expectations, agency responsiveness, consistency in handling irregularities and enforcement, and legislation and operating processes, across all agencies, regulators and in-market operators. Concurrently, opportunities for new financial products in niche areas of interest will be pursued, supported by innovative legislation and clear regulatory guidelines to ensure a strong foundation for the next stage of development, to further enhance Malta's credibility and reputation as a financial centre.

Extend & Expand: once Step 1 above is in place, Malta will seek to more actively attract Financial Services-related FDI, by attracting significant players as well as new entrants to the sector to base all or part of their business in Malta. Step 1 will ensure that the ecosystems are in place to effectively a) appeal to these businesses, b) sustain them and c) support them to grow and flourish.

7 WIPO International Innovation Index 2021 MALTA (wipo.int)
8 Home (businessfirst.com.mt)





Malta's Vision for Financial Services and its Strategic Priorities

The Vision

The long-term vision is for Malta to be recognised as a competitive, secure and credible jurisdiction for Financial Services that excels in innovation and responsiveness through a nimble and joined-up regulatory framework and a robust technology foundation.

The Strategy

As articulated in 'The Approach to Strategy' section above, the strategy recognises that much needs to be done to enable the vision to become a reality. With that in mind, the initial stages of strategy are outlined by the statement below.

Malta will seek to significantly and measurably improve its service delivery and brand experience against key indicators by leveraging a strengthened and reinvigorated foundation as a Financial Services destination and a home for innovative FinTech applications.

The key drivers that will support this vision are:

1. **Speed:** delivered through efficiency permeating all aspects of servicing, licensing, regulating, implementing and supporting, as well as bolstering the underlying technology systems and infrastructure.
2. **Standards:** innovative legislation, clarity and defined standards for all agencies and regulators, consistency in compliance and handling of irregularities, and transparency in all areas.
3. **Simplification:** logical and standardised business processes that are technology enabled for ease of use, seamless workflow and aligned entities.
4. **Specialisation:** identifying specific areas where Malta can have a competitive advantage and developing an ecosystem around fully servicing these areas.
5. **Sustainability:** the strategy is one that the island, including Government, industry and all stakeholders, are committed to deliver on and realise. It needs to ensure that it is both realistic, in terms of recognising

today's realities, challenges and weaknesses, as well as positively aggressive, with a commitment to address the issues and opportunities in an agile, committed and focused manner.

The Strategic Priorities

There are key strategic thrusts that underpin this change effort and are at the forefront of each of the key initiatives, supporting the strategy, regardless of sector or focal point.

STREAMLINE REGULATION: This thrust consists of an effort to align and integrate to the largest extent possible Malta's regulatory institutional architecture across the MFSA, Malta Business Registry (MBR) and Financial Intelligence Analysis Unit (FIAU) to facilitate timeliness, consistency, proportionality and certainty across all processes, including approval, compliance, supervision, regulatory adherence and enforcement. In addition, sector specific guidance from the regulators will also be streamlined to enable a more consistent approach throughout each sector.

STANDARDISE PAYMENTS: Leverage work already initiated on the Central Bank Payments Hub to create a more efficient national system of money transfers, with greater transparency over end-to-end funds flows, increasing security and simplifying linkages with other international payment hubs and systems.

CONSOLIDATE IDENTITY: At a time of heightened security and anti-money laundering regulation, it is essential for Malta to facilitate due diligence processes via a consistent and foolproof identity system that captures shareable data, ensuring consistency and a single point of reference to be shared by entities doing business in Malta with subject persons.

MODERNISE TAXATION: Use technology to design a tax system better able to limit abuse and facilitate effective enforcement, with a focus on simplification and driving compliance. Identify further opportunities for simplified and reduced tax rates to drive up participation and develop a culture of voluntary compliance.

REFORM FINANCIAL LAW: A critical requirement is the transformation of the legal framework relating to Financial Services and the renewal of existing practice to make it consistent with today's economic and commercial requirements, including corporate, commercial and bankruptcy law, and the administrative enforcement framework.

BUILD TALENT: Talent is an essential underpinning for success, especially given the tight labour market and the skill base required by the industry. Solving this challenge requires both short-term and longer-term solutions with active roles for Government and the private sector.

Strategic Thrusts

There is no doubt that all this is doable with the right focus and commitment from all stakeholders who recognise the strategy’s importance to their success.

From a **regulatory perspective**, Malta can effectively **integrate** its regulatory **institutional architecture and systems**. The aim is to establish a seamless and more efficient set of identity management and regulatory processes, legislative measures and data architectures across all agencies and regulatory bodies. This will facilitate coordination and transparency in an increasing complex regulatory and compliance environment. There are clear roles for the MFSA, the FIAU, the MBR and other regulatory bodies, as well as the Central Bank of Malta that will have a direct and positive impact on the sector.

To be successful, Malta’s regulatory regime needs to move away from heavy reliance on individuals and their varying levels of expertise and interpretation, especially given the challenges to recruit competent and trained people, to an approach anchored in consistent and defined processes, where the actions, steps and standards are clear, consistently applied and with meaningful consequences that are known by the regulator and the regulated alike.

Moreover, technology can become a leverageable competitive advantage in several core areas that will drive compliance and regulatory adherence and efficiency for every single private operator as well as the regulators, ensuring less costly compliance, more accurate and transparent reporting, an improved user experience, and greater efficiencies overall. **Sustainability is the key to long-term success.**

In that context, Malta will **develop notable centres of excellence** in focused areas. These need to be credible and supported with breakthrough operations that leverage Malta’s inherent advantages —especially size, technological savvy, language skills and access to decision makers— in a way that not only makes the experience a uniquely positive one, but also ensures that the transactional and operational aspects of the business are hyper efficient, secure and appropriately meet all regulatory expectations. FinTech and Artificial Intelligence (AI) are good examples of Malta’s potential in terms of the development of Centres of Excellence. The strategy focuses on supporting Maltese citizens and businesses to access substantially better financial service offerings relative to the legacy options available and, also, to drive investment and employment into a Malta-based sector that can be developed locally and scaled internationally.

In addition, there are market gaps within the EU that Malta can target, such as specialty products or services. One good such example is the provision of pension plans for multinational corporations with cross-border employees, a particular niche where Maltese firms can excel.

Standardisation and centralisation of key infrastructure is essential to ensure a simpler and more effective compliance to international regulatory requirements. An example of this is evident in Malta’s payments infrastructure where competitive and proprietary solutions are currently being deployed.

Taxation is an essential area for consideration. Taxation has historically represented one of the salient tools to attract FDI to the Maltese islands. Taxation must not be the primary driver for locating a business in Malta, but it will continue to be a supportive element, among many others,

which will define the value proposition underpinning the decision to invest in Malta. The modernisation of Malta’s tax system to make it simpler, fairer and technology enabled, has been identified as a key enabler of this strategy — and should also provide an effective boost to the economy as a whole. All efforts in this area will be driven by long-term objectives and Malta’s commitments at both European and global levels.

Education is also the key to success. Malta must more aggressively address the challenge of building up a more educated workforce with foundational financial, linguistic and IT skills who can be upskilled to meet the requirements of the sector. The current need is dire and programmes at various public and private institutions, including MCAST, the University of Malta and other accredited institutions need to be ramped up in order to prepare students for careers in Financial Services. In addition, Malta needs to be more efficient and effective when it comes to importing and retaining skilled labour.

Finally, a **nationally coordinated communication strategy**, firmly grounded in a strong fact base and an evident will and focus on change, is essential to promote elements such as good governance, measured growth and a focus on key areas of sustained capability where the island’s proven track record allows it to stretch towards new horizons with a tangible and credible plan. Only through such a concerted and focused effort, will momentum shift in Malta’s favour in the near future.

Measuring Progress

There are multiple measures of success for this strategy and these need to capture all of the key aspects of the sector’s performance in the market. Importantly, internal

and operational indicators are just as critical as overarching macro indicators that measure the overall health of the industry. Moreover, the multiplier effect on the overall Maltese economy cannot be underestimated as, although the formal multiplier is relatively low at 1.4, the prospects of all of Malta’s international business ventures rests on a strong financial services foundation.

Implementation of the strategy will be program managed with the key project leads reporting their performance to the program steering committee and respective program sponsors. This will ensure that a strong program governance framework is in place from a stakeholder reporting and implementation perspective. The strategy teams themselves will remain active throughout the period of the program, ensuring that the strategy is being implemented to full effect and that the benefits identified are realised. In addition, progress against these objectives will be communicated broadly, ensuring sustained momentum.

While imperfect, comparative, internationally recognised rankings for Financial Services are an important benchmark for the industry. Beyond these, Malta also needs to measure in detail its relative performance when compared to other European jurisdictions with similar characteristics, by identifying effective niches in which it can excel. Each jurisdiction has unique elements that makes it especially attractive and effective in terms of Financial Services. Detailed benchmarking against the best in class is an important way to ensure that Malta not only improves, but also leapfrogs ahead of some of these countries in strategically identified niche areas.



Industry Verticals

The original teams that developed the strategy were structured around five industry verticals, namely Banking and Payments, Capital Markets, Insurance and Pensions, Wealth / Asset Management and Fintech.

Each of the verticals is outlined below with the exception of Fintech, which is dealt with in the Implementation section of the strategy.

Banking & Payments

With Malta’s accession to the European Union and increasing growth and affluence, the banking sector has flourished over the past 20 years, with the island hosting 22 licensed credit institutions, up from four at the start of the millennium, as well as 52 financial institutions.

Even with such a rapid influx of financial services providers, the sector remains ripe for change, with a clear need for more global financial institutions providing project finance, investment capital and custodian services.

In addition, the current emergence of FinTech has meant that many of the legacy banks need to expand their service offerings and become more innovative to be able to both service and compete with these new players. Malta’s jurisdictional, idiosyncratic factors and the current point in time in our strategic development phase add a level of complexity.

As such, the island’s strategy in this vertical needs to encourage the transformation required to better support all players in the market and further enhance the development of the sector.

Strategically, this sector comprises the activities of banks (credit institutions), payment services institutions, electronic money issuers and several other categories, including technology entities and hybrid institutions as well as industry-led organisations with a role or function in the payments space. Banking models are also expected to adapt further to digital banking trends and to develop in specific areas such as sustainable finance, among other thematic areas.

These sub-sectors are expected to be subjected to more enhanced regulatory pressures but also heightened consumer expectations in terms of user experience and selling propositions.

