

30 October 2023

Dear Chief Executive Officer,

Dear Compliance Officer,

Thematic review of Product Exclusions and POG Requirements

You are receiving this letter as the Chief Executive Officer and/or Compliance Officer of an insurance undertaking supervised by the Malta Financial Services Authority (referred to herein as the 'MFSA' or the 'Authority').

BACKGROUND

The MFSA endeavours to stimulate compliance with applicable rules governing insurance licensed entities for a fair, honest and transparent financial market, which in turn strengthens confidence within same market, with the ultimate aim of protecting policyholders accordingly. To this end, the Authority's supervisory activities are aimed at attaining high compliance standards within the supervised licensed entities through the use of diversified tools encompassing investigations, off-site work, on-site inspections as well as through thematic reviews.

Thematic reviews are an essential tool for the Authority in assessing the current market conditions including current or possible emerging risks. The Conduct Supervision Function within the Authority has chosen to conduct part of its supervisory assessment through the use of this tool, as further detailed in this letter.

In April 2022, the Authority commenced a Thematic Review ('Review') on Product Exclusions contained in the policy wording of specific insurance products to mainly assess whether the exclusions that are implemented in the policy wording are clear enough for consumers and that they ensure fair and consistent consumer outcomes. The MFSA also looked at how insurance manufacturers applied and abided by the Product Oversight and Governance ('POG') requirements when designing or significantly amending their insurance products, falling within the scope of this thematic review.

POG requirements apply to manufacturers and distributors of retail insurance products which were either launched and/or significantly amended after 1 October 2018. The scope of the POG process is mainly to ensure that insurance manufacturers are taking a 'consumer-centric' approach to their product approval, distribution, monitoring and review process. Insurance

manufacturers are expected to monitor all their products to identify any potential adverse impacts such products may have on consumers, leading to possible review.

Insurance undertakings should give due consideration of specific policy exclusions against the target market's characteristics and expectations to ensure the product offers value for money. The overall transparency in terms of coverage and exclusions should also be given high regard by manufacturers to ensure that consumers understand the key features of the product, and the applicable exclusions/restrictions, so as to avoid situations where the consumers purchase a policy which does not meet their expectations in terms of coverage.

This Review is in line with the Supervisory Priorities for the MFSA's Conduct Supervision Function and is also in line with the EU Union Wide Strategic Supervisory Priorities (USSP). In this regard, the European Insurance and Occupational Pensions Authority ('EIOPA') and the National Competent Authorities ('NCAs') market monitoring activities have explored the treatment of pandemic exclusions and as a consequence, for 2021-2023 the USSP identified issues in relation to exclusions from insurance coverage as an area of strategic priority.

This letter sets out the MFSA main findings of the Thematic Review, as well as the Authority's supervisory expectations of insurance undertakings with respect to this particular subject and more broadly in terms of their approach to consumer protection. These supervisory expectations, as outlined in the following sections of this letter, reflect the Authority's assessment of the possible risks to consumers, whilst also providing an insight into the good practices.

METHODOLOGY

The products in scope for this Thematic Review were Travel Insurance, Accident & Health Insurance, Household Insurance, Gadget Insurance, and Business Interruption Insurance. The above-mentioned products have been selected on the basis of the discussions and work that has been carried out by EIOPA in the past two years through the Committee on Consumer Protection and Financial Innovation ('CCPFI'). In this regard, a report published by EIOPA, namely the Consumer Trends Report, highlighted a number of issues and provided a snapshot of existing trends on the above-mentioned products through quantitative and qualitative exchanges of consumer protection information between EIOPA and NCAs, and other input from stakeholders' groups. Furthermore, studies carried out by EIOPA, for example, on travel insurance, shows that the pandemic has also had a negative effect on how consumers perceive insurance. The COVID-19 pandemic crisis unveiled issues in relation to clarity and possible protection gaps for non-damage business interruption insurance coverage and travel insurance coverage.

