Welcome to the transformative age

EY's Attractiveness Survey
Malta
October 2018
EY’s attractiveness surveys

EY’s attractiveness surveys are widely recognized by our clients, the media and major public stakeholders as a key source of insight into foreign direct investment (FDI). Examining the attractiveness of a particular region or country as an investment destination, the surveys are designed to help businesses to make sound financial decisions, and governments to remove barriers to future growth. A two-step methodology analyzes both the reality and perception of FDI in the respective country or region. Findings are based on the views of representative panels of international and local opinion leaders and decision-makers.

For more information, please visit ey.com/attractiveness.
Contents

Page 4
   Welcome

Page 6
   Executive summary

Page 10
   FDI facts at a glance

Page 18
   Perception

Page 26
   Future

Page 36
   EY’s bolt-on surveys: sectors in depth

Page 40
   Methodology

Page 42
   Publications

Page 46
   EY member firms in Malta
Disruption?
Then what?

Until recently, the paradigm-shifting term used to point toward the future was "disruption". No conversation was complete without it, and it was forcefully promoted as the key to understanding practically every gnawing issue in business. Disrupting markets, processes, institutions and models started to sound like the answer, rather than the question.

It is now becoming increasingly clear that, important as it may be, disruption is the symptom rather than the cause of the fundamental changes taking place in our world. Clearly, disruption was and will remain the heads-up for a wider epochal change. But it's only a heads up to a future we are still in the process of imagining. To come to terms with what is in store for us in the near and - even more so - distant future, we need to shift gear to a related but very distinct and much more far-reaching phenomenon. That of transformation.

Transformation is taking place everywhere around us and at all levels - in the way we communicate, buy, sell, invest, pay, work, move, instruct and learn. Even the way we decide is being transformed. Some are going as far as to contemplate our transformation as members of the human species. We are in the process of radically changing who and what we are.

Malta has made admirable strides forward to be proactive in embarking on this exciting journey, particularly with its efforts to become the blockchain island and to seriously embrace the challenge of FinTech. Positive signals about artificial intelligence, digitalization and other emerging areas are also helpful. I am optimistic that, if we continue to pursue this path, the Transformative Age will welcome us even before we welcome it.

In this context, it is once again a pleasure to share the results of this year’s EY survey of foreign investors in Malta - what they like and dislike about this country, their hopes, plans, and warnings. Here's a quick preview.

Although there was a decline, three out of every four investors still believe that Malta remains attractive to their business. Equally significant, four out of every five are committed to remain here in 10 years, while 65% have expansion plans, the highest in the last three years.

Our key attractions are tax, stability of social climate and our telecoms infrastructure. The weakest links are the stability and transparency of the political, legal and regulatory environment, R&D environment, and transport infrastructure.

Which growth sectors are current investors seeing as the carriers of our future? Tourism and FinTech have joined iGaming and digital media at the forefront - a far cry from our 2016 event, when the term "FinTech" was hardly known.

What's the biggest risk to our attractiveness? Simple. Finding the right talent is the key challenge for 64% of current investors.

In sum, Malta remains an attractive destination for investors. But to remain so, we have to pay attention to our weaknesses and, more importantly, act upon them.

Throughout the ages, Malta was always hampered by its small size and population. But that was then. This is now. In the Transformative Age, what was a minus becomes a plus. Our small size can actually help us be more nimble and agile in our journey to the forefront of our times.

With the right mindset, a clear vision and more ambition, we can really think about the unthinkable. And from thinking it, we can proceed to making it happen.
**Population**

436,947

**Official languages**

Maltese, English

**Area**

316km²

**1964**

Commonwealth membership

**2004**

EU membership

**2008**

Euro currency

**1964**

Commonwealth membership

**2004**

EU membership

**2008**

Euro currency

**GDP**

€11b

**GDP growth in 2017**

6.6%

**GDP growth in 2017**

6.6%

**Unemployment rate**

3.3%

**Inbound tourism**

2.2m

**Leading industries**

- Financial services
- Tourism
- Manufacturing
- iGaming

**VAT rate**

18%

**Imports**

€5,931m

**Exports**

€3,927m

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The transformative age is changing how we live, work and play. Increasing global competition means that Malta must consolidate its position at the forefront of innovation and remain an attractive FDI destination. Encouragingly, a majority of current foreign investors believe that Malta is an attractive destination for FDI, a preference which is driven primarily by corporate taxation, the stability of the social climate and the potential productivity increase of one’s firm.

Effective and efficient legislation will continue to play an important role in attracting more FDI. Recent regulatory developments for innovative technologies such as blockchain and distributed ledger technology (DLT) will also be key. Business investors increasingly believe that Malta is keeping pace with regulatory changes in competing jurisdictions while simultaneously providing investors with the potential to exploit competitive advantages in both European and global markets.

The future of work is changing and new technologies are driving fundamental changes in how we work, where we work, who does the work, and what work is. As Malta’s economy continues to flourish, the ability to source skilled and un-skilled labor is becoming increasingly challenging. However, investors’ ability to retain specialized personnel remains relatively high.

### Malta’s most attractive FDI parameters

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate taxation</td>
<td>88%</td>
</tr>
<tr>
<td>Stability of social climate</td>
<td>75%</td>
</tr>
<tr>
<td>Potential productivity increase for your company</td>
<td>67%</td>
</tr>
</tbody>
</table>

### Malta’s areas for improvement

<table>
<thead>
<tr>
<th>Area</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stability and transparency of political, legal and regulatory environment</td>
<td>44%</td>
</tr>
<tr>
<td>R&amp;D and innovation environment</td>
<td>37%</td>
</tr>
<tr>
<td>Transport and logistics infrastructure</td>
<td>26%</td>
</tr>
</tbody>
</table>

### Keeping pace with regulatory changes

- Yes: 83%
- No: 7%
- Can’t say: 10%

### Offers an international advantage

- Yes: 56%
- No: 22%
- Can’t say: 23%

### Managing to retain specialized personnel

- Yes: 81%
- No: 19%

### Managing to find and recruit the required specialized skills in the local labor market

- Yes: 36%
- No: 64%
Technology

As the world forges ahead with digital transformation, decision-makers are working to ensure that the right game-changing technologies are adopted. Investors believe that around two-thirds of their staff have the right skills to keep up with these changes. The technologies expected to have the largest impact on respondents’ businesses include process automation, computing advancements and business model innovation.

63%

Right skills in place to keep up with technology

Technological developments and their impact on business

- Process automation: 57%
- Computing advancements: 55%
- Business model innovation: 28%
- Internet of things and wearable technologies: 27%
- Advanced materials and manufacturing techniques: 10%
- Autonomous vehicles: 6%
- None of the above: 12%

International

For many years, Malta has positioned itself favorably on a global level. Survey respondents note that the talent shortage and economic and political instability in the EU, together with the rise in populist and protectionist feelings, will impact their future investment decision. A large majority of respondents have witnessed no change to their business since the Brexit referendum.

Effects on business since Brexit referendum

- 77% Stayed the same
- 19% Improved
- 4% Deteriorated

International risks affecting companies located in Malta

- The talent shortage: 57%
- The economic and political instability in the EU (excluding Brexit): 26%
- The competition from emerging markets: 22%
- The rise in populist and protectionist feelings among politicians and populations: 22%
- The impact of Brexit: 19%

Future

This is an era of unprecedented transformations with limitless opportunities. The challenge is figuring out how to leverage technology most effectively to achieve the desired business outcomes. Foreign companies continue to demonstrate their interest in retaining their business operations in Malta over the next 10 years. In addition, an increasing number of companies are planning to expand their operations.

Presence in Malta in 10 years’ time

- 78% Yes
- 18% No
- 3% Maybe

Expansion plans over the next year

- 65% Yes
- 17% No
- 17% Can’t say

Source: all 2018 respondents.
Many have expressed surprise at Malta’s economic success. They fail to understand how a small country surrounded by much larger ones that are doing so badly could be going in the opposite direction. But in the digital age, being small in landmass, population and resources does not have to be a barrier to accomplishments. Also, one’s fate is less determined by that of one’s immediate neighbors. What garners results is the size of a nation’s ambition, its ability to turn that vision into a workable strategy, plus technology and talented people to turn those policies into reality.