The strategic imperative for banking and payments

Over the years, Malta had constructed a robust, nimble but low-key proposition: an effective jurisdiction which was attracting new entrants within the sector and delivering on its promises.

The jurisdiction’s success in the banking and payments area over the past years was attributable to the sector’s approach to innovation, the stance of the regulatory authorities and their aptitude to consider business angles, the technological impetus within the sector, together with the substance and quality of Malta’s Corporate Service Providers and business professionals in the sector. However, in relative terms, Malta has lost ground on many of these strengths vis-à-vis other jurisdictions and the historical formula for success has been weakened. This is the right time to invest – financially, technologically and

from a resource perspective – to renovate our foundations within the banking and payments sectors.

The specific targets identified are: 1) legal framework; 2) regulatory framework; 3) national payment infrastructure; 4) resourcing infrastructure. These are captured in the implementation chapters of this document.

As a jurisdiction, Malta clearly requires more international firms in specific strategic areas such as serving custody/ depositary functions, correspondent banking and payment services. In addition, the country also requires players focusing on the local and domestic offering in specific areas, such as enhancing retail and personal banking.

However, efforts to extend Malta’s footprint should be gradual and at best should be carried out in the medium to long term. At this point in time, Malta’s best point of focus is anchored in retention and renovation of the financial sector’s foundations and will constitute the jurisdiction’s best advert and business card.

Capital Markets

Malta’s stock exchange, the MSE, has been operational since 1992. Since then, it has grown and flourished as a Capital Market - the MSE has over 105 companies listed. Compared to Luxembourg, which has 25 listings, and Qatar, which has 45, Malta’s relative performance is outstanding given both size of market and capital availability.

In addition, the MSE and Malta’s regulatory bodies have created structures and markets for green bonds, real estate investment trusts or REITs, wholesale debt securities and Institutional Securities Markets or ISMs, exchange traded funds or ETFs, as well as a Centralised Securities Depository or CSD. These are in addition to the MSE’s Regulated Main Market for listings of stocks and bonds, the Malta Stock Exchange Green Market, and the Prospects MTF market, specifically targeting small and medium sized businesses looking to raise funds and to scale up.

As a relatively mature vertical pillar of the financial services sector in Malta, the strategy looks to facilitate the application, review and approval processes for issuers in this segment, looking to ensure tangible benefits to both the industry as well as the regulator.

It is essential for concerns regarding the regulatory approach and processes to be addressed in order to improve and grow the local capital markets. Given the increased requirement for regulatory compliance driven by EU and global efforts against tax evasion, money laundering and financial crime, any discretion allowed to the country to shape its regulatory regimes should be used so as to ensure that they reflect the nature of Malta-based businesses, and their size, while addressing

in an effective manner the challenges and risks said businesses are exposed to.

A number of strategic initiatives, led by both the regulator, the MFSA, as well as the MSE itself are looking to further strengthen local capital markets. The MFSA’s 2021 Capital Markets Strategy⁹ is one such example. The strategy addresses a number of challenges in local capital markets, including such areas as proposals from foreign issuers or particularly innovative businesses, and for these to be considered favourably for admissibility to listing provided that they satisfy certain criteria aimed at safeguarding investors and the integrity of the markets.

The overarching objective is to create a more holistic approach to the capital markets ecosystem, through more effective rules, risk management and the roles of both investors and intermediaries to protect market integrity. Based on five distinct pillars, the strategy addresses the definition of the Authority’s risk appetite, a revisiting of the regulatory framework, strengthening the sponsors’ regime, further building supervisory capacity and strengthening investor education.

Efforts on this latter point are broad and all encompassing. A good example is the MSE’s international summit on Governance, Risk and Compliance in February 2023. Such an initiative extends beyond education to building Malta’s credibility in this critical area with the intent of building both muscle and reputation in this space internationally.

The actions of these key Maltese institutions are an integral part of this strategy and, together, form the whole span of change that is being implemented to enable a fulsome leap forward on all fronts of financial services.

Many of the changes recommended by the MFSAC have been discussed with and adopted by the MFSA — as well as adapted to its requirements. These recommendations focused on various areas, including the role of the Authority in the primary market, transparency and consistent application of roles and policies, as well as institutional authority and resources to ensure timely and robust vetting of applications, and appropriate feedback and levels of engagement with applicants.

It is, however, crucially important that performance — in terms of consistency and timeliness of regulation — is monitored and openly discussed. This will be done by a task force which will ensure that this segment is operating at its most efficient for both the operators and the regulators.

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Implement a standing specialist capital and financial markets task force

MFSAC

An ongoing task force has been set up, focused on capital and financial markets involving the Malta Stock Exchange (MSE), the MFSA, the Institute of Financial Service Practitioners (IFSP) and the Maltese Government to actively coordinate and integrate actions across all key players within the ecosystem to maximise impact.

Insurance & Pensions

Malta is a respected and successful insurance jurisdiction recognised for its robust regulation, competitive operating costs and innovative structures, particularly its Protected and Incorporated Cell Companies. These provide companies with a cost-effective, ring-fencing mechanism instead of having to set up multiple stand-alone companies to manage risk. In addition, thanks to passporting, Maltese licences allow companies to write insurance business in any other EU country, expanding market reach. Finally, the MFSA’s recognition of the growing importance of insurance-linked securities, as well as the links between reinsurance and capital markets, ensures that Malta’s regulatory regime reflects these future opportunities.

A number of Fortune 100 companies’ insurance undertakings are domiciled in Malta. As at end September 2022, Malta has 69 insurance undertakings across Life, Non-Life and Reinsurance. The industry has over 370 licensed individual practitioners operating as Insurance Mangers, Agents, Brokers and Tied Intermediaries across 35 servicing companies.

The MFSAC is confident that the industry can continue to thrive as long as the critical underpinnings to the industry’s success to date are maintained and improved, particularly Malta’s international reputation as a credible and trustworthy financial centre. The focus of the industry remains on sectors and operators that are low to medium risk. This would include markets and service providers that are backed up by reputable groups/shareholders and that are also considered low to medium risk by foreign regulatory bodies. In this sense, the focus would be on captive insurers, protected cell companies, reinsurance special purpose vehicles and connected sales insurance companies.

On the pensions front, the MFSA oversees 50 retirement schemes and two retirement funds with 14 scheme administrators, seven registered investment managers, and seven exempted investment managers. Pensions and retirement programmes remain, however, underdeveloped locally and lack both the stimulus and

the explicit incentives for their development. A snapshot of industry confirms this state of affairs with international pensions trustees focused on servicing of ‘non-Maltese’ beneficiary schemes, and only a handful of retirement scheme administrators and life insurance companies offering similar services to local residents.

It is no secret that one of the crucial milestones that Malta needs to achieve is the creation of a proper local second and third pillar pensions industry that adequately supports the statutory pension, which will require both fiscal and regulatory changes. To this end, the recommendations are for a change in policy and mindset to encourage the growth of this market. The Government has, over the past few years, indicated a willingness to encourage Pillar 2 (occupational) and Pillar 3 (private) schemes, however, the current incentives remain insufficient to stimulate consumers to save for their retirement thus relieving pressure on the state system.

The EU has a framework within which occupational pension schemes may attract contributions across borders. Apart from a few large international companies, no companies currently take advantage of this capability. This could be an opportunity for Malta if it is able to leverage the expertise already present on the islands in the Qualifying Recognised Overseas Pension Schemes (QROPS) market and adapt the skills to service pan-European schemes. This could drive substantial benefit and capital to the Maltese market.

In spite of the large complement of expats working in Malta, the industry is under pressure to provide solutions for employers who wish to grant advantageous savings or retirement planning incentives to their employees. Very often, although incentives are often made available to expatriate and Maltese employees, the current pensions regime is not conducive to these types of schemes. The recommendations suggest consideration for ad hoc fiscal (or other) incentives to attract international plans to Malta offering non-pension benefits (such as long-term incentive schemes or end-of-service bonus schemes). These specific recommendations are outlined in the implementation chapter of this publication.

Wealth / Asset Management

Malta continues to focus on building up its asset management portfolio, working to attract both EU and non-EU investors. Malta’s investment industry is one of the largest within the broader financial services sector and continues to develop rapidly. With over 140+ licensed investment service providers at end September 2022, and some 460 Investment Funds with a total aggregate value of almost €18 billion, Malta offers a mature yet growth market in this space. This business is attracted by the country’s strong positioning with fund managers and administrators, a wide range of innovative and flexible investment vehicles, and a relatively lower cost jurisdiction

which remains fully onshore within a regulated and constantly evolving EU market.

Over the years, Malta has established itself as a strong EU jurisdiction for asset managers and investment funds. This has been based on a number of factors that include: the macroeconomic stability of the country; having a diversified financial centre and a comprehensive legal and regulatory framework, catering for various legal structures; and a comprehensive framework for regulated investment funds. Furthermore, as a jurisdiction, an extensive network of double taxation treaty arrangements is in place, and the business community is supported by a skilled workforce, professional service providers and a diverse ecosystem, all of which make Malta ideal for both start-ups and established international entities in this space.

Malta offers a strong range of Collective Investment Schemes (CIS) for both retail investors and non-retail, institutional / professional investors. The regulatory regime is one that allows for both standard offerings, such as UCITs and retail Alternative Investment Funds (AIFs) as well as more flexible vehicles, such as Notified AIFs. In addition, the regulator, the Malta Financial Services Authority (MFSA) is committed to further restructuring and enhancing the authority’s own supervisory lifecycle processes as well as proposing new regulatory frameworks to further develop the asset management sector as well as development of the FinTech market.

However, the sector has undergone many challenges in recent times and it is widely accepted that Malta has been losing ground to other EU jurisdictions. These range from the impact of increased regulatory scrutiny to unprecedented instability relating to geopolitics and COVID-19 as well as the jurisdiction’s own challenges in terms of handling compliance requirements and an increased cost of doing business. As a result, there has been a degree of attrition in the growth of locally domiciled asset managers and funds, recognising the need to directly confront critical issues encountered by practitioners in doing business in Malta. This strategy addresses both these shortcomings as well as the opportunities for growth identified in this sector.

These dynamics are all driving asset managers to rethink the way they are currently operating, including in terms of asset allocation. Against this backdrop, technological innovation and the need to invest in infrastructure tools have come into sharp focus and are increasingly becoming an important competitive element for market operators, both from an operational process and investment perspective.