Launching a data gathering exercise with all the products for every insurance undertaking that fell within the scope of the Thematic Review would have been extremely resource intensive. In view of this, the selected insurance undertakings were asked to select the most performing

product in terms of gross written premium ('GWP') for the calendar year 2021 for each category where applicable.

Evidence from insurance undertakings was collected via an Industry Questionnaire sent to a sample of 22 insurance undertakings operating locally and in various Member States, on a cross border basis. The selection of the sample composition was made on an assessment of the industry data collected through the latest MFSA Conduct Related Data Return available at the time. The selected insurance undertakings were also requested to submit supporting documentation which included policy wordings, POG minutes, and also statistical data such as loss ratios and claims rejections. In addition, the MFSA officials conducted a review of the insurance undertakings' websites and social media, as well as complaints lodged with the insurance undertakings and with the Office of the Arbiter for Financial Services. The MFSA has also engaged with market participants in providing further information and clarifications and assistance in the completion of the Industry Questionnaire.

In total, 50 insurance products from 22 insurance undertakings were reviewed. Following the extensive review of documentation, the MFSA engaged with a sample of 11 insurance undertakings (50% of the participants in the Thematic Review) through online meetings, in order to discuss the responses which required further discussion. Guidance and expectations were presented during these online meetings and a follow-up letter was issued thereafter.

The following part of the document is divided in two sections. Section A refers to the POG general observations. Section B refers to the general observations relating to Exclusions in the policy wordings. In both sections, the MFSA included a number of positive practices by insurance undertakings together with the MFSA guidance and expectations to the risks identified.

KEY FINDINGS

A. General market observations in respect of POG requirements

In order to ensure that insurance products meet the needs of the target market, insurance undertakings should have in place a robust review process for the approval of each insurance product, or significant adaptations of an existing insurance product, before it is marketed or distributed to consumers. POG arrangements aim to ensure that the interests of the consumers are taken into consideration throughout the lifecycle of an insurance product.

As part of the Review, insurance undertakings were requested to submit their POG policy and procedures, the relative POG committee minutes and any other documentation relevant to the approval and review process of the insurance product.

The Authority therefore looked into how the insurance undertakings implemented their POG process in line with their POG policy in respect of the products within the scope of the Thematic Review. Moreover, the Authority also assessed the discussions held during the POG committee meetings (or similar dedicated internal body) and the methodologies used to support such discussions.

1. Internal Governance Arrangements

Findings Identified

- From the Review carried out, it was observed that a few insurance undertakings had no formal POG arrangements in place, or else it was still in a stage of development. Furthermore, it was also noted that the relevant processes and procedures were not constantly applied or sufficiently embedded in the culture of the insurance undertaking.
- Most of the POG policies reviewed, had not clearly specified the manner and the concrete and detailed steps that are required to be followed by the insurance undertaking in practice, in the context of all the elements of the POG process, from inception up to when the product is approved by the insurance undertaking's Board of Directors.
- Nearly all the POG policies included a statement to the effect that the insurance undertaking should carry out regular reviews of their insurance products from time to time. However, from the documentation provided to the Authority, it was observed that there was either no evidence of such reviews, or else the reviews were only triggered when there were regulatory changes or when there was a significant increase in number of complaints.
- The Authority notes that whilst the POG committee minutes do capture resolutions and decisions being taken by the members, these did not always evidence or contain detail of the discussions and challenges relating to the aspects of the review of the products. Neither was there any mention of how information obtained from various parties within the insurance undertaking had been considered, if at all, in the context of the POG process.
- From a review of the extracts of the POG committee meeting minutes, it was noted that the discussions made during the meetings were more business oriented and emphasis was almost exclusively made on the sales and profitability aspect of the product and its performance.

