

## ***GLOSSARY OF TERMS***

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In these Insurance Rules, unless the context otherwise requires:

- “the Act”**: the Insurance Business Act (Cap.403).
- “advertisement”**: means an insurance advertisement as defined in subarticle (1) of article 2 of the Act and includes a promotional activity and “advertisement issued” includes a promotional activity undertaken.
- “beneficial owner”**: refers to the individuals who ultimately own or control the proposed acquirer, and or persons on whose behalf the acquisition is being conducted. It also includes persons who exercise ultimate effective control over a proposed acquirer which is a legal person or a legal arrangement, such as a trust.
- “complaint”**: means a statement of dissatisfaction addressed to an authorised insurance undertaking by a person relating to the contract of insurance or service with which such person has been provided with. Complaints-handling should be differentiated from claims-handling as well as from simple requests for execution of the contract, information or clarification.
- “complainant”**: means a person who is presumed to be eligible to have a complaint considered by an authorised insurance undertaking and has already lodged a complaint e.g. a policyholder, insured person, beneficiary and injured third party.
- “concentration risk”**: means all risk exposures with a loss potential which is large enough to threaten the solvency or the financial position of an authorised insurance undertaking and an authorised reinsurance undertakings.
- “credit risk”**: means the risk of loss or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which authorised insurance undertaking and an authorised reinsurance undertaking is exposed, in the form of counter party default risk, or spread risk, or market risk concentrations.

<b>“diversification effects”</b> :	means the reduction in the risk exposure of an authorised insurance undertaking or an authorised reinsurance undertaking and groups related to the diversification of its business, resulting from the fact that the adverse outcome from one risk can be offset by a more favourable outcome from another risk, where those risks are not fully correlated.
<b>“EU Commission Delegated Regulation”</b> :	means the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).
<b>“external credit assessment institution” or ‘ECAI’</b> :	means a credit rating agency that is registered or certified in accordance with Regulation (EC) No 1060/2009 of the European Parliament and of the Council or a central bank issuing credit ratings which are exempt from the application of that Regulation.
<b>“finite reinsurance”</b> :	<p>means reinsurance:</p> <p>(a) under which the explicit maximum loss potential, expressed as the maximum economic risk transferred, arising from a significant transfer of both underwriting risk and timing risk, exceeds the premium over the duration of the contract by a limited but significant amount; and</p> <p>(b) which possesses at least one of the following characteristics:</p> <p>(i) explicit and material consideration of the time value of money;</p> <p>(ii) contractual provisions to moderate the balance of economic experience between the parties to the reinsurance over time to achieve the target risk transfer.</p>
<b>“function”</b> :	within a system of governance, means an internal capacity to undertake practical tasks; a system of governance includes the risk-management function, the compliance function, the internal audit function and the actuarial function.
<b>“insurance holding company”</b> :	has the same meaning as is assigned to it by the Insurance Business (Supervision of Insurance and Reinsurance Undertakings

in a Group) Regulations, 2015.

**“large risks”:**

(a) risks classified under classes 4, 5, 6, 7, 11 and 12 in Part A of Annex I of the Solvency II Directive;

(b) risks classified under classes 14 and 15 in Part A of Annex I of the Solvency II Directive, where the policy holder is engaged professionally in an industrial or commercial activity or in one of the liberal professions and the risks relate to such activity;

(c) risks classified under classes 3, 8, 9, 10, 13 and 16 in Part A of Annex I of the Solvency II Directive in so far as the policy holder exceeds the limits of at least two of the following criteria:

(i) a balance-sheet total of EUR 6,2 million;

(ii) a net turnover, within the meaning of Fourth Council Directive 78/660/EEC of 25 July 1978 based on Article 54(3)(g) of the Treaty on the annual accounts of certain types of companies of EUR 12,8 million;

(iii) an average number of 250 employees during the financial year.

If the policy holder belongs to a group of undertakings for which consolidated accounts within the meaning of Directive 83/349/EEC are drawn up, the criteria set out in point (c) of the first subparagraph shall be applied on the basis of the consolidated accounts.

**“legal expenses insurance”:**

refers to class 17 in of Part I of the Third Schedule to the Act whereby an authorised insurance undertaking promises, against the payment of a premium, to bear the costs of legal proceedings and to provide other services directly linked to insurance cover, in particular with a view to the following::

(a) securing compensation for the loss, damage or injury suffered by the insured by settlement out of court or through civil or criminal proceedings;

(b) defending or representing the insured person in civil, criminal, administrative or other proceedings or in respect of any claim made against him,

and ‘legal expenses insurance contract’ and ‘legal expenses cover’ shall be construed accordingly.