The strategy makes several specific recommendations for the funds industry which are in the process of discussion and evaluation with the regulatory bodies. It also sets off a clear direction for Investment Services Licence Holders also as part of the overall strategy. These are all topic areas for discussion with the MFSA and key components of the renovation of the asset management offer.



“Industry Verticals
and Horizontal
Enablers combine
to make this
strategy effective”



“Making this Strategy a Reality”

Horizontal Enablers

The strategy also addresses critical horizontal enablers; aspects of the strategy that are cross-cutting and impact the industry as a whole as well as all of the industry verticals within it.

Firstly, in this context, the dependency of modern organisations on their technology, their data and IP, cannot be overstated. This dependency represents a strategic weakness that needs to be mitigated in order for any strategy reliant on technology to be successful.

This risk is clearly recognised at a European level, both within ECB strategy as well as the institutions forming part of the European System of Financial Supervision, with initiatives such as the Digital Operational Resilience Act (DORA) that came into effect on the 16th of January 2023. These seek to strengthen the third-party risk practices, information sharing, ICT incident reporting and risk management, and technology operational resilience in key industry players. This strategy's success is predicated on active engagement between government and the private sector industry to foster a culture of cyber security and digital resilience.

Finally, during the strategy development phase, four core teams were identified to address the following horizontal enablers, namely: **a) elimination of bureaucracy; b) taxation; c) the supply of talent through HR and education; and d) open and sustainable finance.** Each of these areas are addressed in this document either in the Implementation of Strategy section that follows or in the Supporting Requirements section. For example, the initiatives relating to the elimination of bureaucracy are split into three major categories, namely: i) centralisation of identity management; ii) regulatory process digitisation and integration; and iii) law reform and harmonisation.

Implementing the Strategy

The breadth of this strategy is significant with over 175 substantive initiatives identified as key drivers to bring this strategy to life. These vary both in scope, scale and complexity and, as such, fall into different categories when it comes to implementation. Done right, they will truly impact Malta's user experience and take it to the next level.

Of these, 10% of the proposed initiatives are considered to be vital and will require a significant capital investment in multi-year and complex actions anchored by digitalisation throughout the industry in key areas. Most, however, require talent, focus and persistence, as well as collaboration and coordination across multiple entities, to ensure that they are implemented consistently and effectively.

The MFSAC's role will be to ensure alignment and consistency in implementation, and it will remain a forum for open discussion. In addition, given the complex nature of the initiatives themselves, separate Steering Committees have been tasked with the implementation of initiatives or groups of initiatives.

Structuring the Initiatives

The framework supporting the strategy consists of a matrix of initiatives.

Transformational initiatives require coordinated cross-organisational effort across multiple entities, a strong technology foundation, and an investment in capital.

In parallel, simpler, **quick-win initiatives** will be implemented within a relatively quick timeframe (within the year). These often require bilateral engagements across organisations and can be directly managed by the entities themselves. The role of the MFSAC is to support and monitor the performance of each of these improvements.

Finally, once the foundational aspects of the industry have been addressed, Malta can immediately pursue **new opportunity areas** for development. These include developing specific offers and ecosystems for FinTech, Family Offices, Aircraft Leasing and Pensions. Each of these areas will require a careful assessment of required factors to attract and develop the opportunity area, and the legislative innovation and regulatory infrastructure required to ensure success within the risk appetite of the Maltese and EU framework.

Transformational Initiatives

At the apex of the strategy are four truly transformational initiatives that will transform the way that the Financial Services sector operates in Malta. These are the following:

Centralised Identity Management	Digital Payments Hub Infrastructure
Regulatory Process Integration & Digitisation	Law Reform and Harmonisation

Centralised Identity Management / Due Diligence Portal

This critical initiative is being led by the MBR within the Ministry for the Economy, European Funds and Lands and engaging, among others, many of the MFSAC stakeholders.

The objective is to create a digital platform to facilitate due diligence processes via a consistent, foolproof identity system that is standardised, centralised and used by all parties conducting due diligence on identity-related information.

This initiative represents the creation of a transformative and trusted digital platform that would constitute the backbone of identity verification and related due diligence processes for the jurisdiction. The ultimate benefit will be for Malta to fully streamline due diligence processes of any person or entity dealing with Malta thereby facilitating both initial screening and continued monitoring, a competitive advantage over other jurisdictions. This initiative addresses Speed, Simplification, Standards and Sustainability, four of the five key drivers behind the MFSAC strategy.

The system would be permission-based, enabling a consent mechanism for the holders of identity management information to present specific and required credentials when engaging with specific entities which wish to verify their identity.

Immediate scope covers all aspects of identity verification required for access to financial services, bank accounts and the setting up of foreign entities in Malta. Areas of focus could include digital identity; data standards; data accessibility; personal data access and revocation; common API standards; and shared platforms. The initial Due Diligence Portal will focus on sharing this data across government entities and, once validated and fully operational, will be extended to relevant private sector entities requiring this information.

Beyond its initial scope, such a system can be extended to cover all forms of due diligence requirements associated with individuals, covering such areas as educational qualifications, proof of medical coverage, and related items.

Finally, once established, the system can be used to significantly facilitate consolidated reporting on all data aspects associated with the content, addressing the currently significant and burdensome process of data extraction.

Centralised identity management / due diligence portal

MBR lead | Phase 1 – 2023 completion date

A Government- led due diligence portal enabling participants to submit, control and update their due diligence credentials and identity documents in one location for access and use, with user permissions, by all government entities and regulators and, eventually, by private sector Financial Services providers.

Certified screening body for new applicants to Malta

Set up a centralised screening body to certify new applicants interested in doing business in Malta to ensure that all their credentials and background information check out against standard benchmarks before they are permitted to engage with regulators or other support bodies.



Digital Payments Hub Infrastructure

The area of payments is a critical enabler in a healthy financial system. One of the major drawbacks affecting adversely the attractiveness of our jurisdiction is the lack of a robust, generally accepted and used national payments infrastructure.

The following are the key challenges to be addressed by the proposed robust payments infrastructure:

- Securing access to payment services for all acceptable individuals and corporates
- Achieving effective payment-clearing mechanisms involving various currencies
- Delivering instant payments
- Implementing commercial fee structures across the board
- Promoting a modern user experience

The enhancement and development of the Central Bank of Malta’s Payments Hub needs to be accelerated, widening the scope of the Hub as much as practicable, as a national payments infrastructure is the key proposed strategic objective in this area.

The ultimate objective should be the involvement of all local players involved in payments (banks, financial institutions, and several other institution categories) within the Hub to establish a local national payments system (Real-Time Gross Settlement or RTGS system), moving to full deployment and distribution of instant payments, with the further objective of linking this national system to other national and regional RTGSs.

This objective would significantly and simultaneously strengthen the framework for domestic and cross-border payments. Achievement of this objective would render domestic instant payments a reality and would also help address issues in relation to correspondent banking relationships with respect to cross-border payments.

The initiative would allow the jurisdiction to gear up for instant payments and EPI (European Payment Initiative) standards. The participation of all credit institutions involved in payments is fundamental in respect of domestic instant payments and hence the strategy is aimed at convincing all such parties of its importance.

The jurisdiction also has the technical capability to set up a national switch system for card transactions, operated under the umbrella of a consortium of credit and financial institutions. This secondary objective would further enhance the payments space locally.

The strategic targets in respect of the further enhancement of the Payments Hub therefore comprise: 1) enhancement in technology utilised, 2) coverage of a wider product suite with wider distribution, and 3)

inclusion of all relevant payments players. Immediate major investment of resources and funding are required to attain the objectives in this area in a timely manner

The Hub’s services need to continue to be affordable and accessible to all local players as this was a major area of concern highlighted by all relevant stakeholders.

Meaningful results could be obtained if the jurisdiction were to develop a central depository for information required for onboarding purposes (CDD information) for individuals and companies, potentially using technology such as blockchain. This is also relevant to the Centralised Identity Management / Due Diligence Portal initiative.

If all local payments players were to utilise the same national payment infrastructure, the next stage of evolution might constitute centralised transaction monitoring mechanisms and procedures in respect of both domestic and cross border payments. This would constitute a very convincing national response to increased risk and complexity around payments in Malta.

The above initiatives would ensure that Malta has a strong payment network, including state-of-the-art technology that supports interfaces with all payment and other institutions, while having confidence that AML/CFT standards remain at a very high level.

A national payments strategy, encompassing the proposed payments infrastructure, should be articulated jointly by the CBM/MFSA to provide decisive and consistent direction in respect of the principles behind Open Finance, with a view to enhancing the attractiveness of the jurisdiction to challengers and disruptors, and simultaneously harnessing new trends in payments over digital means. Malta should ensure that this national payments infrastructure and other related initiatives take into account developments in respect of the Eurosystem’s digital euro initiative as and when they occur. The infrastructure and strategy going forward ought to contemplate solutions for distributed ledger technology (DLT) transactions which could be cleared instantly globally.

To eventually attract and retain license holders in this space, as a jurisdiction, Malta must remain competitive. More specifically, Malta needs to strengthen its foundation to establish a compelling option for those entities interested in launching their payment products and services, and the jurisdiction needs to maintain elevated service standards in the payments space. The underlying strategic objective is to render the territory famous for vibrant payments technology, infrastructure and environment, attracting international banks and payment services players in the medium to long term.

The role of the CBM, specifically through euro payment services provided through Target2, MTeuropay and TIPS, would be to provide basic services across Europe, putting financial services providers in Malta on par

with those in other euro area countries. The MFSAC proposes the setting up of a separate nimble structure, of a commercial nature, which is focused on R&D in payments, and which has the ability to provide the community with extended services in areas which were weak and fragmented in the past, that include digital payments, mobile payments, acquiring, ATM networks, and B2B payments using innovative solutions. The broad objectives of the new structure should be twofold: 1) enabling local economic operators to source highly effective payments solutions which allow them to remain competitive, and 2) enabling the payments sector to be more competitive as a service provider to the broader European community.

Implement a centralised instant payments hub
CBM lead Phase 1 – 2024 completion date
Accelerate and fully implement the work currently initiated by the CBM in payments to support instant local payments along with in-built Suspicious Transaction Reporting (STR) and other transaction monitoring capabilities. Ensure all local banks actively engage and participate.

Further develop payments R&D on a commercial basis
CBM / MFSAC / Commercial Partners
Set up of a separate structure of a commercial nature focused on R&D in payments to enable Malta to provide extended services in this area on a commercial and global basis.