Regulatory Requirements & Guidelines

While it was noted during the Thematic Review that most insurance undertakings took steps to improve their POG process, all insurance undertakings must ensure that they have adequate POG arrangements that set out appropriate measures, policy and procedures (**R.2.116 of the Conduct of Business Rulebook**) aimed at designing, monitoring, reviewing and distributing products for clients, as well as taking action in respect of products that may lead to detriment to consumers.

Furthermore, insurance undertakings are expected to carry out regular reviews of their products (**R.2.9 & R.2.15 of the Conduct of Business Rulebook**) at least annually, in order to ensure that the products are still providing good value for money. The frequency of such reviews should be linked to the risk and complexity of the product.

The Authority would also like to emphasise that in its continuous product monitoring and review, besides conducting an analysis of the commercial performance of the product, the insurance undertaking needs to take a more consumer-centric approach with respect to the monitoring and review of its products.

The insurance undertaking's POG policy and/or procedures should include the methodology to be followed in order to assess whether its products provide value for money during their lifecycle. These assessments should then be brought to the POG committee and discussed accordingly.

These reviews should be appropriately documented (**R.2.145 of the Conduct of Business Rulebook**), and records of decisions taken maintained (e.g. meeting minutes, agendas, proposals for discussion, decisions, follow-up actions) and ensure they are easily traceable and available for internal auditors, external auditors and the MFSA upon request.

2. Establishment of the Target Market

Findings Identified

- The Authority observed that most manufacturers do identify the target market for a new or significant adaptation of the product. The way this is done varies across insurance undertakings. However, from the review of the POG policies and procedures, undertakings fell short of establishing the methods/tools, criteria and steps the undertaking adopted in assessing the target market. In other cases, the level of granularity was not deemed sufficient.

- In establishing the target market for particular products, it was noted that certain Insurance undertakings did not adequately consider the level of complexity of their products.

Regulatory Requirements & Guidelines

Whilst it is possible to broadly define the target market, if products are deemed non-complex, the MFSA expects that the steps to identify a target market are not the same for all products and differ on a case-by-case basis depending on the risk and on the degree of complexity and nature of the product in question. In more complex products, the undertaking is expected to adopt a more comprehensive list of criteria to establish the target market for that product.

The Authority expects that the establishment of the target market should be meaningful. The POG policy should define the criteria on what the target market assessment should be based. Moreover, the POG policy needs to contain a clear, adequate and thorough process which specifies who has the role of defining the target market and the concrete steps to be followed for the proper identification and definition of the target market (**R.2.123 of the Conduct of Business Rulebook**).

The POG policy should also include steps and criteria which should be followed in order to determine the level of degree of complexity. This assessment is important because it has a strong bearing on the establishment of the target market, for example, complex products should have a more restrictive target market.

3. Product Testing

Findings Identified

- A common observation that was evidenced during the Thematic Review was that most insurance undertakings either made vague references to product testing with no clear documentary evidence of testing done, or else did not carry out any relevant testing at all.
- Some insurance undertakings use management dashboards with specific key performance indicators ('KPIs') to monitor their activities. However, the Authority noted that the majority of these KPIs were focused on commercial and profitability metrics in their testing and monitoring.
- The Authority observed that testing on the product wording was solely carried out from a legal perspective with no use of client research.

Regulatory Requirements & Guidelines

Insurance undertakings are expected to outline in sufficient detail, within their POG policy, the concrete steps and the approach adopted to conduct appropriate product testing, with the primary aim of ensuring that the product, over its lifetime, meets the identified needs, objectives and characteristics of the clients belonging to the identified target market (**R.2.128 of the Conduct of Business Rulebook**).

The MFSA expects that entities have in place a testing framework commensurable to the nature and scale of the risk the client is exposed to, as well as to the ability of the entity to manage such risks. Focusing purely on commercial aspects to decide on testing is not sufficient.