And that is why we punch way above our weight, both in Europe and around the world. This is reflected in our positive reputation as well as our attractiveness as a country whose people want to do business and enjoy a high quality of life. Today, over one-fifth of our workers are foreign born, and FDI flows last year amounted to 25% of GDP. Such success does not happen by chance. We have all worked relentlessly and in all sectors to get to where we are today.

Over the last 12 months, we have averaged real Gross Domestic Product (GDP) growth of 6% and our unemployment has fallen below 4%. But our achievements go beyond the economic, and we have been praised worldwide for our advancement in civil liberties, from strengthening freedom of the press legislation to women’s rights, upgrading our roads and health care facilities, and free transport for schoolchildren.

We have also embraced innovation, especially within DLT technology, becoming the first country in the world to pass legislation on blockchain – regulating what was previously unregulated.

This gives business confidence – so important in a transformative age in which technology will continue to revolutionize every sector. We will continue to create an environment that helps the local and international business community to thrive; a fertile place for start-ups and entrepreneurs to be creative. And it’s working. World-renowned companies continue to relocate and expand their operations to Malta. This boosts job opportunities, generates more wealth in our economy, and puts Malta on the map through constant innovation. Globally, a country’s economic power is being increasingly judged by its technological prowess.

Naturally, we face many challenges. But we are working hard to address them. We need more skilled workers who are key to entrepreneurs’ endeavors. To do this, we are providing more information to students through an employability index, so they can see where the gaps in skills and jobs are. Our education institutes are partnering with business to create tailored courses, and we are streamlining processes to allow the recruitment of non-EU nationals. To address pressure on the housing market resulting from the high demand from those moving to Malta, we are focusing on increasing properties available on the rental market while introducing more safeguards. At the same time, we will be using part of the proceeds of our economic success to finance the largest investment in social housing and infrastructure in our country's history.

Malta will continue to be a trailblazer this year, bringing about all the necessary change to strive forward with its vision, conquering challenges and building on its achievements. And we are committed to investing in thinkers and doers to achieve even more – proving that the size of a country does not limit its ambition, economic successes and attractiveness to business.
### Main features of country forecast: Malta

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>10191.7</td>
<td>100</td>
<td>2.7</td>
<td>8.1</td>
<td>9.9</td>
<td>5.5</td>
<td>6.6</td>
<td>5.8</td>
<td>5.1</td>
</tr>
</tbody>
</table>

### GDP identity from the production (output) side by sector

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry and fishing</td>
<td>6,281,167</td>
<td>6,716,618</td>
<td>7,432,634</td>
<td>8,416,709</td>
<td>8,994,657</td>
<td>9,832,057</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply; water supply; sewerage, waste management and remediation activities</td>
<td>13</td>
<td>13</td>
<td>12</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholesale and retail trade; transportation and storage; accommodation and food service activities</td>
<td>22</td>
<td>23</td>
<td>22</td>
<td>23</td>
<td>23</td>
<td>22</td>
<td></td>
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<tr>
<td>Information and communication</td>
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<td>6</td>
<td>7</td>
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<td>7</td>
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<td>Financial and insurance activities</td>
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<td>8</td>
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<td>7</td>
<td>6</td>
<td></td>
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<tr>
<td>Real estate activities</td>
<td>6</td>
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<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professional, scientific and technical activities; administrative and support service activities</td>
<td>10</td>
<td>11</td>
<td>12</td>
<td>13</td>
<td>13</td>
<td>15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public administration and defense; compulsory social security; education; human health and social work activities</td>
<td>19</td>
<td>19</td>
<td>18</td>
<td>17</td>
<td>17</td>
<td>17</td>
<td></td>
<td></td>
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<tr>
<td>Arts, entertainment and recreation, repair of household goods and other services</td>
<td>9</td>
<td>10</td>
<td>13</td>
<td>13</td>
<td>13</td>
<td>13</td>
<td></td>
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</tr>
</tbody>
</table>

Taking stock

The success of Malta Enterprise (ME) in attracting investment has contributed significantly to ensuring that the robust growth attained is sustained and nourished further. During 2017, ME's efforts continued to bear fruits with the approval of 19 foreign greenfield projects and 12 expansions by foreign companies. ME also approved 97 projects in favor of Maltese investors.

ME has been successful in attracting new greenfield initiatives in logistics, life sciences, advanced manufacturing, software development and digital media. These projects originated from around the globe and include but are not limited to countries such as Israel, the UK, Germany, the US, Canada, India and Switzerland. Expansions have also materialized across all major high value-added sectors such as aviation, electronics, advanced manufacturing, life sciences, ICT and digital media, further consolidating Malta's productive sectors.

The Safi Aviation Park, the Life Sciences Park and the Digital Hub continue to grow and are evolving into important clusters within the Maltese economy.

### FDI facts at a glance

#### FDI project applications approved by ME, 2006–17

<table>
<thead>
<tr>
<th>Year</th>
<th>Projects approved</th>
<th>Average investment per application (€m)</th>
<th>Average employment per application</th>
<th>Average investment per employee (€)</th>
<th>Projects approved</th>
<th>Average investment per application (€m)</th>
<th>Average employment per application</th>
<th>Average investment per employee (€)</th>
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<tbody>
<tr>
<td>2006</td>
<td>24</td>
<td>1.19</td>
<td>51</td>
<td>23,284</td>
<td>17</td>
<td>2.43</td>
<td>43</td>
<td>56,653</td>
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<tr>
<td>2007</td>
<td>25</td>
<td>1.84</td>
<td>39</td>
<td>46,843</td>
<td>11</td>
<td>1.00</td>
<td>31</td>
<td>32,544</td>
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<tr>
<td>2008</td>
<td>13</td>
<td>1.67</td>
<td>40</td>
<td>41,892</td>
<td>9</td>
<td>0.83</td>
<td>16</td>
<td>53,571</td>
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<tr>
<td>2009</td>
<td>12</td>
<td>4.79</td>
<td>54</td>
<td>88,598</td>
<td>6</td>
<td>4.48</td>
<td>50</td>
<td>90,572</td>
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<td>2010</td>
<td>2</td>
<td>0.16</td>
<td>58</td>
<td>2,783</td>
<td>2</td>
<td>4.10</td>
<td>73</td>
<td>56,552</td>
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<td>2011</td>
<td>9</td>
<td>14.43</td>
<td>44</td>
<td>325,564</td>
<td>6</td>
<td>3.48</td>
<td>43</td>
<td>81,323</td>
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<td>2012</td>
<td>2</td>
<td>1.05</td>
<td>19</td>
<td>55,263</td>
<td>10</td>
<td>2.37</td>
<td>22</td>
<td>106,757</td>
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<td>2013</td>
<td>36</td>
<td>1.78</td>
<td>33</td>
<td>53,461</td>
<td>15</td>
<td>2.83</td>
<td>22</td>
<td>127,246</td>
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<tr>
<td>2014</td>
<td>28</td>
<td>1.33</td>
<td>37</td>
<td>35,369</td>
<td>15</td>
<td>3.66</td>
<td>39</td>
<td>92,749</td>
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<tr>
<td>2015</td>
<td>20</td>
<td>0.78</td>
<td>29</td>
<td>26,587</td>
<td>10</td>
<td>2.04</td>
<td>24</td>
<td>84,651</td>
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<tr>
<td>2016</td>
<td>11</td>
<td>12.7</td>
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<td>261,910</td>
<td>15</td>
<td>3.82</td>
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<td>94,243</td>
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<tr>
<td>2017</td>
<td>19</td>
<td>2.3</td>
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<td>96,872</td>
<td>12</td>
<td>8.50</td>
<td>62</td>
<td>136,682</td>
</tr>
</tbody>
</table>

Malta’s stock position

The National Statistics Office (NSO) reports that Malta’s FDI stock position¹ (outward FDI investments) was estimated at €169.8 billion as at December 2017. A total of €166.4 billion was attributable to financial and insurance activities (including special purpose entities²) which is similar to previous years, contributing 98% of the total figure. This amounts to an increase of around €4.1 billion over the corresponding period in the previous year.

