

20 February 2026

Conduct Supervision
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Dear Chief Executive Officer,
Dear Compliance Officer,

Re: IDD Suitability Requirements – client suitability assessment process in the context of advisory sales of IBIPs

You are receiving this letter as the Chief Executive Officer and/or Compliance Officer of an insurance undertaking or insurance intermediary which distributes insurance-based investment products (“IBIPs”) on an advisory basis in terms of Article 30 of Directive (EU) 2016/97, referred to as the Insurance Distribution Directive (“IDD”), and Commission Delegated Regulation (EU) 2021/1257 and are supervised by the Malta Financial Services Authority (“MFSA” or “the Authority”).

1.0 Background

Commission Delegated Regulation (EU) 2021/1257 has been in force since 2 August 2022. This Regulation amends relevant provisions of the IDD, primarily those relating to product oversight and governance (“POG”) requirements, to incorporate sustainability factors. It also introduces a requirement for insurance distributors to consider the sustainability preferences of their clients by collecting and integrating these preferences when providing advice to clients in relation to the sale of Insurance Based Investment Products (“IBIPs”).

To support these amendments, the European Insurance and Occupational Pensions Authority (“EIOPA”) issued [Guidance on the integration of such sustainability preferences within the suitability assessment](#).

These regulatory developments align with the European Union’s broader agenda to reorient capital flows towards more sustainable activities and to strengthen the financial services sector’s role in supporting the transition to a greener, socially inclusive economy. This agenda is underpinned by key initiatives such as the 2016 Paris Agreement and the Capital Markets Union.

In its Dear CEO letter dated [5th October 2022](#) (“the letter”), the Authority requested information from licensed insurance entities subject to the above Delegated Regulation regarding the changes they have implemented to comply with the new requirements. This included a detailed explanation of amendments made to the Company’s suitability policies and procedures—specifically the Client Fact Find template—and any related documentation or questionnaires used to collect client information concerning sustainability factors.

The MFSA has now concluded its review of the replies provided by the abovementioned entities and has assessed how these have integrated the clients' sustainability preferences into product offerings and advisory processes. As part of this process, the Authority also conducted dedicated supervisory engagements with relevant licence holders to assess the extent to which companies are effectively implementing their updated policies and procedures.

Accordingly, the MFSA has undertaken a comprehensive assessment of whether insurance distributors within scope are appropriately incorporating clients' sustainability preferences when conducting suitability assessments in the context of advice relating to IBIPs.

The purpose of this letter is to provide insights into areas where the industry is expected to enhance compliance with regulatory obligations, as well as to share good practices identified during this review.

2.0 Methodology

The Regulated Persons within the scope of this review comprised insurance undertakings and intermediaries distributing IBIPs on an advisory basis. Following the Authority's request for information, responses were received from the relevant entities, exhibiting varying degrees of detail and comprehensiveness.

This assessment involved a thorough review and analysis of the changes implemented in the entities' suitability policies, procedures, and supporting documentation, including the *Client Fact Find* or any equivalent tools used to document the suitability assessment. The review sample comprised seven intermediaries, evenly divided between insurance brokers and Tied Insurance Intermediaries, representing the complete population of entities subject to the updated regulatory requirements at the time of the review. Notably, during the period of analysis, no insurance undertakings were found to distribute IBIPs directly on an advisory basis.

In addition, the Authority conducted targeted onsite inspections with a subset of the participating Licence Holders. These inspections focused primarily on the integration of clients' sustainability preferences within the suitability assessment process. The engagements included detailed discussions with senior management, compliance functions, and financial advisors directly involved in IBIPs distribution.

The Authority also sought clarifications and supplementary information through ongoing supervisory engagements, including supervisory meetings with licensed entities. These activities form part of the MFSA's commitment to embedding sustainable finance considerations within its continuous supervisory framework, consistent with its established [Supervisory Priorities](#).