The MFSA encourages the use of customer research tools to evaluate how products may affect the target market. This can also prove to be an efficient way of assessing the clients' understanding of product features or the need to set product variations to accommodate segments of the target market. Therefore, it would be beneficial to seek views from clients, through, for example, research surveys and internal/external focus groups to test the wording and the comprehensibility of the product documentation as well as the terms and conditions. Clarity can be enhanced through the use of comprehensible, concise and rigorous language, using words and expressions of everyday language and avoiding vague terms (e.g. "fair and reasonable", etc), or ambiguous expressions and over-technical terms, if possible.

4. Value for Money

Findings Identified

- A common observation that emerged from the Thematic Review is the lack of documentary evidence of how the insurance undertaking took into consideration the pricing of a product and how it offered a fair deal for consumers, in other words, its value for money. Whilst it was observed that a number of metrics such as the claims ratio, lapse ratio and cause of complaints were being mentioned as possible tools which could be used to assess whether consumers are getting value for money, no methodology was evidenced as to how a particular price was established. Moreover, it was not clear how expenses related to distribution, in particular commission payments, were factored into the value for money process.
- Another aspect that was observed during the review of the documentation was that the metrics adopted by the insurance undertaking on product performance relate predominantly to its commercial aspects. This includes a comparison of

insurance products with other competitors such as pricing benchmark, as part of the insurance undertaking's competitive analysis.

Regulatory Requirements & Guidelines

The Authority expects that as a minimum, the manufacturer considers fairness testing and a value for money assessment for consumers which may include assessments of the costs and pricing of the product to verify whether it offers good value to the consumers purchasing the product. In this way, the insurance undertaking can demonstrate that in the design, monitoring and review process, the focus was not only on the profitability and feasibility of the product.

Whilst the information provided on claims and sales are important, there are other aspects which should also be considered so that the product continues to provide value for money to its policy holders (**G.2.25 of the Conduct of Business Rulebook**). These include the review of the claims' rejections and complaints trends analysis amongst others. Furthermore, insurance undertakings may also consider external information such as complaints data provided by the Office of the Arbiter for Financial Services, in carrying out its value for money assessments.

5. Distribution Arrangements

Findings Identified

- It was observed that, in many cases, the POG policy and related documentation stated that processes are in place to monitor distribution related risks within the insurance undertaking and that the distribution channels were deemed to be suitable for these products. In other instances, insurance undertakings stated that appropriate steps will be taken to monitor distributors. However, in both scenarios, there were no documentary evidence that the insurance undertaking had taken appropriate steps to monitor its distributors, nor was there evidence of how the selection of such channels was made taking into account the target market established for the product in question.

Regulatory Requirements & Guidelines

Manufacturers are required to select distribution channels that are appropriate for the defined target market and for the product's characteristics. In this regard, the POG policy should contain appropriate processes and controls that determine the processes, criteria and steps to be followed for the development of distribution strategies (**R.2.136 of the Conduct of Business Rulebook**).

Manufacturers are also required to monitor whether products are sold within the target market and whether conflicts of interests are adequately managed and whether, for specific distribution channels (e.g. distance and/or online selling), they have put in place adequate controls (**R.2.137 of the Conduct of Business Rulebook**).

GOOD MARKET PRACTICES – POG

- *‘Consumer champion’* - The Authority observed that a number of Insurance undertakings have implemented a consumer focus strategy by identifying an individual or a team of individuals who can represent the consumers and champion the position of the consumer throughout the POG process, including during POG committee meetings. This approach serves to improve the overall consumer experience and levels of consumer loyalty.
- *Templates & Workflows* – Some insurance undertakings have adopted specific workflow documents, internal checklists or assessment forms that need to be followed by different stakeholders to ensure that the process is harmonised for all products. It was observed that these workflows are complemented with an escalation/delegation matrix of responsibilities according to the level of risk of the product. These workflows ensure there is an audit trail of decisions and the involvement of different stakeholders.
- *Evidence of client & distribution research* – Some insurance undertakings implemented in their processes and procedures the research for client views during the different stages of the POG process (design, testing, monitoring and review phase) of the product, for instance through client working groups, surveys, or face-to-face meetings. Other insurance undertakings sought views from their distributors through questionnaires in order to gather market information. In some cases, documentary evidence showed that such feedback was considered and taken onboard by the insurance undertaking.
- *Root-cause analysis* – The Authority observed that an insurance undertaking was carrying out root causes analysis, in particular with regard to claims being rejected, and complaints. It was also noted that the same insurance undertaking was taking remedial action to amend its relevant processes on the basis of the outcome of the analysis.
- *Inclusion of negative target market* – Although the assessment of the negative target market is only required in the context of insurance-based investment products (IBIPs), the Authority noted positively that some insurance undertakings