Correspondent banking facilities
Malta Bankers Association by 2023
Quickly build relationships with known international brands for correspondent banking facilities, especially for USD transactions.

Regulatory Process Integration & Digitisation

Bureaucracy has been consistently identified as a critical bottleneck in most aspects of setting up and managing a Financial Service business in Malta. This issue is systemic both within and across a number of the regulatory organisations actively involved in this sector. It has been

identified as a major hindrance by potential foreign direct investors, local operators, service professionals and, in many cases, the regulators themselves.

The implications of these issues are numerous. The time it takes to onboard and approve new investors to Malta is prohibitive — to the extent that companies that fully qualify to set up in Malta are giving up due to the unnecessary complexities and time delay involved with setting up on the island.

The key driver to addressing this topic is to fundamentally transform the Malta user experience in terms of ease of doing business in Financial Services and beyond. This needs to be addressed both for the country’s existing user base, as well as for potential investors. The evidence bears out significant weaknesses in this area, not only from a strategic and transactional perspective, but also from an experiential perspective. Addressing these underliers is a critical element of this strategy and one where effective intervention will truly enable Malta to overtake other jurisdictions.

It is salient to note that practically all regulatory entities are looking to materially improve their own internal operations, set clear customer standards and expectations, and implement various tactical improvements within their own spheres of control. This effort, however, is focused on transformation at a strategic level, ensuring an end-to-end user perspective and a strategic view in terms of effort and resources, both for the applicants / users as well as for the entities providing the services or regulating the industry.

And to be absolutely clear, this is not about diluting regulation or loosening the controls on the industry – it is rather about intelligently structuring the controls to make them simpler, automating them where possible and eliminating all duplication across entities regulating the sector. In addition, this also provides an opportunity to streamline the organisation architecture across all relevant entities to ensure role clarity and focus on each entity’s responsibility stack.

When evaluating the organisational architecture of Malta’s regulatory authorities, the structure of similar international entities to ensure effective alignment and interaction, should be considered. In addition, so should the structural implications on resources efficiencies in order to ensure maximum impact as relates to Malta’s regulation.

This is an area where Malta can, given its size and technological capability and infrastructure, make significant gains and where it should set aggressive targets for performance. The World Bank retains a curated set of data indicators relevant to doing business across countries and is establishing measures that score **Business Enabling Environment**¹⁰ to replace the Doing Business project indicators. Targeting top 20

performance against these indicators within a 5-year period will be an important reference benchmark to Malta’s performance in addressing bureaucracy.

Transformational change needs to be guided by a core set of principles that will enable the strategy to become a reality from an executional perspective. In this context, and particularly as applied to the issues of bureaucracy and ease of doing business, the following 12 key principles should be top-of-mind in all initiatives undertaken to support this work. Specifically:

- 1) start with the consumer in mind
- 2) think broadly about the financial ecosystem
- 3) leverage technology to adopt scalable and agile solutions
- 4) promote safe financial inclusion and financial health
- 5) maximise transparency
- 6) enable innovation while recognising and overcoming potential technological bias
- 7) strive for interoperability and harmonise technical standards
- 8) build in cybersecurity, data security and privacy protection from the outset
- 9) increase efficiency and effectiveness in financial infrastructure, optimising regulatory content and processes
- 10) protect financial stability
- 11) continue and strengthen cross-sector engagement, and
- 12) educate and inform the local population of this initiative with a view to changing the local mindset to one of contributing positively to the overall user experience.

Business 1 st portal
Business 1 st
A Government-led effort to integrate the services of 38 government departments and regulators to provide a seamless and integrated single point of contact for entities looking to establish themselves in Malta.

End-to-end process reengineering across all regulatory bodies
MFSA, FIAU, CfR, MBR
In conjunction with the work being conducted within the regulatory bodies, an end-to-end process review will take place to ensure seamlessness, consistency and information-sharing take place effectively across entities. This effort will review both process and associated technology.

Establish and report on Performance Standards
MFSA, MBR, FIAU
Define clear and transparent, objectively measured performance standards that are consistently measured, adhered to and reported on.

Address process and policy bottlenecks in government procurement
Ministry for Finance & Employment
Digitisation is being seriously hampered by the current government procurement processes that are creating quasi-insurmountable bottlenecks in accessing the right technology infrastructure for government agencies and regulators.

Enterprise architecture realignment
Government Ministries
Once a comprehensive review of the processes across all the entities has been completed, an objective strategic assessment will determine the best structural alignment in terms of accountability and seamlessness of service provision.

Law Reform and Harmonisation

Malta’s legal system and the way regulations are enforced, disputes resolved, and decisions made from a legislative perspective, has a direct impact on the effectiveness and attractiveness of Malta as a jurisdiction in Financial Services.

At present, broad perception, including that of independent bodies and ratings agencies, is that, from their perspective, the legal system is far from ideal, does not operate in a timely manner and has insufficient members of the judiciary competent in commercial and financial issues for judgements to be made in a truly effective manner.

The overarching objective is for Malta to develop a fit-for-purpose justice system; one that enables quick, fair and legally binding resolutions for disputes, regulatory infractions and matters of non-compliance. It should also be based on utmost respect for consistency in the application of the law across the sector.

10 Business Enabling Environment (worldbank.org)

The critical first step is the setting up of a Financial Services Law Reform Task Force to review legislation related to financial services on an ongoing basis and proposing amendments based on local market requirements and other market developments or opportunities. The ultimate objective of this group would be to propose improvements in the legislative framework from a financial services business perspective, but simultaneously also staying ahead of the curve in respect of other jurisdictions to the extent permitted in view of EU legislation.

Specifically, the ongoing Task Force must be focused on consistent and timely intervention and changes to ensure that the legal system works efficiently and delivers to the expectations of the industry and up to comparative and benchmarked international standards. The objective is for these areas to be addressed in an accelerated manner, ensuring that Malta’s legal effectiveness in Financial Services becomes a major tool in its arsenal for this industry.

In addition, further clarity is required in regard to administrative enforcement frameworks. There is the need to ensure that the legislative framework allows for regulatory authorities such as the MFSA and the FIAU to take enforcement actions to ensure an effective and dissuasive enforcement mechanism in line with European and international standards, while ensuring that actions taken are proportionate and respect the principles of transparency and equity of arms.

Consistency in processes needs to accurately reflect the principle one country/one economy (nationals-foreigners/among bodies/etc). This includes consistency in compliance and handling of irregularities, with transparency in all areas being fundamental — combined with an efficient justice system. The process should also be underpinned by logical and standardised processes that are technology enabled for ease of use, seamless workflow and aligned entities.

Each of the vertical pillars that participated in the strategy have specific recommendations that the Financial Services Law Reform Task Force should address — these are included in more detail within the strategy.

Set up of the Law Reform Task Force for Financial Services

Ministry of Justice | Ministry for Finance & Employment

The task force is charged with reviewing and proposing legislative amendments in areas governing Financial Services as well as identifying shortcomings in regulations and in their practical application with a focus on rendering the system more efficient and effective.

Change the process to obtain timely convictions for financial crime

Ministry of Justice

Timely convictions for money laundering, fraud, tax evasion and other financial crimes must be addressed as a matter of urgency, as must be the tracing, seizure and confiscation of the proceeds of any such crimes. This is a critical requirement for the Law Reform Task Force above, including addressing Constitutional incompatibilities relating to the prosecution of tax offenders.

Action to facilitate the process of bankruptcy and insolvency

Ministry of Justice

Specific reform to address insolvency and bankruptcy, enabling expedited procedures for the enforcement of security interests for the benefit of regulated entities and seeking to eliminate the lengthy time periods to repossess collateral pledged to banks when the latter grant secured facilities.

New Opportunity Areas

Each of these areas requires a focused effort including stakeholders and subject matter experts to ensure that the opportunity is addressed comprehensively and completely to leverage Malta’s capabilities and maximise the opportunity’s potential.

Fintech	Aircraft Leasing
Family Offices	Employer Pensions

FinTech

Malta’s experience in developing a global tech-based financial industry and its position as a fast-growing financial centre makes it an attractive base for entrepreneurs seeking a dynamic ecosystem where to grow their future-oriented business.

Strong FinTechs offer customers greater choice and convenience. The competition they bring to banking systems is already helping modernise the financial sector ecosystem in several European countries and is a key catalyst for change. Malta was identified by McKinsey in its 2022 report as a strong performer and one with high potential in this space.