3.0 General Market Observations and MFSA Expectations

In addition to the primary amendments introduced by Commission Delegated Regulation (EU) 2021/1257, as detailed in the MFSA's aforementioned letter, the Authority had identified the following main observations during the course of its review:

3.1 Assessment of the extent of clients' portfolio to be directed towards sustainable products

Regulatory Requirements

Article 2(3) of Commission Delegated Regulation (EU) 2021/1257 amends Article 2 of Delegated Regulation (EU) 2017/2359 to read as follows:

"sustainability preferences" means a customer's or potential customer's choice as to whether and, if so, to what extent, one or more of the following financial products should be integrated into his or her investment:

(a) an insurance-based investment product for which the customer or potential customer determines that a minimum proportion shall be invested in environmentally sustainable investments as defined in Article 2, point (1), of Regulation (EU) 2020/852 of the European Parliament and of the Council;

(b) an insurance-based investment product for which the customer or potential customer determines that a minimum proportion shall be invested in sustainable investments as defined in Article 2, point (17), of Regulation (EU) 2019/2088 of the European Parliament and of the Council;

(c) an insurance-based investment product that considers principal adverse impacts on sustainability factors where qualitative or quantitative elements demonstrating that consideration are determined by the customer or potential customer"

Observations

The client assessments used by service providers, as evidenced by the client fact-find documentation submitted to the Authority following its information request, did not consistently include the capture of the extent to which clients wish to allocate their investment portfolio toward sustainable investments. Moreover, the processes established to elicit sustainability preferences did not sufficiently enable clients to express preferences between the objectives set out under Regulation (EU) 2019/2088 - the Sustainable Finance Disclosure Regulation ("SFDR"), Regulation (EU) 2020/852 - the Taxonomy Regulation, and the consideration of Principal Adverse Impacts ("PAIs").

Good and Poor Practices

A limited number of entities have implemented processes that include specific tools such as dedicated questionnaires or enhancements to existing questionnaires, that explicitly capture clients' sustainability preferences in accordance with the regulatory requirements outlined above. These entities have adopted an approach that enables clients to allocate a percentage of their proposed investment across the various categories of sustainable products referenced. This allows for a clear and quantifiable identification of the proportion of investment the client wishes to allocate to such products, including instances where the client indicates no preference.

Conversely, several entities continue to fall short of collecting clients' sustainability preferences in line with the regulatory expectations. Merely asking clients whether they have any sustainability preferences is insufficient without a structured process to elicit and document further detail as necessary. Many entities lack an established, systematic approach to accommodate situations where clients may wish to express detailed and specific sustainability preferences.

MFSA Expectations

Under Commission Delegated Regulation (EU) 2021/1257, which amends the IDD to integrate sustainability preferences into the suitability assessment process, clients are required to express their sustainability preferences in the context of the Sustainable Finance Disclosure Regulation ('SFDR'), the EU Taxonomy, and PAIs. Clients should have the ability to indicate a preference for financial products that actively manage and mitigate these impacts, either through specific sustainability strategies or by disclosing how such impacts are addressed.

During the advisory process, clients must be specifically asked whether they wish to include SFDR-related investments, taxonomy-aligned products, or considerations of PAIs within their investment choices. This inquiry should be conducted clearly and in accordance with Rule R.4.4.76 of the COBR. Moreover, clients should have the opportunity to specify the degree of their sustainability preference, as well as to identify which aspects of the aforementioned frameworks they wish to prioritise and integrate into their investment portfolio.

3.2 Translating sustainability preferences to suitable products

Regulatory Requirements

Rule R.4.4.76 of the COBR establishes that Regulated Persons are responsible for *“ensuring that all **tools**, such as risk assessment profiling tools or tools to assess a Client’s knowledge and experience, employed in the suitability assessment process **are fit for purpose and are***

appropriately designed for use with their Clients, with any limitations identified and actively mitigated through the suitability assessment process”.

Observations

It has been observed that a number of entities are not yet in a position to clearly articulate the process by which a client's sustainability preferences are matched with financial products that are consistent with those preferences. In particular, the MFSA has identified a recurring issue whereby, although entities may have incorporated questions within their client fact-finding processes to comply with the requirements of Delegated Regulation (EU) 2021/1257, there remains a lack of clarity on the subsequent steps taken to ensure alignment between the client's stated preferences and the products being recommended or distributed.

Good and Poor Practices

A limited number of Regulated Persons have developed and implemented product matrices that clearly outline the sustainability-related characteristics of the financial products they distribute. Within this cohort, certain entities rely on manual processes to match client sustainability preferences with suitable products. Conversely, other entities utilise dedicated information technology systems that perform this matching function automatically. These systems are routinely updated to ensure they accurately reflect the current range of products available for distribution.