were considering testing against the negative criteria such as consumers that fall outside the target market's definition, even with general insurance products.

B. General market observations in respect of Exclusions

Exclusions in cover are a crucial element in the design of insurance products. Exclusions have a direct impact on the quality (type and coverage level) and the value of the product. From a consumer perspective, it is also important that clear, adequate, and timely information is provided about applicable exclusions, terms and conditions. Otherwise, customers may have a wrong understanding of the exact level of cover which their policy provides.

The Conduct Related Data Returns submitted by insurance undertakings in recent years have evidenced a number of consumer complaints emanating from terms and conditions of an insurance policy. Moreover, it was reported that the main reason for denied insurance claims is exclusions in cover. This raises the question whether consumers could possibly have been misled during the sales process or whether there could be some issues on the adequacy and clarity of the terms and conditions contained in the policy wording.

The extensive usage of exclusions in contracts can contribute to product complexity for consumers and impede their ability to successfully navigate and compare the market. This is also complicated by the fact that the terms and conditions of insurance policies are not always straightforward.

In particular, manufacturers should give due consideration of specific policy exclusions against the target market's characteristics and expectations in order to ensure the product offers value for money. The overall transparency in terms of coverage and exclusions should also be given high regard by manufacturers to ensure that consumers understand the key features of the product and the applicable exclusions/restrictions, to avoid situations where the consumers purchase a policy which does not meet their expectations in terms of coverage.

In order to assess this part of the Thematic Review, insurance undertakings were requested to submit the policy wordings for the most performing product in terms of GWP for the calendar year 2021 for each product subject to this Thematic Review, where applicable.

The MFSA, therefore looked into how clear and transparent information was being given to consumers through the product's policy documentation of the products captured within the scope of the Thematic Review. Moreover, the Authority also assessed the information provided in the insurance undertakings' website and how easy it was for the consumer to trace the relevant information.

Findings Identified

- **Clarity** - Providing clear and transparent information to consumers is key. The Review revealed a number of drafting practices that routinely impede the clarity and comprehension, some of which are highlighted below:
 - **Vague words** – the overuse of open-ended terms such as “reasonable”, and / or “necessary” was a feature in all of the policies that were reviewed. Vague words are those that generally would cost policyholders greater time and effort to understand, creating comprehension difficulties for consumers. Such vague terms would easily give rise to different interpretations by consumers and undertaking, leading to a situation where the insurance policies would not meet the expectations of the consumers purchasing them.
 - **Sentence length and structure** – The Thematic Review also outlined that sentence length and structure can also influence reading behaviour and comprehension. All wordings that were assessed as part of the Thematic Review included a number of long sentences with also an excessive referral to external texts.
 - **Use of technical / jargon words** – As part of the Thematic Review, the MFSA looked closely at the use of technical / jargon words. The Authority noted a significant use of such words which may make difficult for the policyholder to understand unless an example or an explanation of such words is given.

Considering the above, it was clear that in most cases that insurance undertakings have not conducted an appropriate assessment of clarity of disclosure terms or an assessment of expectation gap in cover. Furthermore, where such assessment was conducted, it was carried out solely from a legal standpoint and not from the view of the ‘*man in the street*’.