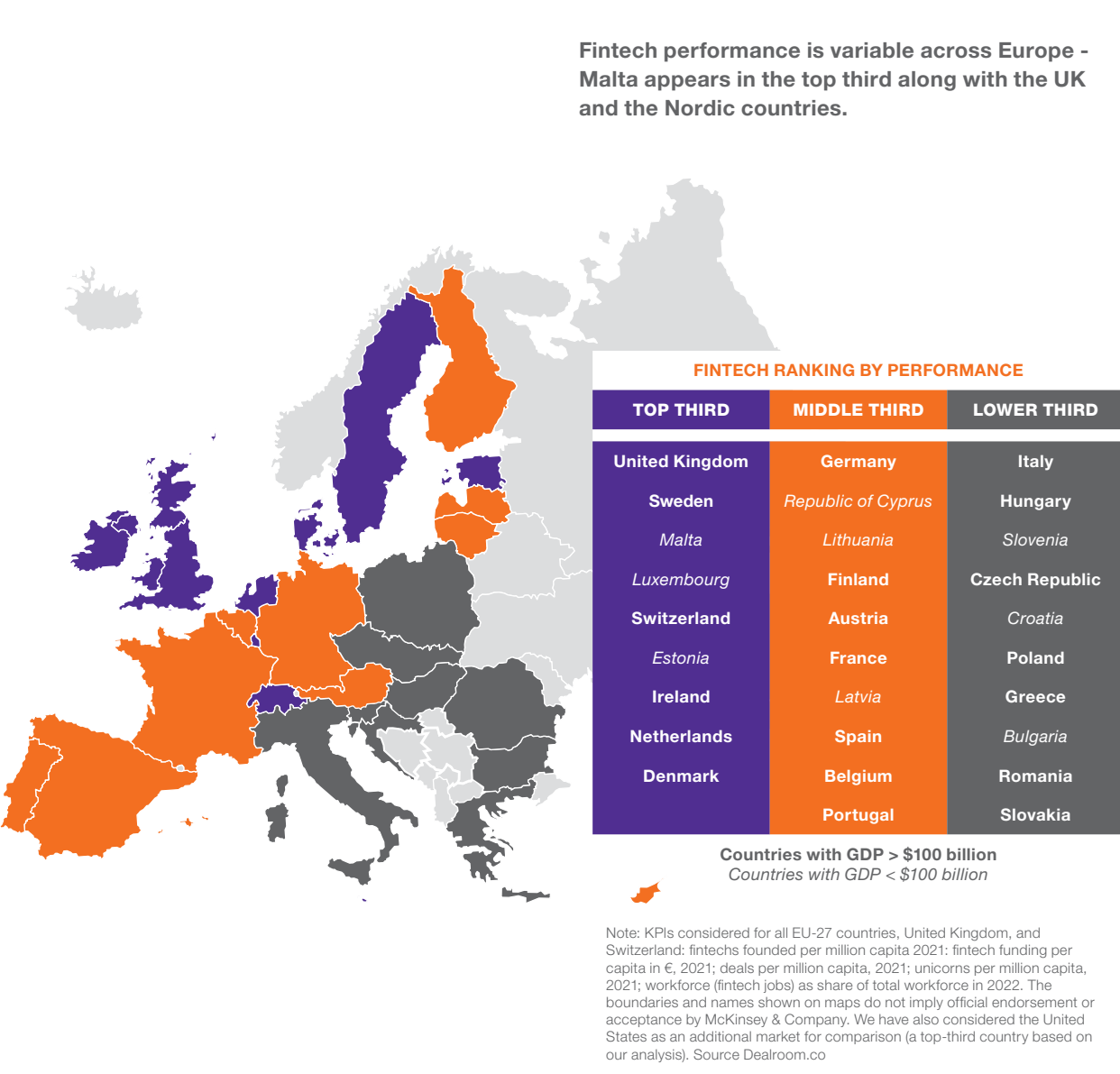


Figure 1: FinTech Performance Across Europe

In reality, Malta's focus on the FinTech sector came at a relatively late stage compared to many international financial services jurisdictions. Although FinTech adoption among consumers has accelerated in recent years, sector activity largely relates to companies passporting services into the market across a few narrow domains (such as the use of neobanks for payment services and CFD platforms for investment services). Regardless, Malta is represented by a small number of well-developed firms in the FinTech space, such as RS2 that successfully operates on a global scale.

FinTech represents a significant opportunity and one where the return on Malta's investment is likely to be high, especially given Malta's strong performance in digital economy, innovation and eGovernment services as highlighted above. The key for Malta in this space is to build on this advantage to further accelerate the development of the FinTech sector locally.

The FinTech sector has largely been developed in a dispersed manner without a clear guiding Maltese strategy to date. Since the launch of its 2019 FinTech Strategy, the MFSA has implemented various initiatives, such as, amongst others, establishing a dedicated FinTech Supervision function and its innovation facilitators, namely the Innovation Office and MFSA FinTech Regulatory Sandbox. Additionally, the MFSA continued to deepen its international links, through several initiatives including becoming a member of the Global Financial Innovation Network ("GFIN"). This notwithstanding, various elements of the MFSA's strategy, especially those pertaining to the ecosystem, remain to be implemented. A critical requirement for the sector to truly develop and reach global performance benchmarks is a tailor made ecosystem that attracts and nurtures new fintech investment and start-up's and facilitates their success.

Set up a FinTech task force to define Malta's value proposition and define the requirements to develop a supporting ecosystem

MFSA FinTech team

Further FinTech investment can be accelerated through a clear value proposition developed by Malta that defines the ecosystems and support that the island can provide to attract, nurture, and develop successful FinTech businesses. The task force will bring together Government, regulators, service providers, industry and start-ups to define and develop the strategic direction for ecosystem development, addressing capital, talent and incubation, regulation, and technical infrastructure and, ultimately, promotion of the island in that context.

A comprehensive set of specific initiatives has been proposed by the MFSA's FinTech team and these delve into great detail in terms of the activities and plans for the

sector. What is critical is that the funding and the strategic direction, as defined above, ensure a systematic and steady development for the sector to continue to grow and flourish.

In addition — and this work has already started within the MFSA — the objective is to create a regulatory framework that fosters innovation and provides companies with the necessary conditions to compete domestically and internationally, while ensuring stability and protection of both investors and customers. Programmatic coordination aimed at strengthening FinTech ecosystems is particularly important in this context. Specifically, this can mean minimising the administrative burden and associated costs for FinTechs, adapting regulatory requirements where necessary, and making implementation more customer friendly.

Strengthen the MFSA's regulatory contribution to the FinTech sector

MFSA

The development of a specific regulatory framework tailored to Fintech businesses and disruptive technologies is essential for this sub-sector to flourish.

As such, and beyond the taskforce, there are a number of additional activities that can be pursued in parallel to further anchor the foundational requirements to support both this and other activities to develop the Financial Services sector in a manner fit for the 21st Century and the changes being faced in market.

Develop sources for venture capital and venture funding

MFSA

A commitment to build up Malta's funding infrastructure and attract known players for start-ups in FinTech and beyond. This requires international sources of capital that can effectively be tapped into locally to drive funding and investment into high-potential start-ups. An initiative, in partnership with the European Investment Fund, is currently being pursued to be implemented by the Malta Development Bank (MDB).

Update seed investment schemes to widen eligibility criteria

Ministry for Finance & Employment

Explore (subject to discussions with the EU) amendments to qualifying activities which currently restrict access to the scheme to any company carrying out banking, insurance or any other activity covered by the Investment Services Act, the Banking Act, and the Financial Institutions Act or receiving royalties or licence fees.

Widen company characteristic parameters to make the scheme accessible to later stage start-ups and scale-ups which are inherently lower risk.

Amend investor eligibility criteria to make it possible for companies and collective investment schemes to avail of similar tax benefits (scheme is currently restricted to individuals).

Amend exclusion criteria to enable qualified business angels to be directly involved in start-ups which currently precludes them from benefiting from the scheme.

Investigate opportunities and legislation that supports, better regulates and encourages crowdfunding to drive innovation in a meaningful and EU aligned manner.



Drive focused pilot programs aligned with market opportunities

In addition, there are various opportunities for Malta to take the immediate initiative to further build its standing in this space. Building on the areas identified, there are four types of pilot areas that Malta should pursue, each requiring a different approach and toolset to realise.

- i. **Challenge-driven pilots:** catalyse start-ups and incumbents to develop focused FinTech solutions which address specific and pressing local challenges. A dedicated prize fund is committed to fund pilot projects for successful applicants. Challenge is marketed locally and internationally.
- ii. **Cross-border testing / EU market entry:** harness Malta's EU passporting capabilities and global regulatory networks to drive pilot projects for cross-border / new market testing, taking the concept of digital twinning to jointly authorise and test solutions between Malta and third-country jurisdictions with the aim to share outcomes and best practices between national competent authorities.
- iii. **Pilots on flagship European initiatives:** participate in highly visible, significant pilot projects that place Malta at the forefront of industry transformation, focusing on initiatives with the EU/European Central Bank on opportunities emanating from Digital Finance and Retail Payment Strategies.
- iv. **Sector / vertical specific pilots:** focus activity around a narrow domain which present big opportunities in the global market. Drive alignment with the Malta value proposition (e.g. local sector clusters)

Create a more competitive local market environment

The high adoption rates of FinTech solutions in certain segments shows that consumers and businesses are increasingly weaving FinTech propositions into their everyday financial lives. Yet, financial service product and service innovation in the local market remain relatively limited compared to many other European markets.

There is a clear need to work with incumbent industry players to drive actions that catalyse and accelerate innovation, with the objective of helping citizens and businesses to access new, better, cheaper, and more affordable financial services offerings. This is evident, as an example, in terms of ongoing difficulties for both citizens and businesses to access banking facilities locally.

This may require policy re-orientation, funding, incentives and potentially market intervention by regulators, as the UK did with Open Finance, in order to break down barriers to competition and remove fragmentation in standards. Initiatives could also include the promotion and implementation of open architecture and the use

of Application Protocol Interfaces, or APIs, in financial services, alongside support for the development of shared platforms, in which a group of market participants come together to develop shared resources.

Aircraft Leasing

Malta already has a strong niche aviation cluster that includes aircraft maintenance, including Lufthansa Technik and SR Technics, a strong aircraft register that includes Wizz Air Malta, Malta Air and Lauda Air based in Malta, as well as being the home base for VistaJet, one of the largest private jet charter firms. Rounding out the aircraft aviation niche is aircraft leasing, which represents a material financial service opportunity for Malta.

Malta is well positioned to compete for this business with a lessor-friendly regulatory regime, a competitive tax structure complemented by internationally recognised accounting standards, a stable currency and a professional, white-collar workforce. A full-service global bank would be required as a partner for this opportunity to become a reality and recent discussions suggest that this is a possibility.

Current dominant players in this space are Ireland, estimated to control 50% of the market, and Singapore, controlling another 20% and primarily focused on Asia / Pacific. Malta can establish itself in this market and successfully create a unique value proposition.

This opportunity is in relatively early stages of development but may also progress at an accelerated pace.

Develop a specialised legal and taxation framework around aircraft leasing
Ministry for Finance and Employment
A review of all existing legislation that impacts aircraft leasing with an eye for changes that will make the jurisdiction more attractive and specialised. This can include development of a ‘leasing act’ to combine all relevant regulation, addressing changes to depreciation charges to increase flexibility, and driving for expanded double-taxation relief.
Set up a ‘one-stop’ National Leasing Agency to develop the aircraft leasing industry in Malta
Ministry for Finance and Employment
Malta can set up an international leasing agency, potentially in partnership with an experienced, well-connected firm, to develop this market for Malta and to drive sectoral growth.

Family Offices

Malta has an opportunity to carve out a niche for itself through a focus on Family Offices, a solution resorted to broadly across the globe, by positioning Malta as attractive for the establishment of Family Offices. The objective is to attract relevant persons to locate the core activities typically entrusted to Family Offices in Malta. In addition, a strong framework for Family Offices is also highly relevant for Maltese businesses, many of which are reaching their third generation and are now starting to grapple with strategic issues such as succession, asset preservation and investments.

The Proposition

The proposition here is for Malta to position itself as a credible European/Mediterranean domicile for the establishment of Family Offices – targeting the families of High New Worth and Ultra High Net Worth Individuals.