However, in several instances, although entities had established procedures for collecting clients' sustainability preferences, they were unable to demonstrate how this information was subsequently utilised in the product recommendation or distribution process. Specifically, there was an absence of a defined methodology, tool, or internal process capable of effectively translating clients' sustainability preferences into appropriate product offerings—even in cases where such products were available within the entity's product suite.

MFSA Expectations

Regulated Persons are expected to implement a clearly defined process that identifies how the products they offer are aligned with the requirements of the Sustainable Finance Disclosure Regulation (SFDR), the EU Taxonomy Regulation, or the consideration of Principal Adverse Impacts (PAIs). This requirement is of particular relevance to insurance intermediaries, who may access sustainable products from a range of underwriters on an-hoc basis. Such a framework would also assist distributors in selecting products which match their clients' sustainability preferences.

Where the alignment of sustainability preferences with suitable products is not conducted through an integrated system capable of autonomous decision-making (e.g., through IT or

AI-based tools), entities must ensure that financial advisors are provided with clear, documented procedures that guide them in determining product suitability. Additionally, internal policies should specify how staff are expected to proceed in situations where clients express an interest in sustainable investing but are unable to specify a distinct preference or minimum proportion for sustainability-related features.

3.3 Adaptation of clients' sustainability preferences

Regulatory Requirements

Article 2(3) of Commission Delegated Regulation (EU) 2021/1257 replaces Paragraph 6 of Article 9 of Delegated Regulation (EU) 2017/2359 to read:

“When providing advice on an insurance-based investment product in accordance with Article 30(1) of Directive (EU) 2016/97, an insurance intermediary or insurance undertaking shall not make a recommendation where none of the products are suitable for the customer or potential customer. An insurance intermediary or insurance undertaking shall not recommend insurance-based investment products as meeting a customer’s or potential customer’s sustainability preferences where those insurance-based investment products do not meet those preferences. The insurance intermediary or insurance undertaking shall explain to the customers or potential customers the reasons for not doing so and keep records of those reasons. Where no insurance-based investment product meets the sustainability preferences of the customer or potential customer, and the customer decides to adapt his or her sustainability preferences, the insurance intermediary or insurance undertaking shall keep records of the decision of the customer, including the reasons for that decision”.

Observations

In accordance with Delegated Regulation (EU) 2021/1257, where a distributor does not offer products aligned with a client’s stated sustainability preferences, the client must be provided with the option to reconsider and amend their sustainability preferences, subject to specific conditions, including the adequate documentation of any such changes. The Authority’s review found that the majority of procedures assessed did not adequately address this scenario, even where the entity explicitly acknowledged that they do not distribute sustainability-oriented products. While most entities incorporated sustainability-related questions within the initial client fact-finding process, their procedures generally did not provide for circumstances requiring clients to modify their sustainability preferences.

Good and Poor Practices

A small number of entities have developed structured fact-finding processes that allow clients to amend their sustainability preferences and have also equipped their staff with

clear guidance on when and how such amendments should be made. Additionally, the MFSA has observed updated procedures that explicitly specify how and where records of these amendments are to be maintained.

Conversely, a number of entities have yet to enhance their processes to accommodate the adaptation of client sustainability preferences in cases where suitable products are unavailable. In certain instances, this requirement has been addressed only superficially, for example, by referencing the possibility of preference adaptation within sales manuals, without providing appropriate tools or processes to ensure the structured recording of such interactions.

MFSA Expectations

Regulated Persons are required to incorporate provisions within their sales procedures that address the potential need for clients to amend their sustainability preferences where appropriate. Client-facing personnel must be fully informed of this possibility and trained on how to guide clients through the review process while ensuring accurate and comprehensive documentation of any changes. Such records should be retained in the client's file to facilitate ongoing compliance monitoring and periodic client reviews.

Furthermore, entities are reminded that sustainability preferences are to be considered supplementary to clients' overarching financial objectives. Consequently, processes designed to review these preferences subsequent to the initial assessment are encouraged, as they promote effective alignment between client preferences and product offerings.

3.4 Importance to define and mitigate 'greenwashing'

Regulatory relevance

Reference is made to [the joint European Supervisory Authorities understanding of greenwashing](#) and [EIOPA's final report and opinion on greenwashing](#).

Observations

The vast majority of policies submitted by companies did not include any reference to the concept of greenwashing or its potential manifestations.