- **Website** - The MFSA observed that in most cases terms and conditions of the insurance products are published on the websites and available for download. However, it was noted that the desired information was not always easily accessible and may take some time to reach a specific page.
- **IPID** - The Authority notes that certain product documentation with particular reference to the Insurance Product Information Document (‘IPID’) were not readily available in English language, particularly in cases where the product was sold on a cross border basis. It is therefore not clear what type of

monitoring is being conducted by the insurance undertaking, in particular what input the compliance function has in the monitoring of such product reviews. Furthermore, the MFSA requested an English version of the documentation, and a machine translated version was provided. This may create challenges and raise differences in the terms and conditions of the insurance product which may have a significant impact on whether an individual will be covered by the policy or not, due to differences in the language translation. Furthermore, the Authority also observed that various IPIDs did not include significant exclusions which may be considered to have an adverse impact on the consumer.

- **Policy changes** - There were instances where the insurance policy stated that the insurance undertaking may decide to change the premium and policy terms and conditions of the insurance at any time, even during the policy period. In case of automatic renewals, it was observed that whilst the changes to the product were made upon renewal, it was not clear how these changes were communicated to the consumers in view that there was no evidence of communication to the policyholders.
- **Data metrics** - During the course of the Thematic Review, the Authority requested a number of statistical data metrics relating to claims rejections and part settlements. Not all insurance undertakings were able to provide such data in view of the inability of their current IT systems to generate such reports.
- **Denied claims / Part settlements** – Based on the data reported by the insurance undertakings participating in the Thematic Review, the Authority observed that the data relating to partial payments / rejection claims may have an adverse impact on the consumer. When looking at certain classes such as Health, the number of denied claims / partial settlements were significant higher. This might be the result of unclear terms in the policy wording, with particular reference to the pre-existing medical exclusions and / or professional fees. It is pertinent to note that from the review of extract of the POG committee minutes, there were no discussions or analysis in this regard.

Restriction of cover - Following the pandemic, most insurance undertakings have introduced changes to their policy wordings, in particular restricting coverage with a number of exclusions. In certain instances, the Authority could not find any documented evidence of the discussions and challenges held, nor any supporting evidence behind the rational of the restriction of coverage.

Regulatory Requirements & Guidelines

Where an insurer maintains a website, it should ensure that the relative links to summary of cover, benefits and terms & conditions are easily accessible from the said website. Best practice dictates that it should take no more than few clicks for the consumer to reach / navigate to the desired section of information, especially if such information may impact the outcome of their claim.

Whilst the MFSA acknowledges that most policy wordings are based on standard wordings (possibly based on foreign law) that have been in use for many years, insurance undertakings are encouraged to carry out an appropriate assessment of clarity of disclosure terms, or an assessment of any expectation gaps in cover, in order to determine whether the applicable exclusions from coverage are clear, taking into account the target market's characteristics and level of understanding of insurance products and their level of financial literacy. Additionally, insurance undertakings should ensure that documentation such as IPIDs are in line with the applicable framework and reflect the contents of the insurance policy wordings.

Tied to the previous point, policyholders may find it hard to understand the technical and legal wording used in the policy wordings and may struggle to cut through the jargon. Clarity can be enhanced through the use of comprehensible, concise and rigorous language, using words and expressions of everyday language and avoiding vague (such as reasonable, necessary, etc), or ambiguous expressions and over-technical terms, if possible. Such vague wording can be misleading, and this could result into a mismatch between existing and potential consumer expectations and the actual coverage provided. This may be mitigated by making use of examples which should be pertinent to the identified target market rather than being general in nature. The number of examples used should ensure that existing and potential consumers clearly understand the scope of the exclusion. This will lower the number of claims being rejected where clients' expectations were not met.