The core of this proposition is the development of a fit-for-purpose legislative infrastructure which, while building on the existing regulatory framework, ensures that it addresses the specific requirements of Family Offices, including:

- effective supervision which ensures the protection of the interests of all stakeholders,
- ensures compliance with minimum mandatory governance standards as warranted whenever the financial interests of a person are managed by another, and
- ensures the integrity of the financial system and ultimately protects the reputation of the jurisdiction.

Key opinion leaders have, when evaluating the Malta Family Office proposition, indicated a number of requirements beyond a strong, consistent, predictable and fit-for-purpose regulatory infrastructure, and these include:

- the country's overall reputation,
- the individuals that have chosen this jurisdiction, and who they would be rubbing shoulders with, appropriate levels of discretion, and,
- balancing this with strong governance and an impeccable jurisdiction relative to their benchmark expectations.

Clearly, reputational risk, and political and economic risks are shunned by the decision makers for Family Offices, whether the families themselves or the office managers. In addition, while base taxation is an important consideration, it is not the primary driver for relocating to a new jurisdiction.

On a local level, given the preponderance of family businesses, the objective is to provide the tools that they require to structure themselves efficiently and effectively

to enable them to thrive. As such, many of the topics referred above support this objective and are common to both, including banking, regulation, and legislation.

The regulatory platform will be supported by specific legislation governing aspects specific to Family Offices with a view to addressing legal system inefficiencies/ limitations. One such area would be express legislation for the regulation of the execution, amendment and enforcement of family charters. The law will recognise the particular nature of family charters as a personalised and unique contractual arrangement and establish a framework which ensures predictability and certainty of outcomes.

Recommend a set of explicit proposals in support of a Family Office proposition
MFSAC
Define a tangible and specific regulatory framework for Family Offices for implementation once endorsed by the competent governmental and regulatory bodies.
Full implementation of the recommended changes
MFSA / Government of Malta
Once the proposed recommendations are defined and agreed to by the regulators and Government, proceed to their full implementation.

Employer Pensions

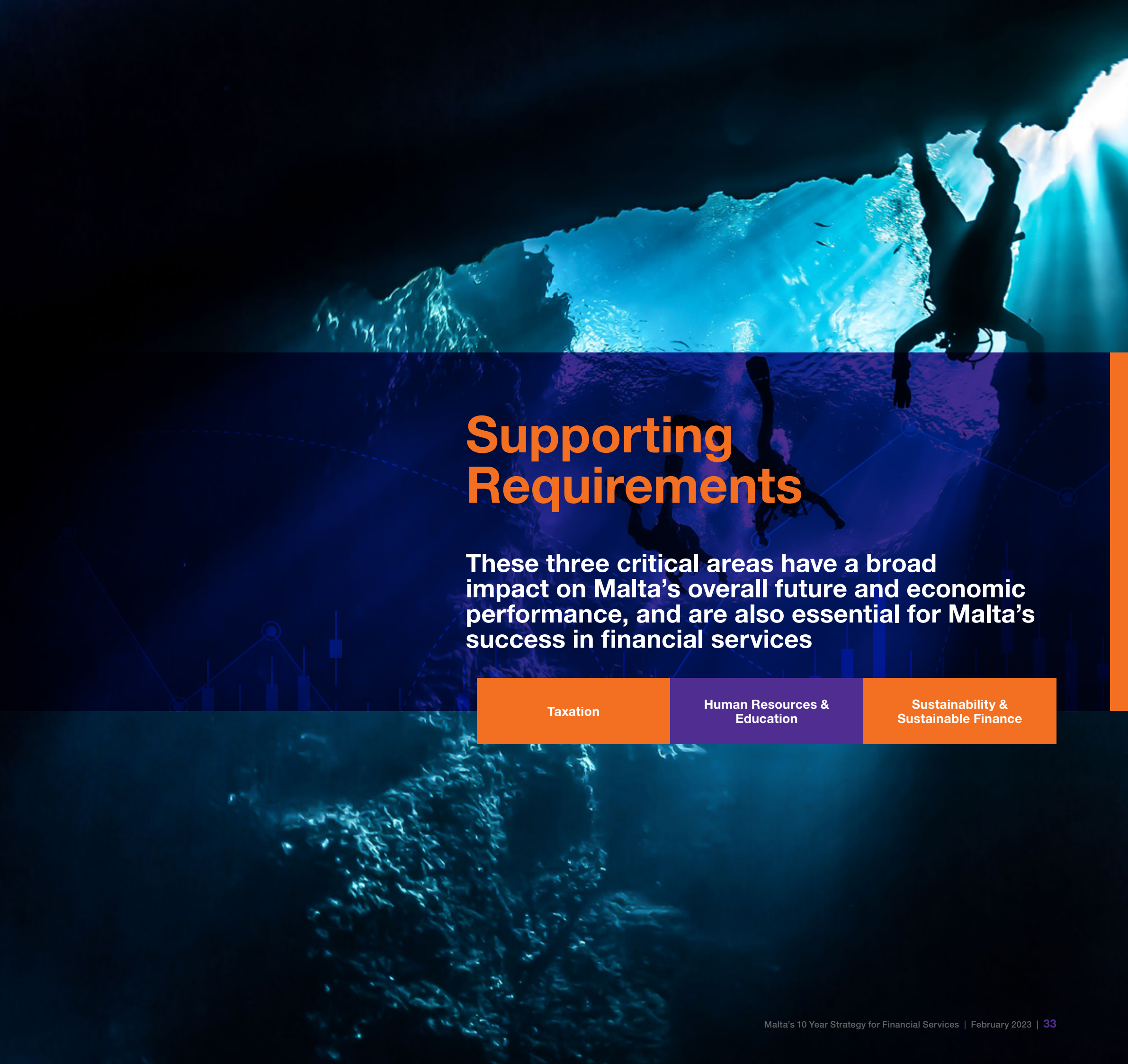
There is a clear opportunity for Malta to expand its Pillar 2 Occupational Pensions through personal private retirement schemes or through employer pension plans that benefit their employees. In addition, in line with the European wide opportunity, Malta will look to develop Qualifying Recognised Overseas Retirement Schemes (QROPS).

In particular, a number of QROPS schemes have been migrated to Malta (mostly from the UK) after Brexit and are now administered in Malta by Maltese-licensed retirement scheme trustees for non-Maltese beneficiaries.

There are numerous positive benefits to establishing these private retirements funds locally, including relieving pressure on the Government's pension system, encouraging savings, and creating local investable assets that can support further infrastructure development.

The primary challenges in regard to pension schemes is the creation of incentives to make savings in pensions attractive from an employer and employee perspective, encouraging them to forfeit current income for long-term, future returns. While this also carries a cost to Government in the short term, there is a significant longer-term benefit in reducing pressure on State pensions in future.

Create tax incentives for employer pension contributions
Ministry for Finance & Employment
Create incentives for companies to ensure that contributions to a recognised / registered pension plan are exempt from tax up to a pre-determined ceiling, either in terms of a % of salary or an absolute cap.
Create a system where employees have to opt-out of a pension plan, rather than an opt-in
Ministry for Finance & Employment
In order to build critical mass behind a private pensions system, at least for the initial years, create an opt-out system where employees are automatically enrolled into a system and have to consciously choose to exit if they do not wish to continue.
Create an advantageous tax rate on pension income from private pensions
Ministry for Finance & Employment
To encourage personal savings and reduce the burden on State pensions, create incentives for savings by reducing the tax rate on income from registered private pension schemes.
Create de-minimis rules so that pension pots of €10K or less can be withdrawn in a lump sum and taxed as pensionable income
Ministry for Finance & Employment
Recognising that a number of pension pots will end up being small and below viable thresholds as pensions, allow the user to withdraw these as a lump sum and be taxed at the pensionable income rate.



Supporting Requirements

These three critical areas have a broad impact on Malta’s overall future and economic performance, and are also essential for Malta’s success in financial services

- Taxation
- Human Resources & Education
- Sustainability & Sustainable Finance

Taxation

Malta’s corporate tax system has since inception been a core foundation on which much of the financial services sector has been built. While there is little doubt that corporate taxation will continue to play an important role, the extent to which tax may be relied upon as a material differentiator is clearly no longer as relevant in view of developments at both the European and global level in the area of international taxation. The tax system must therefore evolve in line with international developments, while ensuring that it continues to be as competitive as possible.

Over the next decade, Malta will look to materially transform its tax system to one that is simpler and easier to administer and that is more aligned with modern tax systems, while still retaining features to businesses based on these islands. This necessarily means that the benefits or advantages offered by the island’s corporate tax system will only be made available to those operators which genuinely establish themselves in Malta and the tax system should be resilient to exploitation by those looking to reap the benefits of the tax system without engaging with Malta in a meaningful and commensurate manner.

In addition, Malta, and its corporate tax system, must be rendered resilient to exploitation by those looking to conduct illegal activity including, of course, financial crimes and the laundering of the proceeds of crime.

Transformation of Malta’s Tax Administration

Malta’s Commissioner for Revenue is heading an extensive business transformation effort to build a more effective, efficient and resilient tax system that leverages data and inter-linkages across information sources to build knowledge and intelligence. The overall intent is to create a pro-active customer-centric entity focused on achieving voluntary tax compliance while having a robust enforcement culture. The entity’s overarching value is to be FAIR in its operations, with a defined focus on Foresight, Accountability, Integrity and Respect.

Actioning the opportunities relating to Taxation

In support of the broader strategy, the opportunity will be pursued for a technology centric intervention, resorting to the use of leading technology wherever and whenever possible, to address opportunities in the tax administration. This will not only ensure a) efficiencies through the use of technology, b) effectiveness through the harnessing of AI and machine learning capabilities and c) futureproofing the system but will also showcase Malta’s abilities as a country and will drive a consistent message across the entire Financial Services industry.

This digital transformation will provide a core foundation to strengthen the resilience of the tax system in practice.

Phase 1
Near to medium term focus

Within this first phase, Malta must enhance the existing tax system with specific features intended to incentivise appropriate behaviour in support of the attainment of the overall strategic objectives for the Financial Services Sector.

1 – Revise procedures and practices with regards to tax enforcement and prosecution of tax offenders

An essential feature in the fight against tax crimes must be a system capable of securing appropriate convictions for those guilty of illegality. An effective system is built on a number of pillars but starts with a legal framework which is both appropriate and adequate for the purpose. No degree of investment in intelligence gathering capabilities or law enforcement capabilities will make up for or remedy deficiencies in the legal framework.

