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**Insurance and Pensions Supervision**

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Dear Chief Executive Officer,  
Dear Compliance Officer,

**Sustainable Finance – update on progress noted by insurance undertakings and MFSA's expectations as regards to the next steps**

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

Reference is made to the previous *Dear CEO* letter dated 2 November 2022 where the MFSA noted its expectations that insurance undertakings are to actively start embracing sustainable finance and engraining this in their governance, risk management and investment policies.

During 2022, the MFSA's drive towards sustainable finance was accelerated and a strong momentum was maintained during 2023 and 2024 in line with its set supervisory priorities. In light of this, the Insurance and Pensions Supervision ("IPS") considers it opportune that after the issuance of the *Dear CEO* letter referred to above, it provides an update to license holders with regards to:

- the supervisory work conducted by the IPS consisting of a blend of desk-based reviews, supervisory meetings and interviews with directors and senior officials of insurance undertakings as part of onsite compliance inspections to continue assessing the level of preparedness of undertakings in relation to sustainable finance and ESG requirements;
- common recurring issues, gaps and challenges encountered by insurance undertakings, that have been identified through supervisory work carried out by the IPS;
- MFSA's expectations as regards to the how insurance undertakings are ensuring that they will be in a good position to mitigate and adapt to climate change and sustainability risks through their investments, products and services.

**1. Supervisory work conducted by the Insurance and Pensions Supervision in 2023 and first half of 2024**

Throughout 2023 and 2024, the IPS has been engaging with insurance undertakings on a risk-based approach to assess their compliance with the new sustainability requirements and obtain a better understanding of their plans as to how they are and will continue their transition to green. The supervisory work conducted by the IPS primarily consisted of a blend of desk-based reviews which included a review of undertakings' website disclosures, as well as, supervisory meetings and onsite compliance inspections where interviews with directors and senior officials of life undertakings were carried out.

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To date, the IPS have carried out a number of supervisory meetings with insurance companies. These meetings were generally conducted jointly with the Conduct Supervision.

The insurance undertakings were requested to provide an overview of the steps taken/being taken from their end to apply the ESG objectives and how they intend to implement the transition to green. These meetings were based on a set agenda with specific areas to be addressed in relation to sustainable finance, including but not limited to the following:

- overview of the changes to be implemented by the undertaking to its risk management policies to reflect 'sustainability risks';
- the processes and procedures put in place or planned to be put in place by the undertaking to assess and manage the risk of loss or of adverse change in the values of insurance and reinsurance liabilities, resulting from inadequate pricing and provisioning assumptions due to sustainability risks;
- how undertakings are integrating sustainability risks in their underwriting and reserving policy and asset-liability management policy;
- how undertakings are integrating sustainability risks in the implementation of the prudent person principle;
- how undertakings are integrating sustainability risks within the Own Risk and Solvency Assessment ("ORSA") process;
- what are the undertakings long-term business strategies to ensure that they have the relevant information at their disposition regarding ESG-related risks;
- how the risk management framework will be extended to capture ESG risks and the incorporation of ESG risk drivers;
- how the risk management function considers ESG risks when implementing risk policies;
- changes to remuneration policies (if any) to include information as to how the said policy takes into account the integration of sustainability risks in the risk management system;
- training and resources being dedicated;
- how the internal audit function will be including ESG risks in its review including assessment of the effectiveness and adequacy of the internal governance arrangements; awareness, induction, training and expertise to identify, assess and manage ESG risks at all levels of the insurance undertaking.

In addition to supervisory meetings, IPS have also carried out desk-based reviews, increasing scrutiny of the assessment of climate-related risks in the ORSA document and the extent to which undertakings are adapting a sustainable business model in this regard. As noted in the MFSA's Supervision Priorities 2023 and 2024, IPS, being the prudential supervisors, intend to play a critical role to aid and supervise the industry in ensuring adequate identification,

measurement, and creation of a risk management framework around climate related catastrophe risks. IPS is also monitoring undertakings to prevent greenwashing, in line with guidance provided by the EU.

The supervisory meetings and desk-based reviews have been complemented by a number of onsite compliance inspections as well. As part of focused compliance inspections carried out so far, the compliance team has reviewed board minutes to obtain an understanding of the discussions, action plans, level of preparedness at board level with regards to the steps taken/being taken to apply the ESG objectives and how the undertakings intend to implement the transition to green. The compliance team of IPS also engaged with various board members and other company officials via interviews to obtain a better understanding of the work done so far, delving deeper on particular areas as required.