Another important aspect that came out from the Thematic Review is that insurance undertakings have assessed the impact of Covid-19 in their policy coverages, in particular Travel, Health, and Business Interruption insurance, by introducing exclusions and/or restricting coverage. Insurance undertakings should ensure that when an exclusion is introduced or coverage is restricted, an evaluation of the degree of impact caused by such change should be undertaken in order to ensure a balance between the need to limit the insurance undertaking's losses and the need for the product to be aligned with the target market needs, objectives and characteristics. Such changes should be clearly discussed at POG committee meetings and be documented, including any data analysis supporting the decision. Moreover, the MFSA considers that terms and conditions should not be amended during the policy period

and the insurance undertaking is expected to refrain from carrying out changes to the terms and conditions during the policy period.

Insurance undertakings should ensure that their IT systems are capable of generating key information such as the claims rejection and/or part payments data. By using such data, insurance undertakings can identify issues that can raise complaints and take remedial action accordingly. It is also expected that such information and other relevant data are discussed and challenged during the POG committee meetings.

Finally, there is a clear understanding amongst the market participants that the whole sales journey is very important. The Thematic Review evidenced that consumer communication is a vital factor in assisting the consumer to make an informed decision. It is also clear that policy wordings which are harder to read and comprehend are more likely to result in coverage disputes and complaints, and that improving the compressibility of the policy wording, would be likely to reap very tangible benefits in terms of reducing the number of disputes.

GOOD MARKET PRACTICES - EXCLUSIONS

Overall, the Thematic Review showed that more should be done to improve the readability of policy wordings, and that there are significant benefits for those insurance undertakings that do so.

In the course of this Thematic Review, the Authority came across instances where definitions were highlighted more flexibly in a digital context, for example through the use of 'hover-over' definitions. The use of practical examples to explain a particular provision was also used in certain policy definitions as well as to certain technical clauses.

Some insurance undertakings went a step further by testing their policy wordings through focus groups in which consumers were asked to provide their feedback on their understanding of the policy document. Such testing was also being conducted whenever there was a material / significant change to the policy wording.

Post claim satisfaction surveys were also used to assess the level of service received in the context of whether such service was in line with the consumer's expectations.

The Thematic Review also outlined instances where policy wordings included words that were commonly used in everyday life, which wherever possible were replacing technical, legal or uncommon words.

MFSA EXPECTATIONS ON INSURANCE UNDERTAKINGS

The observations and findings arising from this Thematic Review exercise are being highlighted in this letter with a view to share experiences, learn valuable lessons, and identify good practices for the benefit of the insurance market and the end consumer.

The Authority considers that the design of financial products manufactured by financial services providers and the way such products are distributed have a significant impact on the consumers of such products. Accordingly, it is important that financial service providers factor in the best interests of their prospective clients when designing and manufacturing their products. The regulatory requirements relating to Product Oversight and Governance contained in the Chapter 2 of the Conduct of Business Rulebook serve to ensure that only products which offer value for money are distributed to clients in accordance with their needs, characteristics and objectives.

The insurance undertaking's Board and Executive Committee is to consider which of the risks and observations indicated in this letter are applicable to your business. To this end, your Company is expected to carry out a gap analysis with respect to the practices and processes of your Undertaking and then to take prompt action to address any identified shortcomings accordingly. For this purpose, reference should also be made to the document published by the Authority on the 16 July 2021 entitled "[The Nature and Art of Financial Supervision- Volume V - Product Oversight and Governance \(POG\) Requirements.](#)"

Kindly note that the MFSA will be continuously monitoring compliance by licence holders with the applicable regulatory requirements and may engage with particular insurance undertakings on the matters forming the subject of this letter.

Should you require any clarification on the above, please do not hesitate to contact the Authority's Conduct Supervision Function on csuinsurance@mfsa.mt.

Yours faithfully,

Malta Financial Services Authority

Dr. Christopher P. Buttigieg
Chief Officer - Supervision

Dr. Sarah Pulis
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