FDI in Malta – stock position: economic activities

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td></td>
<td>€m</td>
<td>€m</td>
<td>€m</td>
<td>€m</td>
<td>€m</td>
<td>€m</td>
<td>€m</td>
<td>€m</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>868</td>
<td>960</td>
<td>1,013</td>
<td>1,123</td>
<td>1,171</td>
<td>1,203</td>
<td>1,119</td>
<td>1,180</td>
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<tr>
<td>Transportation, accommodation and real estate activities</td>
<td>1,105</td>
<td>1,132</td>
<td>1,142</td>
<td>1,251</td>
<td>1,260</td>
<td>1,338</td>
<td>1,403</td>
<td>1,460</td>
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<tr>
<td>Financial and insurance activities</td>
<td>133,806</td>
<td>140,150</td>
<td>144,003</td>
<td>148,999</td>
<td>153,651</td>
<td>158,210</td>
<td>162,289</td>
<td>166,442</td>
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<td>Information and communication</td>
<td>2</td>
<td>12</td>
<td>39</td>
<td>72</td>
<td>116</td>
<td>130</td>
<td>139</td>
<td>140</td>
</tr>
<tr>
<td>Professional, scientific and technical activities</td>
<td>63</td>
<td>38</td>
<td>48</td>
<td>48</td>
<td>130</td>
<td>133</td>
<td>137</td>
<td>140</td>
</tr>
<tr>
<td>Other activities</td>
<td>250</td>
<td>479</td>
<td>337</td>
<td>369</td>
<td>358</td>
<td>450</td>
<td>361</td>
<td>444</td>
</tr>
<tr>
<td>Total</td>
<td>136,097</td>
<td>142,773</td>
<td>136,195</td>
<td>151,865</td>
<td>146,650</td>
<td>161,466</td>
<td>165,451</td>
<td>169,808</td>
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</table>


FDI flows in Malta

<table>
<thead>
<tr>
<th>Activity</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
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<tbody>
<tr>
<td></td>
<td>€m</td>
<td>€m</td>
<td>€m</td>
<td>€m</td>
<td>€m</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>101</td>
<td>45</td>
<td>138</td>
<td>48</td>
<td>3</td>
</tr>
<tr>
<td>Transportation, accommodation and real estate activities</td>
<td>41</td>
<td>32</td>
<td>69</td>
<td>89</td>
<td>122</td>
</tr>
<tr>
<td>Financial and insurance activities</td>
<td>8,839</td>
<td>8,457</td>
<td>3,894</td>
<td>3,257</td>
<td>2,664</td>
</tr>
<tr>
<td>Information and communication</td>
<td>−7</td>
<td>4</td>
<td>63</td>
<td>34</td>
<td>19</td>
</tr>
<tr>
<td>Professional, scientific and technical activities</td>
<td>−6</td>
<td>−6</td>
<td>2</td>
<td>6</td>
<td>6</td>
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<tr>
<td>Other activities</td>
<td>72</td>
<td>16</td>
<td>18</td>
<td>−1</td>
<td>−8</td>
</tr>
<tr>
<td>Total</td>
<td>9,041</td>
<td>8,549</td>
<td>4,185</td>
<td>3,433</td>
<td>2,806</td>
</tr>
</tbody>
</table>


¹ The stock position refers to the balance sheet position of FDI-related items at the end of the period. Apart from the transactions carried out during the period, the position incorporates changes in the exchange rate, valuation and others.

² Special purpose entities are companies that, although set up in a specific country, have little or no operations in it, and have no, or a small number of, employees. However, since they are registered in the country, they are regarded as resident units.
Malta – an iGaming hub
Malta was the first EU Member State to regulate the remote gaming market in 2004 and has since established itself as a significant gaming hub with global relevance. Since 2004, the iGaming industry in Malta has grown significantly. In 2017, the land-based and remote gaming segments continued to grow. According to NSO’s 2017 statistics, the sector directly accounts for 11.3% of Malta’s gross value added.

The gaming industry is estimated to have generated just over €1.1 billion in terms of gross value added in 2017. In 2017, the Malta Gaming Authority (MGA) issued a total of 165 new remote gaming licenses.

Number of licenses issued by MGA

<table>
<thead>
<tr>
<th>Class 1</th>
<th>Class 1 on 4</th>
<th>Class 2</th>
<th>Class 2 on 4</th>
<th>Class 3</th>
<th>Class 3 on 4</th>
<th>Class 4</th>
<th>Controlled skill game - service (B2C)</th>
<th>Controlled skill game - supply (B2B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>19</td>
<td>359</td>
<td>277</td>
<td>246</td>
<td>85</td>
<td>88</td>
<td>31</td>
<td>14</td>
<td>12</td>
</tr>
<tr>
<td>16</td>
<td></td>
<td></td>
<td></td>
<td>27</td>
<td>28</td>
<td>31</td>
<td>22</td>
<td>30</td>
</tr>
<tr>
<td>21</td>
<td></td>
<td></td>
<td></td>
<td>30</td>
<td>66</td>
<td>59</td>
<td>62</td>
<td>11</td>
</tr>
</tbody>
</table>


Viewpoint
Forward-looking regulation toward global industry relevance

Heathcliff Farrugia
Chief Executive Officer, MGA
The contribution of the gaming sector to the Maltese economy is now entrenched at around one-eighth of the total, following a period of year-on-year growth in excess of 10%. This was underpinned by the competitiveness of the jurisdiction for global operators – its reputable and robust regulatory environment, cost-effective operating structures, the availability of human capital and the overall attractive lifestyle conditions. The continued growth of the solid base of activity coupled with the attraction of new quality business is expected to sustain the gaming sector in Malta for years to come. Government and public investment promotion agencies are continuing to invest to sustain the key business drivers that have served the industry so well over the years. At the same time, the regulator is focusing on strengthening the supervision of the sector. With the introduction of the new legal framework, additional powers given to the MGA are poised to strengthen effective supervision of this dynamic sector. This will be done through the implementation of a risk-based approach to compliance and Anti Money Laundering and Counter-Financing of Terrorism (AML/CFT) supervision, enhanced monitoring and control functions, and a thorough revamp of consumer protection standards. Simultaneously, the new framework reduces unnecessary regulatory burdens and removes duplication of checks, thereby minimizing the cost of doing business and laying the foundations for the industry to be able to embrace new technologies to better meet the needs of an ever-evolving global industry. Malta will thus continue to enhance its global relevance as an EU gaming jurisdiction of excellence by consolidating its reputation as a thought leader in industry regulation, ensuring that it remains attractive as a reputable place where operators establish themselves.
companies were licensed as financial institutions under the Financial Institutions Act last year.

Financial services in Malta
In 2017, there was an increase in licenses, and authorizations to carry out various types of activities were registered in the investment services, trusts, pensions and insurance business sectors. According to the Malta Financial Services Authority (MFSA), 48 companies were licensed as financial institutions under the Financial Institutions Act last year.

At the end of the year, 63 insurance undertakings held an authorization to carry on insurance and reinsurance activities in terms of the Insurance Business Act (Cap. 403). This represents a net increase of two undertakings over the previous year.

Investment services registered high levels of growth in 2017, with 162 companies licensed to provide them in terms of the Investment Services Act, 6 more than in the previous year.

The MFSA licensed 97 new funds (including sub-funds) in 2017, of which 9 were licensed as AIFs, 58 as PIF and 30 as UCITS funds. Moreover, 17 funds were included in the list of notified AIFs while 1 was removed from the list. The MFSA also accepted the surrender of 74 fund licenses (including sub-funds), made up of 49 PIF licenses, 12 AIF licenses, 2 retail non-UCITS and 10 UCITS licenses.

Over the course of 2017, the MFSA issued 11 new authorizations in terms of the Trusts and Trustees Act, while another two companies surrendered their authorization. This brings the number of authorizations at the end of the year to 167, 9 more than the previous year.

In addition, the MFSA issued six new acknowledgments in terms of Article 18 of the Securitisation Act, of which five were securitization cell companies. Moreover, 13 cells were issued with an acknowledgment in terms of Regulation 22 of the Securitisation Cell Companies Regulations. At the end of 2017, there were 40 notified securitization vehicles, of which 15 were securitization cell companies.

Viewpoint

Beyond "nice to have"
Kenneth Farrugia
Chairman, FinanceMalta

The onset of digital transformation is gaining very strong momentum. In our sector, it is being driven by the fast-paced developments in the FinTech space that are rapidly disrupting traditional business models, particularly in banking. These developments will in turn bring about significant disintermediation of the market.

