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MFSA Urges Insurance Companies to Continue Enhancing Board Competencies for Better Consumer Outcomes

Board of Directors within insurance companies need to enhance further their current composition and collective competencies in order to implement their system of governance more effectively. They also need to improve their understanding of the resilience of their business model to stress scenarios.

These findings were reported in the [latest volume](#) of the Nature and Art of Supervision series which the MFSA publishes in order to communicate its supervisory approach amongst licensed entities, and outcome. This latest volume focuses on the Authority's oversight of insurance and reinsurance undertakings, and insurance intermediaries whose head office is in Malta, outlining the main focus areas of supervision, which it carries out through both on-site visits and desk-based reviews. In this publication the MFSA is also highlighting common recurring weaknesses and shortcomings which have been identified by the Authority during the course of its interactions with insurance providers.

A number of insurance entities have also been found to hold inadequate compliance plans and reporting processes, be it for external reports to the MFSA, as well as internally to the Board. The MFSA expects that during board meetings held by these entities, more time is dedicated towards regulatory compliance matters, and assessing the effectiveness of their governance, risk management system and internal controls. More proper documentation on these controls, especially for claims handling and governance of data is also expected.

On business continuity, the MFSA reports that some of the contingency plans inspected are neither being regularly tested nor reviewed by insurance undertakings, and do not include exit strategies for outsourced critical activities.

When it comes to the demands and needs test that they are obliged to carry out with clients, it was found that assessments conducted are weak. Moreover, Tied Insurance Intermediaries were not sufficiently knowledgeable about certain pre-contractual disclosures which they are bound to provide to clients, including those related to the procedure that one should follow in case of complaints, and the role of the Arbiter for Financial Services. Additionally, the frameworks that some insurance companies have in place to handle complaints are also lacking.

The publication also provides an overview of the regulatory changes that the MFSA implemented in the past year, as well as future developments in the regulatory framework, such as the transposition of the Motor Insurance Directive (“Directive 2009/103/EC”) which ensures that injured parties are protected through effective arrangements for compensation and improves the rights of policyholders particularly when an insurer winds up due to insolvency.

MFSA Head of Insurance and Pensions Ray Schembri commented: “With this publication, we look more closely at the supervisory priorities which the MFSA has set for Malta’s insurance sector, and how we addressed them in our supervisory engagement with practitioners. By communicating the findings of our inspections, our intention is to clearly set out the Authority’s expectations for insurance undertakings and intermediaries, which they are required to meet at all times. The various outreach initiatives listed in the document are also testament to our commitment to engage regularly with and guide insurance providers on how they can achieve regulatory compliance and as a result, strengthen their organisational robustness while ensuring they act honestly, fairly and in the best interest of their clients.”

The Nature and Art of Supervision Volume IX - Insurance is [available](#) 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.

