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MFSA Calls for More Clarity in Insurance Policy Wording

The Malta Financial Services Authority (MFSA) has urged insurance undertakings to make their policy wordings clearer and easier to understand, in the interest of consumers, as well as in order to reduce issues such as coverage disputes and complaints.

This was one of the findings which came out from a thematic review on exclusions in policy wordings, as well the product oversight and governance (POG) arrangements, conducted among 22 insurance undertakings operating locally and in various Member States, on a cross border basis. A total of 50 insurance products were reviewed, ranging from travel, accident and health Insurance, and household insurance, to gadget insurance, and business interruption.

As a result, the MFSA issued a “Dear CEO” letter to insurers in which it outlined its expectations and provided guidance on best practices.

In the letter, the MFSA stated that insurance undertakings are expected to conduct regular reviews of their products, aligning the frequency of reviews with the risk and complexity of the product. The MFSA noted that some insurance undertakings did not adequately consider the level of complexity of their products, while testing was solely carried out from a legal perspective with minimal focus on client impact.

The MFSA discourages amending terms and conditions during the policy period, while exclusions or coverage restrictions should be evaluated to maintain a balance between limiting losses and aligning the product with target market needs.

In the thematic review, the MFSA also identified and endorsed several good market practices. These include the incorporation of client and distribution research into the POG process and the use of practical examples to explain policy provisions. The testing of policy wordings through focus groups and post-claim satisfaction surveys to assess service quality and consumer expectations were also commended by the Authority.

“As a regulator of financial services, we want to ensure that insurance products are designed and delivered in a way that meets the needs of consumers, whereby these are not misled or confused by unclear or complex policy wordings. From our thematic review among insurers,

we have seen that there is certainly room for improvement in this regard. The MFSA remains committed to enhancing the insurance market, promoting consumer protection, and fostering a transparent, efficient, and responsible insurance industry in Malta,” said Dr Sarah Pulis, MFSA’s Head of Conduct Supervision.

The full letter can be accessed [here](#).

"Dear CEO" letters are a direct means by which the MFSA communicates with the management of its regulated entities, including the board of directors and CEOs. Typically, these letters follow various supervisory interactions, such as thematic reviews and mystery shopping exercises. These letters are [published](#) on the MFSA website.

About MFSA

The Malta Financial Services Authority (MFSA) is the single regulator of financial services in Malta, covering banks, insurance companies, investment services, trusts and pensions. In 2018, the MFSA became the first European regulator to develop a framework to regulate virtual financial assets. The MFSA’s mission, as enshrined in its Strategic Statement, is to enhance its position as an independent, proactive and trustworthy supervisory authority with the main purpose of safeguarding the integrity of markets and maintaining stability within the financial sector, for the benefit and protection of consumers. The MFSA licenses over 2,000 entities to operate in the financial services sector.

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