## **2. General observations**

Based on supervisory work carried out up to now, it has been noted that generally most undertakings have started their journey towards integrating sustainability finance within their organisations, with some of them were still being in their initial stages of developing a formal ESG framework. The level of understanding, speed of implementation, adequacy of detail, the embedding of sustainability finance, the depth of the discussions during board meetings, the quality and detail of the documentation and reporting, varies across the different undertakings. It has been noted that some undertakings reached relatively good progress within the current context whilst others were still either setting up an ESG internal working group / committee or planning to include ESG and sustainable finance as a standard item agenda of board meetings. It has been noted that undertakings that form part of a larger group tend to have achieved more progress overall due to the set strategy and resources available at group level, which trickles down to such undertakings. However the Authority still noticed that a number of undertakings within this category are generally at the receiving end rather than the Board of Directors taking an active lead and steering the transition and changes that are expected of undertakings to become in line with the ESG requirements.

IPS has mainly focused on obtaining an update of the board policies of insurance undertakings. Future supervisory work by IPS will also include an assessment of the effective implementation of these changes within such policies.

The MFSA notes that most undertakings still need to put in more effort with regards to processes, systems and internal controls in order to establish an adequate level of compliance with ESG. This is a general area for improvement which requires undertakings to dedicate more resources to.

Through its engagement with licence holders in general, the Authority is today in a better position to understand which of the ESG requirements / areas tend to be more challenging to implement primarily due to either lack of clarity, lack of clear supervisory expectations or due to regulation which is still works in progress.

The Authority also notes that the insurance market is expecting more interaction and dialogue with supervisors to obtain a better understanding of how ESG and sustainable finance requirements should be implemented in an effective manner. Whilst the Authority intends to continue being committed to engage with the license holders setting its expectations, all undertakings are urged to take initiative and reach out to the Authority to share their plans of

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how they intend to implement ESG. Undertakings are also encouraged to exchange the difficulties or challenges they are facing when coming to implement some of the ESG / sustainable finance requirements, as well as be proactive and discuss idea and proposals of how effective implementation can be achieved.

### **3. Initiatives taken by IPS in relation to ESG**

Engagement with undertakings on a risk-based approach is only one facet of the role of the supervision team within the IPS. In order to implement effective supervision in relation to ESG / sustainable finance and ensure that the MFSA's supervisory practices and methodologies converge with both EIOPA's priorities and expectations, as well as those of other supervisory teams within the MFSA, the IPS has taken a number of initiatives, some of which started off back in 2022. These initiatives include but are not limited to:

- active participation in both internal and external sustainable finance working groups;
- the establishment of a specific IPS sustainable finance working group where ideas and issues are being shared / discussed amongst different teams with the main objective of establishing clear expectations and putting the MFSA in a stronger position to communicate such expectations to the insurance market;
- engaging with other supervisory teams both within the MFSA and other National Competent Authorities to exchange information and supervisory experiences;
- attending conferences and participating in EIOPA roundtables and working groups in relation to sustainable finance;
- following closely EIOPA's work in relation to convergent practices on the supervision and management of sustainability risk;
- monitoring closely EIOPA's publications;
- identifying and providing adequate training to staff in relation to sustainable finance;
- adapting and developing supervisory processes and procedures including the drafting of a supervisory handbook in relation to sustainable finance.

### **4. MFSA's expectations**

Moving forward the MFSA expects that insurance undertakings continue their journey in transitioning to green embracing sustainable finance and engraining this in their governance, risk management and investment policies. To this effect, undertakings are expected to continue providing for the necessary resources to ensure that they adequately implement the sustainability requirements, ensuring that the changes in board policies reflecting sustainable requirement are not simply a cosmetic change to a document but actually being implemented and being reflected in the day-to-day decisions and culture of organisations.

The MFSA also expects to see significant improvement with regards to:

- the level of understanding of ESG and sustainable finance requirements primarily at the level of the board which is then expected to cascade down to all levels within the organisation;
- more depth and width in relation to discussions held during board meetings relating to the implementation of ESG and sustainable finance within the organisation they are responsible to manage;
- better quality and more detailed documentation and reporting in relation to ESG and sustainable finance requirements;
- the establishment of a clear ESG and sustainable finance strategy which is complemented by a business plan with achievable milestones;

During 2025, the MFSA is planning to engage further with undertakings on a risk-based approach to assess their level of adequacy and effectiveness of compliance with the new sustainability requirements as per expectations noted above.

Yours Sincerely,  
**Malta Financial Services Authority**

**Christopher P. Buttigieg**  
**Chief Officer Supervision**

**Ray Schembri**  
**Head - Insurance and Pensions Supervision**