MFSA Expectations

Although the Regulation does not explicitly require companies to address greenwashing within the policies reviewed, it is imperative that staff recognise the existence of greenwashing and have in place the measures necessary to mitigate the associated risks.

Company documentation should serve as a comprehensive resource for staff, outlining the steps to be taken to prevent greenwashing. Entities are therefore encouraged to consult the relevant reports referenced herein and incorporate appropriate guidance on greenwashing into their internal policies for the benefit of all relevant personnel. Additionally, company officials must possess a thorough understanding of how greenwashing may arise, including the risks and potential consequences it poses.

4.0 Provision of appropriate training to client facing members of staff

4.1 Financial advisors' knowledge on sustainable finance below expectations

Regulatory Requirements and Guidance

Section 6.5.1 of the Insurance Distribution Rules ('IDR') refers to:

"(c) all relevant employees:

- i) directly involved in the carrying out of distribution in respect of insurance or reinsurance products of an authorised insurance undertaking carrying out insurance distribution activities or of an authorised reinsurance undertaking carrying out reinsurance distribution activities;*

- (ii) directly involved in the carrying out of the insurance distribution activities and, or reinsurance distribution activities of a person enrolled in the Agents List, Managers List or Brokers List"*

(d) a tied insurance intermediary desirous of applying for registration in the Tied Insurance Intermediary Company Register of any authorised undertaking to act on its behalf, and where the tied insurance intermediary is not an individual, the individual identified in terms of article 37 of the Act;

(e) an ancillary insurance intermediary desirous of applying for registration in the Ancillary Insurance Intermediary Company Register of any authorised undertaking, or of an enrolled insurance broker, to act on its behalf, and where the ancillary insurance intermediary is not an individual, the individual identified in terms of article 43E of the Act."

Pursuant to Section 6.6.1 of the IDR, the aforementioned individuals are required to *"possess the knowledge and ability necessary to adequately perform their tasks and duties."* Additionally, Section 6.7.2 of the IDR mandates that relevant persons and employees must *"demonstrate compliance with the following knowledge and ability criteria, including (d) the assessment of client needs, and (e) information disclosure."*

Furthermore, Section 6.8.7(c) of the IDR specifies that a minimum knowledge requirement for assessing client needs includes *"the ability to update advice when necessary and to*

comply with new legislation.” This encompasses, as detailed in Section 6.10.1(a)(i) of the IDR, “any delegated acts issued pursuant to the Insurance Distribution Directive.”

Observations

Throughout its engagements with regulated entities, including direct interactions with financial advisors, the Authority has observed that advisors frequently do not meet the MFSA’s expectations regarding their knowledge of sustainable finance. This includes a lack of sufficient awareness of their firm’s publicly available disclosures, such as those related to the Sustainable Finance Disclosure Regulation (SFDR), as well as limited understanding of the sustainability features of the products they distribute as intermediaries. The Authority has not received adequate assurances that the updated sales processes, as documented by entities, are being effectively implemented, particularly in cases where advisors themselves do not demonstrate a comprehensive understanding of the relevant concepts. This shortcoming may result in clients feeling insufficiently supported, potentially leading to reluctance to proceed with investments or, in some cases, exposure to misleading information, which could contribute to the risk of greenwashing.

Good and Poor Practices

Compliance plans submitted by certain entities included clearly defined timelines for delivering training to relevant staff on the updated regulatory framework and the application of company processes in this regard.

During compliance meetings, a small minority of financial advisors demonstrated a high level of knowledge of the applicable regulatory framework, particularly in relation to elements incorporated in the Client Fact Find or its equivalent. These advisors responded competently to queries concerning sustainable finance and were able to clearly explain the steps their firms take to incorporate sustainability preferences into the suitability assessment process, including proficiency in the three sustainability-oriented product categories specified under the Regulation.

The MFSA also notes that, in some cases where it directly assessed financial advisors’ knowledge of sustainable finance, these advisors had declared in their Continuous Professional Development (CPD) training logs, pursuant to Chapter 7 of the IDR, that they had completed training specifically on this subject. These observations suggest that, notwithstanding the training undertaken, there remains scope to further strengthen understanding of certain key concepts embedded within the updated sales processes. Addressing this gap would support more consistent and effective application of sustainable finance requirements in practice.