In this context, as digital consumers are becoming more demanding, the ability to personalize experiences and customize solutions has become critical rather than just "nice to have." Consequently, long-standing institutions wishing to survive in this dynamic, challenging and fast-changing environment need to hard code a customer-centric organizational culture. It will have to be a culture that enables them to anticipate emerging changes in consumer behavior and customize relevant data interactions to ensure a better consumer journey.
The digitally transformed banks

Mario Mallia
Chief Executive Officer,
Bank of Valletta plc

Digitalization has been the catalyst of change and transformation of European societies and economies for decades, accelerating business activities and processes. For 2018 and beyond, banks must contend with multiple challenges tied to regulations, legacy systems, disruptive models and technologies.

FinTech firms are capturing more of the banking value chain, providing services such as payments, cards, ATMs and traditional accounts that could erode much of the traditional bank revenues in the foreseeable future. These new entrants pose a threat to banks by raising service expectations and going between banks and their customers.

This is a time for banks to move towards being more strategically focused, technologically modern and operationally flexible. Simultaneously, they need to tackle complex regulations, new competitors and technologies.

The banking organization of the future must leverage the vast amount of insight it possesses to become the customer’s financial ecosystem hub. With the implementation of a new core banking system in collaboration with Oracle next year, Bank of Valletta will be one of the catalysts enabling it to remain at the forefront of Malta’s financial sector, a forward-looking organization and a driver for Malta’s booming economy.

Welcome to the Transformative Age

Mario Galea
Chief Executive Officer, ME

The global business climate in which we operate is going through a period of unprecedented transformation, simultaneously creating exciting opportunities as well as threats. In view of this, during this age of transformation, both Malta and ME are at the forefront in capitalizing on opportunities opening up in the life sciences, DLT, advanced ICT, innovative manufacturing and other sectors.

Furthermore, ME is sharpening its focus to support Malta-based industries to consolidate their base as they transform themselves to remain competitive in this new reality.
**Redomiciliation of companies**

In 2017, 106 companies transferred their operations to Malta in line with the Continuation of Companies Regulations under the Companies Act; 25% of them originated from other EU countries.

Redomiciled companies in 2017 came from the following categories:

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Holding</td>
<td>69</td>
</tr>
<tr>
<td>Other</td>
<td>21</td>
</tr>
<tr>
<td>Real estate</td>
<td>4</td>
</tr>
<tr>
<td>IT activities</td>
<td>2</td>
</tr>
<tr>
<td>Marketing, promotion and consultancy</td>
<td>2</td>
</tr>
<tr>
<td>Construction</td>
<td>2</td>
</tr>
<tr>
<td>Betting, gambling and gaming</td>
<td>1</td>
</tr>
<tr>
<td>Securities</td>
<td>1</td>
</tr>
<tr>
<td>Financial institutions</td>
<td>1</td>
</tr>
<tr>
<td>Shipping</td>
<td>1</td>
</tr>
<tr>
<td>Transportation</td>
<td>1</td>
</tr>
<tr>
<td>Wholesale trading</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>106</strong></td>
</tr>
</tbody>
</table>


**Viewpoint**

Investing today for tomorrow

**Frank Farrugia**  
President, Malta Chamber of Commerce, Enterprise and Industry

At first glance, this year’s attractiveness scoreboard strengthens the arguments that the Malta Chamber has been making all along – the country needs to invest the proceeds of today’s economic performances to secure competitiveness tomorrow. The Malta Chamber of Commerce, Enterprise and Industry is of the opinion that this is an opportunity to initiate a thorough impact assessment of the country’s ongoing growth with a view to setting sustainable targets, identifying the ideal economic sectors for Malta. This would further recommend a way forward toward maximizing returns with the highest efficiency of resources.
In 2017, the MFSA received new notifications from new entities, through the respective Home Member State regulators, intending to passport their services into Malta.

### Number of new notifications

<table>
<thead>
<tr>
<th>Category</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>European credit institutions</td>
<td>22</td>
</tr>
<tr>
<td>Payment service</td>
<td>29</td>
</tr>
<tr>
<td>Electronic money</td>
<td>45</td>
</tr>
<tr>
<td>European insurance undertakings</td>
<td>20</td>
</tr>
<tr>
<td>European insurance intermediaries</td>
<td>226</td>
</tr>
<tr>
<td>Investment services</td>
<td>150</td>
</tr>
<tr>
<td>Regulated markets</td>
<td>1</td>
</tr>
<tr>
<td>UCITS schemes (including sub-funds)</td>
<td>18</td>
</tr>
<tr>
<td>EU AIFMs marketing in Malta</td>
<td>25</td>
</tr>
<tr>
<td>EU AIFMs managing AIFs or providing ancillary activities in Malta</td>
<td>19</td>
</tr>
<tr>
<td>European Venture Capital Fund (EuVECs) marketing in Malta</td>
<td>10</td>
</tr>
</tbody>
</table>


### Regulatory framework for virtual currencies, innovative technologies and DLT

Further to its efforts to place Malta as a hub for digital innovation, the MFSA has sought to develop a robust regulatory framework that gives blockchain and DLT industries the opportunity to innovate and develop. In 2018, the Maltese Government approved three acts, namely the Malta Digital Innovation Authority Act (MDIA), the Innovative Technology Arrangements and Services Act (ITAS) and the Virtual Financial Assets Act (VFA).

The new legislation and relevant rules aim to provide a solid regulatory and legislative framework for virtual currencies, the use of blockchain and DLT. They will help service providers to be recognized by the Government as being legitimately innovative in return for increased public confidence in the accountability of this rapidly growing sector.
▶ Seventy-four percent of investors believe Malta is attractive for FDI.
▶ The highest-ranked FDI parameters are corporate taxation and the stability of the social climate.
▶ Developing education and skills is key to tackling skill shortages.
▶ Malta is keeping pace with regulatory changes.
Attractiveness

Insurance and other financial services respondents are the most positive.

Malta remains attractive
Seventy-four percent of foreign direct investors who responded to EY’s Malta Attractiveness Survey 2018 believe that Malta is an attractive destination for FDI. This represents a four percentage point decrease over 2017. This is the second consecutive year during which the “yes” replies decreased slightly, corresponding to an increase in the “don’t know” replies. In fact, those that replied “no” have slightly decreased in number.

Analyzing the FDI attractiveness results by sector, insurance and other financial services respondents are the most positive. Respondents in the other sectors registered comparable results, with those in manufacturing being the least positive (66%) about Malta’s FDI attractiveness.

Foreign direct investors think that Malta is currently attractive

Source: all 2013-18 respondents.
**Investment decisions**

As in the past, corporate taxation and the stability of the social climate remained at the top of Malta’s highest-ranked FDI attractiveness parameters. The positive news for Malta is the improvement in the potential productivity increase for companies as a parameter to attract investment. This shows that investors are increasingly considering Malta as a jurisdiction that can improve their company’s productivity.

For the third consecutive year, the stability and transparency of the political, legal and regulatory environment parameter continued to decrease as an attractiveness factor.

Over the last year, the parameter’s attractiveness decreased by 14 percentage points and is now in seventh place, with less than half of respondents (44%) rating it as a driver to attract investment.

At the lower end of the scoreboard, the parameters that require most attention are similar to those of previous years. Investors again highlight Malta’s need to further nurture its R&D and innovation environment, and the transport and logistics infrastructure, in order to become more attractive to FDI.

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### Attractiveness scoreboard – Malta’s FDI attractiveness

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Very attractive and attractive</th>
<th>Neither attractive nor not attractive</th>
<th>Not attractive and not attractive at all</th>
<th>Not relevant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate taxation</td>
<td>88%</td>
<td>7%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Stability of social climate</td>
<td>75%</td>
<td>21%</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>Potential productivity increase for your company</td>
<td>67%</td>
<td>23%</td>
<td>8%</td>
<td>2%</td>
</tr>
<tr>
<td>Telecommunications infrastructure</td>
<td>56%</td>
<td>37%</td>
<td>8%</td>
<td></td>
</tr>
<tr>
<td>Labor costs</td>
<td>55%</td>
<td>36%</td>
<td>8%</td>
<td>2%</td>
</tr>
<tr>
<td>Flexibility of labor legislation</td>
<td>53%</td>
<td>27%</td>
<td>19%</td>
<td>1%</td>
</tr>
<tr>
<td>Local labor skills level</td>
<td>48%</td>
<td>28%</td>
<td>5%</td>
<td>18%</td>
</tr>
<tr>
<td>Level of protection of intellectual property rights</td>
<td>45%</td>
<td>22%</td>
<td>20%</td>
<td>13%</td>
</tr>
<tr>
<td>Domestic or regional market</td>
<td>44%</td>
<td>21%</td>
<td>34%</td>
<td>1%</td>
</tr>
<tr>
<td>Stability and transparency of political, legal and regulatory environment</td>
<td>37%</td>
<td>33%</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>R&amp;D and innovation environment</td>
<td>26%</td>
<td>23%</td>
<td>45%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: all 2018 respondents.