The current legal system underpinning the investigation and prosecution of tax offenders requires radical reform and modernisation. The ability of the authorities to secure a conviction in the event of the commission of a tax crime is essential to achieving the strategic objectives. This is addressed in the Law Reform and Harmonisation section above.

Similarly, the tax system must fairly distinguish between error and evasion and must grant taxpayer protection to ensure a punishment which is commensurate. The system must not be dependent on the exercise of discretion to mitigate otherwise disproportionate outcomes for taxpayers.

Modernisation of the enforcement framework
Ministry for Finance & Employment / Ministry of Justice
The redefinition of the existing framework for the enforcement of tax legislation which addresses the entire process starting from audits and investigation all the way to judicial scrutiny and enforcement/conviction.

Clearly demarcate contraventions of tax law requirements versus the criminal offence of tax evasion
Ensure that clear pathways and processes are defined in regard to both error and administrative failures versus conscious criminal evasion.

Foster a culture of transparency, credibility and compliance
Through education, technology and enforcement, create a mutually reinforcing culture of compliance and transparency in regard to tax.

2 – Data Gathering and Information Sharing

Effective systems of intelligence gathering and information exchange are essential for decision making and collaboration with counterparts. Such collaboration, both locally as well as internationally, will further strengthen enforcement of tax laws and combat financial crime.

A national system for the effective harvesting of data and intelligence gathering, coupled with an infrastructure for effective information exchange — whether automatic, on request or spontaneous — is essential to ensure that our tax system meets the expectations of citizens, stakeholders, treaty partners and peer groups.

A fair and just system must ensure that all available data is gathered and applied to ensure the proper observance of laws locally and overseas in a consistent and transparent manner.

Full and earnest collaboration with law enforcement bodies and foreign tax authorities is part of the process through which Malta will build its reputation as a serious partner in the fight against financial crime.

Technologies and systems for data gathering and information sharing
Commissioner for Revenue
Effectively designed systems, databases and processes including exception reporting, to facilitate effective collection, exchange and follow up on tax-related information in a transparent and actionable manner.

3 – Redesign the tax system to deliver compliance by design through technology

Modification of the tax system should, wherever possible, drive compliance by design, limiting the opportunity for abuse and reducing the resources required for enforcement. This is a critical opportunity to transform the system and to have a significant impact both in terms of tax revenues, but also the costs and resource requirements for enforcement.

The modernisation of the tax system must not be limited to an upgrade of the mechanisms referred to in Action 1 or the capabilities and infrastructure referred to in Action 2 but must extend to a reform of the mechanics underlying the manner in which the tax is imposed to facilitate its effective administration and to achieve and ensure compliance.

From a longer-term perspective, modernisation will invariably require a rethink of some of the fundamental elements underpinning Malta’s current tax systems. Simplification has been identified as a key objective for the modernisation and upgrade of the system. Furthermore, technology is a critical cornerstone on which the system will be built, allowing optimisation previously unattainable.

Malta has a unique opportunity to set the bar when it comes to the overlay of technology in the administration of tax laws, giving Malta a competitive advantage by reducing costs to taxpayers while guaranteeing a significantly higher degree of compliance across the board.

The successful modernisation of tax administration and enforcement through technology will also enable Malta to build meaningful credentials as part of a broader narrative around the island’s technology capabilities and their effective application in practice. From words to actions.

Changes, including technologies, to drive Compliance by Design through the tax system
Commissioner for Revenue
Seek new technologies and means to build in Compliance by Design, including areas such a VAT administration, and collection and taxation in general, to drive increased revenue and reduced tax evasion.

4 – Introduce governance safeguards to ensure resilience from influence

Through the introduction of strong governance safeguards, one can ensure that the tax administration is resilient to influence, whether internal or external, in the exercise of its functions. This will ensure an objective and credible tax system both in terms of its operations as well

as in the eyes of external regulators. The tax authorities must have the means, and must be permitted, to operate free from influence.

In addition, the enforcement of tax law must not be a tool of political expedience, and this must be secured through the impossibility of political interference.

Implement safeguards from external and internal influence
Commissioner for Revenue
Implement new governance processes and technologies that will protect the administration of the tax system from external and internal influence.

5 – Address Resource Deficit

A fundamental action item during Phase 1 is to address the resource deficit within the tax administration and other bodies involved in the enforcement of tax crime. Resource deficit requiring intervention is both at the human resource level (quantity and quality of personnel) as well as at the technology level.

This requires the conduct of a gap analysis on the basis of which the existing shortfall can be determined, and the investment required to address the deficit quantified. Only once this phase is complete should the remediation process be initiated. It is essential that this action is conducted with due regard to the impact that all the other action items will have on resource and technology needs.

Address resource deficit
Commissioner for Revenue
Ensure that the CfR is well resourced in terms of both quantity and quality of staff, recognising that an investment in this area generates substantial financial returns to Government.

Phase 2
Medium to long-term focus

1 – Build a corporate tax system supportive of Malta’s value proposition for financial services

Malta’s tax system must be innovated while remaining competitive through the incorporation of features which are effective (regard also being made to the interaction of the tax system with the features of other tax systems). This area will be heavily influenced by the work of the EU and the OECD/G20.

It is evident that Malta must remain actively engaged in the development process at the EU level and must comply, in good faith, with that which is ultimately agreed while taking advantage of every opportunity at its disposal to remain competitive in those areas which have been identified to be strategically relevant for Malta.

The specificities of this action point can only be defined as an outcome of a deep study of the options currently being conducted by the Ministry for Finance and Malta’s tax authorities.

Overhaul of Malta’s tax system
Ministry for Finance & Employment
As outlined in the introduction to this section, Malta will, during the tenure of this strategy, look to overhaul its tax system in line with international changes and approaches.

2 – Strengthen Malta’s double taxation treaty network

At the heart of success for the Financial Services Industry is Malta’s effective collaboration with key markets (investor and consumer). Similarly, in the area of taxation, obstacles to market access must be dismantled through tax treaties which are negotiated for the attainment of desired outcomes.

Enhance Malta’s network of double taxation treaties
Ministry for Finance & Employment / Ministry of Foreign Affairs
Resources must be deployed with responsibility to undertake a focused process for the negotiation of double taxation treaties with new and existing treaty partners intended to ensure a network of tax treaties capable of effectively supporting local businesses.

Human Resources and Financial Education

Human Resources and Financial Education can easily be overlooked as primary considerations driving the success of Financial Services. However, whereas in the past the industry was able to work through this issue, it now needs to be addressed urgently and decisively. While there are a number of actions that can be taken immediately, there are long-term considerations that require an ongoing, focused and resourced effort to bear fruit in a manner

that is sustainable and that fully realises the benefits to the local population and the local economy.

Issues of staffing are becoming both exasperating and overwhelming for companies seeking to grow in the areas of knowledge work who are seeking qualified and experienced staff. While it has become accepted that finding suitable staff locally is difficult, attracting and engaging staff from abroad, even from the EU, let alone Third Country Nationals (TCNs), is becoming both difficult and dysfunctional. This is true in all industries, from ICT to Financial Services, and must be addressed to ensure that Malta’s current growth trajectory is maintained, even strengthened. For this to be achieved, however, a root and branch set of reforms is required.

There is much that can be done immediately to start to improve the situation for Maltese businesses — as well as regulators and government — to attract the calibre of talent required to really build on the success of the islands. In addition, with a strategic focus on education and building up the numbers of interested and educated new graduates, the industry can truly strengthen its position in market relative to other jurisdictions.

While this matter is fundamental and crucial to Financial Services’ success, it remains outside the core scope of the strategy since it would be presumptuous to assume that this matter is restricted to Financial Services. As such, the MFSAC will do whatever is necessary to support this requirement, working with government entities and the private sector to resolve it, both in the immediate and longer term.

Defining the Issues

At a macro level, Malta’s most fundamental issue is primarily geo-demographic. The combination of a relatively small population, a low birth rate and a high growth economy makes it nigh impossible for Malta’s indigenous workforce to sustain economic momentum. Malta has a low fertility rate, at 1.495, even though it represents a small increase over 2020 and 2021. At its lowest in 2020, the fertility rate was 1.14, the lowest in the EU at the time. The reality of these statistics is that Malta registers no more than 3,000 local births annually. In practice, this means that even if every single new-born was to be educated and choose a career in financial services, there would still be insufficient supply to meet the industry’s demand.

Reality is that this fundamental issue is coupled with exceptionally low participation rates in tertiary education, low completion rates for secondary education and a lack of relevant or specialised course materials related to

Financial Services requirements. While having improved in the last decade, statistically, native Maltese are less likely to complete secondary education, and have high levels of underachievement in maths and science relative to their EU counterparts¹¹. The educational system is becoming more inclusive, however, weaknesses persist both in addressing migrant children with special language needs and also with engaging vulnerable students. As a result, Malta is not fully realising its human resource potential and this is also reflected in tertiary educational attainment which, while having improved significantly in the past decade, at 28% remains below the EU level average of 40% and well below the target set at 45% for 2030¹². Moreover, there is evidence that 75% of Maltese with parents having a low-level education tend to follow their parents in also having low levels of education themselves⁹.

More specific to Financial Services, it is clear that students have limited awareness and even less understanding of careers in Financial Services. Student career counsellors do little to inform and advise students in this regard and, as a result, there is limited take up of Financial, Insurance and Risk related programs at tertiary level. This creates a vicious cycle since low enrolment ultimately results in appropriate programmes being closed down and withdrawn. Sadly, the numbers graduating from the few programmes that do exist are paltry and insufficient to build critical mass in the industry.

As a result, of these factors, including low levels of new students, limited numbers with post-secondary qualifications or with degrees relevant to financial services, Malta has a high level of reliance on foreigners in financial services at all levels, including for highly skilled jobs.

Attracting foreign talent, at all levels is, however, becoming more problematic. Foreign workers, and particularly TCNs, are facing several obstacles in putting their skills to use in Malta and these are further limiting Malta’s growth potential in Financial Services, as well as other industries. These factors include Malta’s deteriorating attractiveness index for expatriates as a place to work and live, the lack of a transparent pathway to citizenship for TCNs, restrictive and inefficient processes on the part of JobsPlus and Identity Malta, as well as complex rules relating to changing jobs, bringing immediate family to Malta and expectations on employers. The upshot of all these considerations is that Malta is no longer seen as an attractive destination for the skilled and highly skilled and, as a result, far fewer non-nationals are interested in coming to Malta to work.