- “liquidity risk”:** means the risk that an authorised insurance undertaking or an authorised reinsurance undertaking is unable to realise investments and other assets in order to settle their financial obligations when they fall due.
- “market risk”:** means the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.
- “mixed activity holding company”:** has the same meaning as is assigned to it by the Insurance Business (Supervision of Insurance and Reinsurance Undertakings in a Group) Regulations, 2015.
- “national bureau”:** means a national insurers’ bureau as defined in Article 1(3) of Directive 2009/103/EC of the European Parliament and of the Council of 16 September 2009 relating to insurance against civil liability in respect of the use of motor vehicles, and the enforcement of the obligation to insure against such liability.
- “national guarantee fund”:** means the body referred to in Article 10(1) of Directive 2009/103/EC of the European Parliament and of the Council of 16 September 2009 relating to insurance against civil liability in respect of the use of motor vehicles, and the enforcement of the obligation to insure against such liability.
- “non-cellular company”:** shall have the same meaning as is assigned to it by the Companies Act (Incorporated Cell Companies Carrying on Business of Insurance) Regulations, 2010.
- “operational risks”:** means the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events and shall include legal risks, and exclude risks arising from strategic decisions as well as reputation risks.
- “Personal Questionnaire”:** means the Personal Questionnaire in the form and content set out in Annex 1 of Chapter 2 in Part A of these Insurance Rules.
- “the press”:** in relation to a publicity notice, means the local daily newspapers published in the Maltese language and the English language or,

where the risk is a risk situated outside Malta or a commitment where Malta is not the country of commitment, in two daily newspapers in that country, to the exclusion of all other printed publications.

- “probability distribution forecast”**: means a mathematical function that assigns to an exhaustive set of mutually exclusive future events a probability of realisation.
- “proposed acquirer”**: means any natural or legal person or persons acting in concert who have taken a decision either to acquire directly or indirectly a qualifying holding in an authorised insurance undertaking or an authorised reinsurance undertaking or to further increase, directly or indirectly, such a qualifying holding in an authorised insurance undertaking or an authorised reinsurance undertaking.
- “protected cell”**: means a cell in terms of the Companies Act (Cell Companies Carrying on Business of Insurance) Regulations, 2010.
- “protected cell company”**: means a cell company in terms of the Companies Act (Cell Companies Carrying on Business of Insurance) Regulations, 2010.
- “publicity notice”**: in relation to a notice given to the competent authority by an authorised insurance undertaking or an authorised reinsurance undertaking to cease wholly or partly to carry on the business of insurance it is authorised to carry on, means a notice which includes the information set out in Section 12.6 of Chapter 12 in Part B of the Insurance Rules.
- “qualifying central counterparty”**: means a central counterparty that has been either authorised in accordance with Article 14 of Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories, or recognised in accordance with Article 25 of that Regulation.
- “risk measure”**: means a mathematical function which assigns a monetary amount to a given probability distribution forecast and increases monotonically with the level of risk exposure underlying that probability distribution forecast.
- “risk-mitigation techniques”**: means all techniques which enable an authorised insurance undertaking and an authorised reinsurance undertaking to transfer part or all of their risks to another party.
- “significant influence”**: is exercised where a proposed acquirer’s shareholding, although

below the 10% threshold allows it to exercise a significant influence over the management of the authorised insurance undertaking or an authorised reinsurance undertaking (for example allows it to have a representative on the board of directors.

**“underwriting risk”:** means the risk of loss or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions.

**“voting rights”:** shall be calculated on the basis of all the shares to which voting rights are attached even if the exercise thereof is suspended. Voting rights exercised in any of the following cases or a combination of them shall also be included:

- (a) voting rights held by a third party with whom a person has concluded an agreement, which obliges the person and the third party to adopt, by concerted exercise of the voting rights they hold, a lasting common policy towards the management of the issuer in question;
- (b) voting rights held by a third party under an agreement concluded with a person providing for the temporary transfer for consideration of the voting rights in question;
- (c) voting rights attaching to shares which are lodged as collateral with a person, provided the person controls the voting rights and declares its intention of exercising them;
- (d) voting rights attaching to shares in which a person has the life interest;
- (e) voting rights which are held, or may be exercised within the meaning of paragraphs (a) to (d), by an undertaking controlled by a person;
- (f) voting rights attaching to shares deposited with a person which person can exercise at its discretion in the absence of specific instructions from the shareholders;
- (g) voting rights held by a third party in its own name on behalf of a person;
- (h) voting rights which a person may exercise as a proxy where the person can exercise the voting rights at its discretion in the absence of specific instructions from the shareholders.

Words and expressions used in these Insurance Rules and defined in the Act have the same meaning as in the Act, unless indicated otherwise in this Glossary to the Insurance Rules issued under the Act.