Note: some numbers may not add up due to rounding.
Focus areas to remain globally competitive

In order for Malta to remain globally competitive, respondents highlight key areas to focus on. Once again, a significant proportion (70%) is convinced that emphasis should be on developing Malta's education and skills. Investors would also like to see more support for high-tech and innovation industries (61%) and for small and medium-sized enterprises (59%).

A notable increase has been recorded in respondents who believe that the way forward for Malta is to tailor its regulation to keep pace with technological and other disruptions (50%).

<table>
<thead>
<tr>
<th>Focus areas to remain globally competitive</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop education and skills</td>
<td>70%</td>
<td>-3%</td>
</tr>
<tr>
<td>Support high-tech industries and innovation</td>
<td>61%</td>
<td>-3%</td>
</tr>
<tr>
<td>Support small and medium-sized enterprises</td>
<td>59%</td>
<td>9%</td>
</tr>
<tr>
<td>Invest in major infrastructure and urban projects</td>
<td>55%</td>
<td>-8%</td>
</tr>
<tr>
<td>Allow regulation to keep pace with technological and other disruptions</td>
<td>50%</td>
<td>12%</td>
</tr>
<tr>
<td>Encourage environmental policies and attitudes</td>
<td>40%</td>
<td>11%</td>
</tr>
<tr>
<td>Reduce taxation</td>
<td>40%</td>
<td>12%</td>
</tr>
<tr>
<td>Improve the quality of products and the value added to services</td>
<td>38%</td>
<td>11%</td>
</tr>
<tr>
<td>Facilitate access to credit, including venture capital and other financial tools</td>
<td>31%</td>
<td>-9%</td>
</tr>
<tr>
<td>Reduce labor costs</td>
<td>19%</td>
<td>3%</td>
</tr>
<tr>
<td>Support struggling industries</td>
<td>16%</td>
<td>8%</td>
</tr>
<tr>
<td>Increase level of protection of intellectual property rights</td>
<td>14%</td>
<td>-3%</td>
</tr>
<tr>
<td>Relax competition rules</td>
<td>3%</td>
<td>-2%</td>
</tr>
<tr>
<td>None of the above</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: all 2017–18 respondents.
Note: respondents could choose more than one area. Total number of mentions: 571.
Regulatory

The majority of investors believe that Malta is keeping pace with regulatory changes in competing jurisdictions.

Malta’s legislative framework

Eighty-three percent of investors believe that Malta is keeping pace with regulatory changes in competing jurisdictions. This proves to be a significant increase over 2017 when only 64% believed so. For the third consecutive year, all insurance respondents believe Malta is keeping pace with international regulatory changes. Increases were registered across most sectors, including in iGaming and other financial services.

Fifty-six percent of respondents believe that the Maltese legislative framework creates a competitive advantage in European and global markets. This is reflected in an increase in “yes” and “can’t say” replies over the previous two years. Respondents that indicated “no” have dropped by 11 percentage points in a single year.

The sectors with the highest number of affirmative replies are insurance (90%) and iGaming (77%). The sectors with the highest number of “no” replies are banking (33%) and other financial services sectors (26%).

Keeping pace with regulatory changes

<table>
<thead>
<tr>
<th>Year</th>
<th>Yes</th>
<th>No</th>
<th>Can't say</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>83%</td>
<td>7%</td>
<td>10%</td>
</tr>
<tr>
<td>2017</td>
<td>64%</td>
<td>19%</td>
<td>18%</td>
</tr>
<tr>
<td>2016</td>
<td>71%</td>
<td>11%</td>
<td>18%</td>
</tr>
</tbody>
</table>

Source: all 2018 respondents.

Offers an international advantage

<table>
<thead>
<tr>
<th>Year</th>
<th>Yes</th>
<th>No</th>
<th>Can't say</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>56%</td>
<td>22%</td>
<td>23%</td>
</tr>
<tr>
<td>2017</td>
<td>50%</td>
<td>33%</td>
<td>18%</td>
</tr>
<tr>
<td>2016</td>
<td>51%</td>
<td>34%</td>
<td>14%</td>
</tr>
</tbody>
</table>

Source: all 2018 respondents.
Skills
Investors’ ability to source skilled and unskilled labor remains a challenge.

Demand continues to outstrip supply
As Malta’s economy continues to flourish, investors’ ability to source skilled and unskilled labor remains a challenge. Sixty-four percent of respondents face difficulties finding or recruiting the personnel they need. This figure has risen over the last four years, amounting to 47% in 2015. The sectors encountering major skill shortages include ICT and telecommunications (100%), financial services (71%) and insurance (70%).

Find and recruit the required specialized skills in the local labor market

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>47%</td>
<td>45%</td>
<td>38%</td>
<td>36%</td>
<td></td>
</tr>
</tbody>
</table>
Source: all 2015-18 respondents.

81% of respondents are still managing to retain their specialized personnel.

Nonetheless, 81% of respondents are still managing to retain their specialized personnel, a similar result to previous years. Arguably, a high level of employee loyalty continues to exist.

As previously outlined, 70% of investors believe that it is key for Malta to continue to impart education and skills to remain attractive in the face of global competition. This result reinforces the importance of this parameter in retaining and attracting FDI to Malta.

Retain specialized personnel

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>85%</td>
<td>87%</td>
<td>82%</td>
<td>81%</td>
<td></td>
</tr>
</tbody>
</table>
Source: all 2015-18 respondents.
International

Global and regional geopolitical instability is highlighted as the biggest source of concern for future investment decisions.

The effect of international developments on business

Asked about the largest risks impacting their next investment decisions in Malta, 57% believe that the talent shortage is their most formidable challenge. The economic and political instability in the EU (excluding Brexit) is next with 26%, closely followed by competition from emerging markets and the rise in populist and protectionist feelings among politicians and populations, each with 22%.

These results can be compared with EY’s Europe Attractiveness Survey 2018, which gathers the views of 502 international decision-makers. Global and regional geopolitical instability (39%) is highlighted as the biggest source of concern for future investment decisions, followed by the economic and political stability in the EU, excluding Brexit (36%).
International risks affecting companies located in Malta and Europe

<table>
<thead>
<tr>
<th>Risk Category</th>
<th>Malta-based companies</th>
<th>Europe-based companies</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Talent shortage</td>
<td>57%</td>
<td>13%</td>
<td>44%</td>
</tr>
<tr>
<td>Economic and political instability in the EU (excluding Brexit)</td>
<td>26%</td>
<td>36%</td>
<td>-10%</td>
</tr>
<tr>
<td>Competition from emerging markets</td>
<td>22%</td>
<td>26%</td>
<td>-4%</td>
</tr>
<tr>
<td>Rise in populist or protectionist feelings among politicians and populations</td>
<td>22%</td>
<td>34%</td>
<td>-12%</td>
</tr>
<tr>
<td>Brexit</td>
<td>19%</td>
<td>30%</td>
<td>-11%</td>
</tr>
<tr>
<td>Slowdown in global trade flows</td>
<td>16%</td>
<td>12%</td>
<td>4%</td>
</tr>
<tr>
<td>Weak innovation capacity</td>
<td>14%</td>
<td>10%</td>
<td>4%</td>
</tr>
<tr>
<td>Global and regional geopolitical instability</td>
<td>13%</td>
<td>39%</td>
<td>-26%</td>
</tr>
<tr>
<td>Lack of capital</td>
<td>10%</td>
<td>9%</td>
<td>1%</td>
</tr>
<tr>
<td>High volatility in currencies, commodities and other capital markets</td>
<td>8%</td>
<td>16%</td>
<td>-8%</td>
</tr>
<tr>
<td>Unexpected rapid slowing of growth in China</td>
<td>3%</td>
<td>18%</td>
<td>-15%</td>
</tr>
<tr>
<td>None of the above</td>
<td>12%</td>
<td>2%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: all Malta Attractiveness Survey 2018 respondents and Europe Attractiveness Survey 2018 respondents.