MFSA Expectations

Client-facing personnel, specifically financial advisors who are expected to maintain a high level of knowledge and expertise, must fully comprehend the principles of sustainable finance and sustainable investments. It is critical that advisors understand not only the questions posed to clients to ascertain their financial and sustainability preferences, but also the rationale underpinning these questions. Firms are required to provide comprehensive training not only on regulatory developments but also on subsequent updates to internal policies, procedures, and processes. Moreover, entities should implement processes and procedures to monitor and assess the effectiveness of such training to ensure adequate competence among their staff.

5.0 Non-consideration of clients' experience with insurance products

Regulatory Requirements

Article 2(3) of Commission Delegated Regulation (EU) 2021/1257 introduces amendments to Article 9(2) of Delegated Regulation (EU) 2017/2359, which now provides that:

"Insurance intermediaries or insurance undertakings shall obtain from customers or potential customers such information as is necessary for them to understand the essential facts about the customer or potential customer and to have a reasonable basis for determining that their personal recommendation to the customer or potential customer satisfies all of the following criteria:

a) it meets the investment objectives of the customer or potential customer in question, including that person's risk tolerance and any sustainability preferences [...]"

In addition, Rule R.4.4.67 of the Conduct of Business Rulebook ("COBR") stipulates that a Regulated Person must obtain the necessary information regarding the client's knowledge and experience in the investment field relevant to the specific type of product or service being offered.

Furthermore, Rule R.4.4.71 of COBR requires that information regarding the client's financial situation, including their capacity to bear losses, must, where relevant, include details on the source and extent of the client's regular income, assets (including liquid assets, investments, and real property), and ongoing financial commitments.

Observations

It was observed that suitability assessments frequently did not adequately address the consideration of a client's experience with insurance-based products. The Authority highlights that, in the absence of such information, it becomes challenging for an advisor to

properly evaluate and recommend suitable options without a comprehensive analysis of the client's existing portfolio, which may include insurance products.

This issue was particularly pronounced among intermediaries employing a single, comprehensive sales process encompassing both insurance and investment products. Notably, several entities authorised to distribute purely investment products applied uniform procedures and processes across their various authorisations. This approach reflects a holistic methodology intended to facilitate the distribution of both insurance-based and investment products through a unified sales process. Failure to take into account clients' experience with insurance-based products limits the ability to obtain a comprehensive understanding of their overall investment experience, source of wealth, and, where relevant, their long-term financial commitments.

MFSA Expectations

The Authority does not object to companies employing a unified process for both investment products and insurance-based investment products. However, it is expected that such processes explicitly address and incorporate clients' experience in respect of insurance products. Service providers must ensure that they gather all the relevant information concerning a client's financial position and existing investments. Given that an insurance-based investment product may not represent the most suitable option for clients who already hold or have previously held similar investment vehicles, careful consideration must be given to the client's current and past product purchases.

The MFSA expects companies to determine and adopt methods that are proportionate and appropriate to their size and operational model. Internal policies and procedures should be tailored accordingly and must explicitly reference the various categories of products the company is authorised to distribute.

Furthermore, financial advisors, including those not directly involved in the distribution of insurance-based investment products are expected to consider clients' experience with such products when assessing clients' demands and needs, as well as when conducting suitability and appropriateness assessments.

6.0 Way Forward

The MFSA underscores that insurance distributors which offer insurance-based investment products on an advisory basis must duly integrate sustainability preferences into their operations, both to ensure regulatory compliance and to meet the evolving expectations of clients. Given the increasing prominence of sustainability as a determinant in investment decision-making, entities are expected to enhance their internal frameworks, provide

comprehensive training to staff, and ensure that all product offerings and associated documentation uphold the highest standards of transparency and client comprehension.

Entities are further reminded that clients' sustainability preferences should be subject to periodic review to maintain alignment with their personal values and investment objectives, particularly as sustainability-related disclosure requirements continue to develop.

As part of its strategic priorities, the MFSA will maintain and intensify its supervisory focus on sustainable finance. This will include deeper integration of sustainability considerations within its existing supervisory tools, as set out in the Authority's supervisory priorities. In the interim, entities within the scope of this communication are expected to thoroughly review its contents and ensure that their internal processes and procedures align with the Authority's expectations. To ensure compliance, entities falling within the scope of this letter are to carry out a gap analysis to identify any discrepancies between their current practices of the and the regulatory requirements, allowing for the necessary adjustments to be made in order to meet the established standards.

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

Yours Sincerely,
Malta Financial Services Authority

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