

Michael C Bonello: Validating Malta's strategy to create an international financial centre

Remarks by Mr Michael C Bonello, Governor of the Central Bank of Malta, at the opening of the Mediterranean Bank plc, Valletta, 29 September 2006.

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I should first of all like to thank the management of Mediterranean Bank plc for inviting me to officiate at the opening of these premises. Mediterranean Bank is a welcome addition to Malta's growing financial sector. Its focus on private banking, in particular on portfolio and wealth management services, represents a niche activity which offers much scope for further development.

On this occasion I would like to reflect on two particularly significant aspects of Mediterranean Bank's decision to locate in Malta with a view to servicing clients in the Mediterranean basin.

The first is that it represents a further validation of Malta's strategy to create an international financial centre as a major pillar of its economy. Here, I would like to salute the vision and pragmatism of those politicians and technocrats who in the early 1990s steered this project to a successful conclusion. Today, financial intermediation activities alone directly contribute between 6% and 7% of the country's GDP. This success is a unique example of what a bipartisan approach to strategic economic choices can achieve. It should indeed serve as an encouragement to our political leaders to tackle to-day's much needed reforms in a similar manner.

Allow me to recall some facts to underline the impressive growth of the financial sector. There has been steady expansion all along, but especially since EU membership. 31 new licences for financial services operators were issued during 2004, 93 in 2005 and a further 61 up to June of this year.

Membership of the EU is contributing to this growth also as a result of the adoption of the single passport regulations and the right to provide cross-border services. There are 99 institutions with passporting rights in Malta today, and two Maltese credit institutions have passporting rights in the EU.

The banking sector is composed of 18 banks, of which 6 are domestic and 12 foreign controlled. The combined balance sheet of the domestic banks has grown by an average annual rate of 7% in the past two-and-a-half years and their assets to GDP ratio, at 280%, is comparable to the average for the euro area. For the entire banking system, this ratio is closer to 750%.

In the area of investment services, there are currently 21 professional investment funds targeting institutional investors and high net worth customers, and 66 sub-funds, with a total net asset value of Lm1.22 billion.

The number of local collective investment schemes (CISs) stands at 14, with 52 sub-funds, and shareholders' funds total over Lm0.5 billion.

The insurance sector has also been growing rapidly of late, with four new licences being issued during the first half of 2006. To date, there are 33 insurance principals registered in Malta, 16 of them are foreign companies offering their services through insurance agents.

Passporting rights have been well availed of in this sector, too, and the total number of Notifications for European Insurance Undertakings to carry on business in Malta under the Freedom to Provide Services directive now stands at 204.

The other reflection I would like to share with you is inspired by an interview given recently by the CEO of Mediterranean Bank to a local economic magazine, in which Malta was referred to as 'a secure EU jurisdiction'. In this same context it was stated that 'Malta's stability is an important part of its appeal as a banking location'.

While such accolades are indeed welcome, they do not come entirely as a surprise. For when Malta's financial legislation was overhauled in 1994, and when EU legislation was later transposed in anticipation of EU membership, an intended by-product was indeed the incorporation of the highest international standards and best practices into Maltese financial laws and regulations.

This was accompanied by a strengthening of the institutional framework for the regulation and oversight of the financial system. In 2002 the Malta Financial Services Authority (MFSA) became the single regulator for financial services when it took over the responsibility for the banking sector from

the Central Bank of Malta (CBM). The Bank then assumed responsibility for ensuring the stability of the entire financial system.

A year later Malta volunteered to undergo a Financial Sector Assessment Programme (FSAP) by the IMF and the World Bank. After a thorough examination by a team of international experts, our financial system was certified as being healthy, well supervised in the context of a comprehensive legal framework, and strongly compliant with most of the relevant international standards and codes.

We cannot, of course, afford to be complacent. A good reputation takes time and considerable effort to earn, but can easily be lost. It is the joint responsibility of the CBM and the MFSA, the credit institutions and the other financial service providers, and of all market participants, including the financial lawyers and accountants, to ensure that Malta's financial centre remains synonymous with integrity, efficiency and reasonable costs.

I emphasize this point because the recent rapid growth in the depth and breadth of the financial sector, and the expectation of further expansion, has sometimes given rise to behaviour - such as the use of aggressive methods to induce prospective customers to buy financial products and services and the resort to misleading advertising - which stretches the interpretation of our laws and regulations close to their limit. There should be no doubt in anybody's mind that the CBM and the MFSA, acting in the common interest, will continue to exercise their respective responsibilities with diligence and rigour to ensure the integrity and stability of the financial system.

In conclusion, I would like to wish Mediterranean Bank success in their Malta venture and to express the hope that their presence here will also serve to enhance the reputation of our financial centre.