**Brexit**

For the second consecutive year, respondents were asked for their thoughts on Brexit and the current and projected implications it may have for their businesses. The economic and political effect of Brexit will most probably be significant, although with such protracted negotiations, the real effect on businesses in Malta, the UK and the rest of the EU remains to be seen. According to EY’s Europe Attractiveness Survey 2018, the UK, France and Germany are classified as the top destinations for FDI.

In 2017, we asked investors how Brexit was impacting their operations in Malta. Twelve percent indicated that their business had improved in some way, mostly in the financial services and insurance areas. Interestingly, over the past year, this figure has increased by seven percentage points. A large majority still believe that Brexit has had no effect on their operations (77%), while those who feel they have deteriorated remained similar to last year (4%).

Companies in insurance, financial services, and ICT and telecommunications once again generally saw more improvements, while banking, manufacturing and iGaming were mostly unaffected.

**Effects on business since Brexit referendum**

Source: all 2017-18 respondents.
Sixty-three percent of companies have the right skills to keep up with technology.

Process automation will have the biggest impact on businesses.

Seventy-eight percent will be operating in 10 years’ time.

The leading business sectors are iGaming, tourism and leisure, payments and FinTech.
Technology

The hallmark of the transformative age is the combination of unprecedented change with limitless opportunities.

The transformative age

Technology is reshaping whole industries and creating a fundamental shift in everything we know. The hallmark of the transformative age is the combination of unprecedented change with limitless opportunities.

Right skills in place to keep up with technology

<table>
<thead>
<tr>
<th></th>
<th>Board level</th>
<th>Management level</th>
<th>Staff level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>73%</td>
<td>72%</td>
<td>20%</td>
</tr>
<tr>
<td>No</td>
<td>5%</td>
<td>4%</td>
<td>37%</td>
</tr>
<tr>
<td>Maybe</td>
<td>22%</td>
<td>23%</td>
<td></td>
</tr>
</tbody>
</table>

Source: all 2018 respondents.

Ultimately, it will be the human element that determines the extent of this transformation, founded on our skills, our hopes and our passions.

At all levels of their company, 63% believe they have the right skills in place to keep up with technology. Once again, investors are more confident about the skills found in their board (73%) and management (72%). However, there are concerns about their staff's ability to keep up with rapid technological advancements (43%).

Technology skills at all levels combined

No 10%  Maybe 28%  Yes 63%

Source: all 2018 respondents.
To help overcome this situation, investors are suggesting that policy-makers invest in digital technologies and infrastructure (70%) as well as enhancing workforce skills for the digital age (63%).

Areas the Maltese Government should prioritize to support the transformation to a digital economy

- Enhancing investments in digital technologies and infrastructure: 70%
- Enhancing workforce skills for the digital age: 63%
- Strengthening the legal framework for digital business: 51%
- Fostering digital innovation to modernize the public services: 43%
- Boosting digital entrepreneurship: 42%
- Investing in digital R&D: 41%
- Fostering a trustworthy ecosystem and investing in cybersecurity: 34%
- Strengthening the rules and regulations for data protection: 19%
- Other: 2%
- None of them: 2%

Source: all 2018 respondents.

Viewpoint

Ensuring agility and dynamism

Nikhil Patil
Chief Executive Officer, GO

We are firmly grounded in the transformative age. The many tools that have become a staple part of our lives, and which we largely take for granted, are seamlessly and constantly improving as a result of developments in technology. There is no escaping it. This is especially true for technology-intensive companies such as GO.

The convergence of technologies is radically transforming the services we offer to our business and private clients. We are fortunate to be living on the cusp of yet another revolutionary wave. Today, innovation is truly the name of the game.

We at GO firmly believe that at the core of every innovation lies a robust and reliable communications service. Over the past years, we have been a front-runner in the level of the investments made. This has positioned us well to enable businesses of all sizes to grow and innovate. We are proud to have provided all our clients with the necessary communication services to be agile and dynamic in today’s growing markets.
The technologies expected to have the biggest impact on respondents’ businesses include process automation (57%), computing advancements (55%) and business model innovation (28%).

<table>
<thead>
<tr>
<th>Impact of technological developments on business</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Process automation (including artificial intelligence, robotic process automation and machine learning)</td>
<td></td>
<td>-24%</td>
</tr>
<tr>
<td>Computing advancements (including processing power, blockchain, cloud and mobile internet)</td>
<td></td>
<td>0%</td>
</tr>
<tr>
<td>Business model innovation</td>
<td>28%</td>
<td>1%</td>
</tr>
<tr>
<td>Internet of things and wearable technologies (everyday objects that can communicate with each other through networks)</td>
<td>27%</td>
<td>-2%</td>
</tr>
<tr>
<td>Advanced materials and manufacturing techniques (including 3D printing and renewables)</td>
<td>10%</td>
<td>0%</td>
</tr>
<tr>
<td>Autonomous vehicles (including self-driving cars and drones)</td>
<td>6%</td>
<td>-3%</td>
</tr>
<tr>
<td>None of the above</td>
<td>12%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: all 2017-18 respondents.
Organizations are constantly adopting innovative technologies to remain ahead. This year’s survey provides insight into how foreign investors in Malta are faring with regard to technological adoption. From the list of innovative technologies provided, take-up of cloud computing (55%) is the most widespread, followed by data analytics (27%) and mobile (24%).

Blockchain and DLT are already in place for 5% of investors. However, the number of respondents expecting to have this technology in place over the next three years is expected to increase by 31 percentage points.

### Adoption of innovative technologies

<table>
<thead>
<tr>
<th>Technology</th>
<th>Already in place</th>
<th>This year</th>
<th>Next three years</th>
<th>No plans yet</th>
<th>Not applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cloud computing</td>
<td>55%</td>
<td>8%</td>
<td>10%</td>
<td>16%</td>
<td>11%</td>
</tr>
<tr>
<td>Data analytics and big data</td>
<td>27%</td>
<td>11%</td>
<td>24%</td>
<td>20%</td>
<td>17%</td>
</tr>
<tr>
<td>Mobile</td>
<td>24%</td>
<td>8%</td>
<td>16%</td>
<td>25%</td>
<td>27%</td>
</tr>
<tr>
<td>Process automation (including robotic process automation)</td>
<td>22%</td>
<td>7%</td>
<td>19%</td>
<td>21%</td>
<td>31%</td>
</tr>
<tr>
<td>Internet of things (IOT) and wearables</td>
<td>14%</td>
<td>3%</td>
<td>22%</td>
<td>33%</td>
<td>29%</td>
</tr>
<tr>
<td>Machine learning and artificial intelligence</td>
<td>11%</td>
<td>3%</td>
<td>22%</td>
<td>31%</td>
<td>33%</td>
</tr>
<tr>
<td>Conversational systems, bots and virtual assistants</td>
<td>8%</td>
<td>8%</td>
<td>10%</td>
<td>34%</td>
<td>40%</td>
</tr>
<tr>
<td>3D printing</td>
<td>7%</td>
<td>2%</td>
<td>6%</td>
<td>23%</td>
<td>63%</td>
</tr>
<tr>
<td>Blockchain and distributed ledger technologies</td>
<td>5%</td>
<td>7%</td>
<td>24%</td>
<td>34%</td>
<td>30%</td>
</tr>
<tr>
<td>Virtual reality and augmented reality</td>
<td>3%</td>
<td>3%</td>
<td>10%</td>
<td>31%</td>
<td>53%</td>
</tr>
</tbody>
</table>

Source: all 2018 respondents.
Future

Respondents from ICT and telecommunications, iGaming, insurance and other financial services have higher levels of confidence in Malta's future prospects.

**In three years' time**

Our survey shows that the number of companies indicating that Malta will be attractive in the next three years has decreased by six percentage points from last year. These replies have shifted toward the “don’t know” option. In fact, the number of investors that don’t believe Malta will be attractive in three years' is 5%, almost the same result registered in 2017.

Overall, respondents from ICT and telecommunications, iGaming, insurance and other financial services have higher levels of confidence in Malta's future prospects.