Two other factors have further exacerbated the issues relating to attracting talent. The COVID-19 pandemic

11 EU Education and Training Monitor – Malta 2020 <https://op.europa.eu/webpub/eac/education-and-training-monitor-2021/en/malta.html>

12 Central Bank of Malta, 2020 - An Analysis of Educational Attainment in Malta, Tiziana M. Gauci <https://www.centralbankmalta.org/site/Publications/Economic%20Research/2021/policy-note-educational-attainment-in-Malta.pdf?revcount=710>

resulted in numerous TCNs being released by their employers. They, naturally, have limited interest in returning. Others have found it easier to return to their country of origin and work remotely for international firms. And, finally, the gaming industry’s local success has been, in good measure, driven by paying materially higher salaries than any other industry locally. The upshot is that the best people have gravitated to the gaming industry leaving other industries with a gap in talent – in cases, serious enough for the companies in question to leave to the island for other countries in their search for staff.

Staff retention is the final piece to the puzzle, with the industry having trouble holding on to its best and brightest. Increased competition for talent, international prospects for staff with high potential, and the emergence of increased opportunities for remote working are all resulting in higher turnover and increased pressure on staff retention. Instead of dialling up investment in training, career development and flexible work options, there is evident reluctance to explore creative solutions to these issues. An example is the area of comprehensive on-the-job training and qualification for staff; limiting these options due to concerns about staff turnover is resulting in a weak cadre of home-grown talent.

As such, this strategy needs to work at two levels: first, addressing the needs of foreign recruitment in a manner that both supplies the required human resources while not overwhelming the island, from an infrastructure, services and social perspectives. Secondly, a concerted effort is needed to better equip local talent to be successful in the industry.

Addressing the Issues

Effectively addressing the HR and Financial Education requirements demands a holistic view of all the Financial Services industry and has implications throughout the education and human resources ecosystem.


Structurally, the proposed approach needs to address four critical areas, namely 1) the skills gap, 2) policy and regulation, 3) professional education and certification, and 4) academic education. The weaknesses evident in each of these four areas must be addressed in a systematic and sustainable manner, to ensure that Malta consistently strengthens its cadre of qualified and capable individuals to feed this industry and all others.

While there are a number of changes that can take place throughout the educational system, from primary all the way to tertiary education, most of it is outside of the direct scope and influence of the MFSAC. However, the Council is clear that without such root and branch changes, these recommendations will only go part way to addressing these issues.

Specific Proposed Initiatives

Address Malta's attractiveness to foreign talent
Identity Malta & JobsPlus
Address Malta’s reputation in key recruitment markets and simplify the process of applying for work permits, including simplified forms and information provision. Make it easier for primary applicant to bring over their immediate families. Ultimately, defining a transparent pathway to citizenship would serve as an incentive both to attract and retain talent from third countries.
Tighten system to prevent systemic abuse
Identity Malta & JobsPlus
Through stronger controls, streamlining applications by sector and creating a system of automated alerts, limit potential for systemic abuse for applicants to use Malta’s TCN system to get into Schengen with no intent of working in Malta.
Simplify the process to change jobs or accept a new job once settled in Malta
Identity Malta & JobsPlus
Once a legitimate applicant is accepted, and settles into a new job locally, address processes relating to career progression and job changes to ensure that talented individuals stay and grow in Malta. This requires an overhaul of existing policies and processes to ensure that these benefit both employers and employees.
Increase emphasis on employee retention
Private and Public Sector Employers
Employers should revisit their remuneration structures and career development policies to determine whether their packages are competitive. In addition, consideration needs to be given to the costs relating to recruitment prior to making decisions concerning staff departures.

Develop accredited courses in Financial Services for professional development delivered through private sector academies
Private Sector
Collaborate to take the lead in setting up an academy offering certification programs and recognised qualifications relating to Financial Services (outside of accounting). Leverage coordination and support from the Malta Association of Risk Management, Malta Association of Compliance Officers and the Institute of Financial Services and other, related voluntary and industry organisations as well as regulators to build relevant and practical programs.
Revisit Post Secondary courses to ensure that materials are current, relevant and practical
University of Malta / MCAST
Update teaching materials in quasi real-time to ensure students are aware of and trained in the most recent regulations and changes in business practice. Create practical incentives for professional practitioners to teach practical programmes at University and MCAST and ensure that materials are EU-specific, especially now the UK is no longer part of the EU. Build an international dimension to all materials taught to strengthen Maltese professionals' confidence in an international context.



Set up a dedicated team of Financial Services resources for EU negotiations
Private and Public Sector
Strengthen Malta’s negotiating position and capabilities at an international and EU level through a dedicated team of resources focused primarily on building expertise and confidence in EU and local legislation and its implications on the financial services sector.

There are a number of other potential initiatives that, once these changes are initiated, can be further pursued. And, as indicated in the opening remarks, the educational system can materially benefit from a significant rethink to ensure that overall quality and number of graduates increases.

Sustainable Finance

Sustainability is becoming a global focal point across multiple industries. To this end, sustainability represents both a requirement as well as an opportunity for Malta in financial services. A clear strategic direction is an essential element to create a clear pathway for Malta in this area. Despite its size, Malta needs to identify potential areas of opportunity to generate the best possible returns and benefits, both locally and in terms of global impact.

A good example of this relates to the investment in local clean energy, which can materially reduce reliance on fossil fuels and, in the longer term, reduce overall cost of energy to both Government, industry and consumers.

Specifically, in regard to financial services, sustainable finance needs to recognise both the opportunity as well as the significant market limitations of a small island economy. As an example, the introduction of Green Bonds, whilst a noble and appropriate act, has met with absolutely no market interest to date. That can be due to it being ahead of its time or, and more likely, to a dearth of institutional investors that would drive demand for such a product. As such, consideration for market potential and impact is essential in determining which ESG initiatives Malta should be pursuing.

Around the world significant progress has been made in corporate reporting of environmental, social, and governance (ESG) information, as evidenced by the rise in the number of S&P 500 companies that publish some form of a sustainability disclosure. At the same time, institutional investors, asset managers, lenders, credit rating agencies, and insurers are increasingly relying on companies’ ESG disclosures to make important decisions regarding the allocation of capital. Against this backdrop, there continues to be a growing call for companies to enhance the quality, comparability, and utility of the ESG disclosures.

One potential avenue for Malta to consider is the development of ESG regulatory frameworks and the creation of standards relating to reporting. Within the EU, the Corporate Sustainability Reporting Directive, issued in 2022, introduces more detailed reporting requirements and ensures that large companies are required to report on sustainability issues such as environmental rights, social rights, human rights and governance factors. The CSRD also introduces a certification requirement for sustainability reporting as well as improved accessibility of information, by requiring its publication in a dedicated section of company management reports. The European Financial Reporting Advisory Group (EFRAG) will be responsible for establishing European standards, following technical advice from various European agencies.

At this stage, a number of potential areas of impact, in regard to sustainability, are being explored. The Malta ESG Alliance is a new collaboration set up with the intention of turning commitments and ambitions relating to sustainability into tangible actions. Ranging from regulation, governance and reporting, efforts at sustainable finance must extend beyond legal mandates to areas that can have a material impact on a local level. While a number of emergent ideas have been identified, these need to be validated in the context of Malta's market and environment to determine their likelihood of success.

FinanceMalta is also prioritising the area of sustainable finance, collaborating with local and international stakeholders to make the most of the opportunities for further development of financial instruments supporting sustainability for specific niche markets.

Communicating the Strategy Externally

The strategy is a critical plan for Malta's renewal of this sector. Its external communication is a key enabler and one that continues to be a priority for the island. FinanceMalta has an established role in this respect and will be leading the marketing communication associated with the strategy. Set up in 2007, this non-profit public-private initiative promotes Malta as an international business and financial centre, attending and supporting numerous networking events and conferences.

The marketing effort behind the strategy will follow a steady build, ensuring that Malta's service delivery in any of the marketing activities delivers an optimal experience and that businesses attracted to Malta will build a positive impression and expectation for locating in Malta.

Communication will focus on three levels: maintaining existing strong sectors, building up emerging sectors as they mature, and promoting transformational initiatives. These will be done through a combination of targeted electronic media, active participation at international events as well as hosting Malta-based events for international audiences. Where justified, FinanceMalta will host one-to-one meetings with target organisations and familiarisation visits to Malta for select, high-profile / high-potential targets.

Communication

Communicating the strategy within Malta

Further building momentum and alignment behind the strategy, both with practitioners and the general public, is essential in terms of enabling its success. Recognising that a clear, focused strategy is in place is an outstanding motivator in terms of talent development, cross-organisation collaboration and for attracting students to recognise Financial Services as a career choice.

Moreover, understanding Malta's strategy in its international context creates a sense of pride and commitment and a recognition that this is one of a number of areas where Malta punches well above its station. Further strengthening networks and engagement across all areas of society in the context of Financial Services can only serve to build capabilities in this space. Thus, for example, links between financial services employers and educational institutions, at all levels, cannot be underestimated.

Communicating beyond Financial Services

While this strategy focuses on the specifics of the Financial Services sector, the island's attractiveness to investment is influenced by factors that extend well beyond factors specific to the industry. The island's physical and digital infrastructure, its quality of life and its physical and natural environment all play an important part in reinforcing its attractiveness. Recognising that responsibility for these areas is well beyond the scope of this strategy, all Ministries within government are focused on materially renewing these areas to refresh Malta's offer and making the islands better for investors and local residents alike.



Conclusion

Malta's Financial Services strategy represents a critical milestone to the further development of the sector in Malta. It combines a clear vision from both Government and the industry for the future with tangible and specific initiatives to make this vision a reality. It recognises that all parties — private, public and regulatory - play a crucial role in its fulfilment.

The key initiatives identified in the strategy will be programme managed, tracked and objectively evaluated in terms of their completion to ensure accountability for the core areas of transformation identified within this document and the strategy itself. The Ministry for Finance and Employment will play a key role in both championing and managing the strategy's implementation.

Finally, this strategy is a living document that will grow and adapt to the constantly changing global environment, ensuring that Malta is on top of new developments, regulatory changes as well as market and technological changes that can strengthen Malta's delivery and performance.



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MALTA STRATEGY FOR FINANCIAL SERVICES | MARCH 2023

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