Malta's FDI attractiveness in three years' time

![Graph showing Malta's FDI attractiveness from 2013 to 2018](image)

Source: all 2013-18 respondents.
Investors committed to Malta

Seventy-eight percent of the surveyed foreign firms believe they will still be operating in Malta in 10 years’ time, a result that is consistent with the last couple of years. Only 3% of investors do not believe they will be present in Malta. With increasing globalization and ease of doing business internationally, this is considered to be a positive result for Malta.

Source: all 2018 respondents.

Viewpoint

Banking on the future

Michel Cordina
Head of Commercial Banking, HSBC Bank Malta plc

The Fourth Industrial Revolution is transforming the way we do business, changing client expectations and shifting competition. Customers today expect a banking service with a seamless interface, immediacy of response and extreme portability.

At HSBC, we have the vision to create the next level of customer engagement, with innovations in artificial intelligence, cloud, the IoT, application programming interface (APIs), data analytics and blockchain powering our solutions and services. This our focus, and our US$2 billion investment in technology between 2015 and 2020 has started to benefit our customers.

Since the 2017 EY Malta’s Annual Attractiveness Event last October, HSBC Malta has celebrated a number of firsts in the country by launching contactless technology and biometric logins.

HSBCnet has been digitized: our HSBCnet Mobile App now recognizes either the face or fingerprint as the password; and HSBCnet Move Money now offers near real-time tracking of payment flows. Further, the overall look and interface of HSBCnet has been made intuitive, with access options that are designed for the modern-day browsing experience.

By working with technology leaders and financial services regulators, HSBC is pioneering a number of initiatives for the benefit of our customers. Our unparalleled global digital footprint allows us to deploy these technologies quickly and at scale to keep on transforming their experience.
Expansion plans

A total of 65% of the FDI companies surveyed have some form of expansion plans for the coming year, an increase of 4 percentage points compared with last year and 12 percentage points more than 2016.

The most common types of expansion are back-office operations (23%), closely followed by sales and marketing (17%) and R&D facilities (17%).

Investors with expansion plans were asked to choose the main obstacles they face when expanding their business. Skill shortages is the top concern (40%), followed by the size of the market (17%) and space limitations (13%).

Investments by type of facility

1. Back office - 23%
2. Sales and marketing office - 17%
3. R&D - 17%
4. Manufacturing - 16%

Source: all 2018 respondents.

Expansion obstacles

- Skill shortages: 40%
- Size of market: 17%
- Space limitations: 13%
- Regulatory burdens: 13%
- Lack of capital: 11%
- Other: 9%
- Digital shortcomings: 3%

Source: all 2018 respondents.

Note: respondents could choose more than one area.
Leading business sectors in the next five years

The key sectors envisaged to drive Malta’s growth in the next five years are iGaming (69%), tourism and leisure (48%) and payments and FinTech (45%). These results are similar to those of previous years. However, a few “other” responses indicated innovative and distributed ledger technologies, such as blockchain, as the leading business sectors in Malta in the next five years.

Leading business sectors in the next five years

- iGaming: 69%
- Tourism and leisure: 48%
- Payments and FinTech: 45%
- Digital media and games: 42%
- Real estate, infrastructure and construction: 33%
- Aviation: 32%
- Professional services (legal, accounting, research, consulting, advertising and communication and affiliate): 31%
- Other financial services: 30%
- Asset management: 28%
- ICT and telecommunications: 27%
- Fund administration: 19%
- Insurance: 18%
- Maritime: 16%
- Pharmaceuticals and biotechnology: 15%
- High technology manufacturing: 14%
- Banking: 12%
Malta, along with the rest of the world, is going through an unprecedented era of change and opportunity. In order to capitalize on the opportunities in the transformative age, the country needs to act quickly and rationally, focusing on the areas in which its competence will stand out against strong international competition.

This year’s survey results have again highlighted areas in which Malta is excelling and those in which more needs to be done. Skills shortages remains a serious issue. Simultaneously, however, companies may be increasingly looking to technological advancements, such as automation, to fill existing gaps and to increase output and efficiency.

The international landscape continues to play its part, with Brexit’s deadline looming on the horizon and ongoing economic and political challenges in the EU. The Maltese economy’s resilience to international economic developments will be crucial in the years to come.

Investors in various sectors are viewing recent regulatory updates in a favorable light. Effective and efficient legislation will continue to play an important role in attracting further FDI to Malta’s shores. New laws passed will need to balance adequate protection for stakeholders with the prudence not to stifle business.

Finally, Malta’s image and brand is a vital element for investors when choosing to set up or even relocate their business to Malta. Positioning the island at the forefront of innovation, while remaining true to the principles and values that the country has grown accustomed to, will be even more relevant going forward than ever before.

Concluding remarks

In order to capitalize on the opportunities in the transformative age, the country needs to act quickly and rationally, focusing on the areas in which its competence will stand out against strong international competition.
Communication transformation

Communication is a vital part of all business strategies and can have a significant impact on business growth and development. Eighty-nine percent of respondents believe that telecommunications services are highly critical (62%) or critical (27%) to their business strategy.

The vast majority of respondents are satisfied with the level of their telecommunications services, including fixed broadband as well as fixed and mobile telephony. Fixed broadband is the most highly rated of the three telecommunication services surveyed. Fifty-eight percent of investors believe that the telecommunications sector is evolving at a rate conducive to innovation, while 17% do not believe it is and 25% don’t know.

Satisfaction levels with telecommunications services

<table>
<thead>
<tr>
<th>Service</th>
<th>Very satisfied</th>
<th>Satisfied</th>
<th>Indifferent</th>
<th>Less satisfied</th>
<th>Dissatisfied</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed broadband</td>
<td>17%</td>
<td>62%</td>
<td>12%</td>
<td>8%</td>
<td>1%</td>
</tr>
<tr>
<td>Mobile telephony</td>
<td>16%</td>
<td>58%</td>
<td>15%</td>
<td>9%</td>
<td>3%</td>
</tr>
<tr>
<td>Fixed telephony</td>
<td>11%</td>
<td>52%</td>
<td>30%</td>
<td>3%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Source: all 2018 respondents.
Start-ups rising
Sixty-two percent of investors believe that Malta is an attractive start-up location. When asked which sector is the most attractive for start-ups, respondents indicated that it is the iGaming sector. The businesses that should be targeted by a business accelerator include FinTech, digital business and iGaming. The top three support measures needed to create a sustainable start-up ecosystem include financial – tax incentives (67%), financial – grants (50%) and fast-track visas for tech employees (non-EU nationals) (50%).

Sectors to be targeted by business accelerators

<table>
<thead>
<tr>
<th>Sector</th>
<th>Mentioned</th>
</tr>
</thead>
<tbody>
<tr>
<td>FinTech</td>
<td>48%</td>
</tr>
<tr>
<td>Digital business</td>
<td>29%</td>
</tr>
<tr>
<td>iGaming</td>
<td>29%</td>
</tr>
<tr>
<td>Big data and artificial intelligence</td>
<td>20%</td>
</tr>
<tr>
<td>Renewable energy</td>
<td>17%</td>
</tr>
<tr>
<td>Software</td>
<td>17%</td>
</tr>
<tr>
<td>E-tourism and travel tech</td>
<td>17%</td>
</tr>
<tr>
<td>Biotech and pharma</td>
<td>11%</td>
</tr>
</tbody>
</table>

Source: all 2018 respondents.
Note: respondents could select no more than three responses. Total number of mentions: 301.

The attractive sectors for start-ups

<table>
<thead>
<tr>
<th>Sector</th>
<th>Mentioned</th>
</tr>
</thead>
<tbody>
<tr>
<td>iGaming</td>
<td>57%</td>
</tr>
<tr>
<td>FinTech</td>
<td>40%</td>
</tr>
<tr>
<td>Digital business</td>
<td>26%</td>
</tr>
<tr>
<td>Digital media and games</td>
<td>18%</td>
</tr>
<tr>
<td>Aviation</td>
<td>16%</td>
</tr>
<tr>
<td>Software</td>
<td>16%</td>
</tr>
<tr>
<td>Maritime</td>
<td>10%</td>
</tr>
<tr>
<td>Biotech and pharma</td>
<td>10%</td>
</tr>
<tr>
<td>Big data and artificial intelligence</td>
<td>9%</td>
</tr>
</tbody>
</table>

Source: all 2018 respondents.
Malta as an international logistics hub

Malta’s strategic location, in the heart of the Mediterranean, is perfectly suited to create a competitive regional trade and logistics hub.

Support measures needed to create a sustainable start-up ecosystem

- **67%** Financial – tax incentives
- **50%** Financial – grants
- **50%** Fast-track visas for tech employees (non-EU nationals)
- **44%** Facilities and premises
- **38%** Residency visas for entrepreneurs (non-EU nationals)
- **36%** Introduction of skill sets for new economy at schools
- **35%** Networking opportunities

Source: all 2018 respondents.
Note: respondents could choose more than one area. Total number of mentions: 446.

When asked whether Malta would be considered as a distribution hub in a free trade zone environment, 18% of all survey respondents replied positively. Seven percent showed interest in setting up in a common user facility managed by a public-private partnership.
iGaming for the future

iGaming investors in Malta believe the regulatory developments that will have the biggest impact on their business include the New Regulatory Framework, followed by the Fourth AML Directive. Survey respondents also believe that taxation, General Data Protection Regulation (GDPR), transparency, blockchain, responsible gaming initiatives, and licensing should be priority policy actions. Moreover, it is believed that international cooperation and bilateral relations with other countries should be fostered and strengthened further for the overall benefit of the gaming sector.

Regulatory developments with the biggest impact in the next three years

1. New regulatory framework
2. Fourth AML Directive
3. GDPR

Source: all 2018 iGaming and gaming respondents.

Industrial Age

Within the "Future" section of this report, 13% of investors highlighted that their expansion plans are hindered by space limitations. Sixty-five percent of MIP tenants believe that the best solution to offset Malta’s lack of space is to build multistory industrial parks.

Building multistory industrial parks

65%
13%
22%

Source: all 2018 respondents.
Methodology

A total of 115 current FDI companies or investors responded to EY’s e-survey, conducted between March and May 2018. The respondents’ cohort profile was very similar to that of previous EY surveys, reflecting a range of sectors and sizes. This creates the opportunity to compare results over time, whenever possible.

### Size of Maltese companies in terms of revenue

- **Less than €1m**: 24%
- **Between €1m and €2m**: 14%
- **Between €2m and €12m**: 33%
- **Between €12m and €35m**: 12%
- **More than €150m**: 5%
- **Between €35m and €150m**: 11%

### Percentage of revenue exported

- **76%-100%**: 34%
- **51%-75%**: 4%
- **26%-50%**: 5%
- **11%-25%**: 8%
- **1%-10%**: 14%
- **0%**: 9%

### Full-time employees: global

- More than 100: 52%
- Between 50 and 100: 12%
- Between 10 and 50: 21%
- Less than 10: 15%

### Full-time employees: Malta

- More than 100: 20%
- Between 50 and 100: 17%
- Between 10 and 50: 29%
- Less than 10: 34%

Source: all 2018 survey respondents.
**EY's Europe Attractiveness Survey 2018**

EY's Europe Attractiveness Survey has been tracking these investment decisions since 2000. This year, it reveals an inflexion in the pace of FDI inflows, influenced by four powerful undercurrents of change. We think these are true game changers because, sweeping in from different directions, they are rewriting the European rulebook on cross-border investment.


**Beyond this economic horizon**

At EY Malta's Attractiveness Event 2015, we brought forward a number of proposals, which were subsequently discussed at length with many private and public stakeholders in each sector. They covered commodity trading, logistics, FinTech, Asian e-commerce and turning regular immigrants from a challenge into an opportunity.


**The Malta Alternative Investment Fund Manager**

The Alternative Investment Fund Managers Directive has introduced new concepts and regulations to the wealth and asset management industry. *The Malta Alternative Investment Fund Manager: a technical guide* seeks to provide clarity to the myriad of regulations that have been introduced by this directive, how it has impacted the Malta asset manager regime, and the regulations governing the formation and operation of asset managers in Malta.


**The Malta Alternative Investment Funds**

The Alternative Investment Fund Managers Directive has introduced a pan-European regulated branded investment fund that targets professional and sophisticated investors, which benefits from marketing provisions that had previously only been available to UCITS funds. *The Malta Alternative Investment Funds: a technical guide* provides an in-depth analysis of the regulations governing the formation and operation of these type of fund structures in Malta, and how they fit within the scope of the directive.

Securitization: the Malta proposition
Emerging as an international domicile of choice for securitization vehicles, Malta provides several highly credited services that have generated significant growth within their respective markets in Malta. Several advantageous elements include:

- Tax neutrality, meaning that there is no additional tax burden at any level of securitization
- Qualifications and knowledge of workforce
- Flexible regulatory environments that can adapt to the needs of structures
- Accessibility and responsiveness of the tax and supervisory authorities
- Expertise and cost competitiveness of locally based service providers
- The ability to outsource, to the extent possible, both within the domicile and cross-border


EY economic series
The Economic Advisory Team at EY Malta conducts economic research and studies on various economic areas. In connection with this year’s EY economic series event, the team has conducted a study on the Maltese property market.

The study analyzes the latest trends in the market, particularly developments related to property prices by locality. The market has been characterized by rapidly rising property prices, which have shown an average annual growth rate of 4.5% over the last 15 years. The research also provides insights on factors driving the property market and their effect on the sustainability of this market. Factors such as end-user affordability, vacant property, regulation and government initiatives are analyzed in the research study. With the use of property listing data, it was possible to obtain insights on the property market by region and locality, with diverse trends and characteristics being observed across localities.

For further information, contact: chris.melik@mt.ey.com.

The Malta UCITS Investment Funds
The greatest benefit of the UCITS brand is the high-level protection it offers to investors and its marketability. The Malta UCITS Investment Funds: a technical guide provides an introduction to the UCITS brand and how it fits within the scope of the UCITS Directive. It also provides an overview of Malta as a center for these types of investment funds, and a summary of the regulations governing the formation and operation of UCITS investment funds in Malta.


The Malta Professional Investor Funds
The Malta Professional Investor Funds: a technical guide provides an introduction to one of Malta’s primary investment fund structures. The success of the PIF structure can be judged on its regulatory efficiency and flexibility, which is extremely beneficial, especially for start-up funds establishing themselves in an EU jurisdiction. Our technical guide provides an introduction to the formation, operation and regulation of such investment fund structures and explains how this structure would fit within the scope of the Alternative Investment Fund Managers Directive.

Highlights
EY Malta’s Annual Attractiveness Event
25 October 2017

60+ speakers
1,000 delegates
250 companies
About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY member firms in Malta

EY member firms in Malta form part of the EMEIA area and bring together 98 EY country practices. No other big four organization has achieved this level of integration on such a scale, with such scope. We are the first professional services organization to bring a borderless approach to the emerging markets of the Commonwealth of Independent States, India, the Middle East, Africa and the established markets of Europe.

EY has been operating in Malta since the late 1990s. The member firms have been growing rapidly and now employ more than 300 people locally. We provide assistance to a wide range of clients, from private individuals and entrepreneurial businesses to major public companies and large multinationals. We help them to anticipate, define and deal with issues that are critical to their success.

Effectively, EY member firms in Malta have four service lines -- Assurance, Tax, Transaction Advisory Services and Advisory -- comprising 19 business units, each with its own head. Our newly established Managed Services hub supports the financial services industry in meeting regulatory and reporting requirements. The Managed Services Team in Malta works closely with our Managed Services delivery centers in the UK to provide support to global financial institutions.

Assurance

- Asset Management
- Banking
- Industrial and Commercial
- Insurance

Tax

- International Tax Services
- Accounting, Compliance and Reporting
- Business Tax Compliance

Transaction Advisory Services

- Mergers and Acquisitions
- Project Finance and Infrastructure
- Transaction Support Services
- Valuation, Business Modeling and Economic Advisory

Advisory

- Asset Management Advisory
- Banking Advisory
- EU Advisory
- Financial Crime Advisory
- Insurance Advisory
- Internal Audit
- IT Risk and Assurance
- Risk Advisory

Managed Services

The EY Managed Services hub supports a number of activities, including regulatory remediation and compliance. Managed Services offers a way to handle mandatory business processes efficiently, while using sophisticated management information tools, highly skilled and experienced resources, improved processing environment and enhanced controls. EY Managed Services is ISO 27001 certified.
Contact

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