25th March 2026

Dear Chief Executive Officer,

Dear Compliance Officer,

Outcomes-based supervision thematic review on corporate Tied Insurance Intermediaries ("TIIs")

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") with appointed TIIs acting on its behalf.

1.0 Background

The MFSA endeavours to ensure compliance with the applicable rules governing licensed insurance entities such that they contribute towards a fair, honest and transparent financial market. This strengthens policyholder protection which would, in turn, boost confidence in the local financial market. 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 onsite inspections, off-site work, thematic reviews and other targeted supervisory interventions.

Thematic reviews are an essential tool for the Authority in assessing the current market conditions including current or possible emerging risks. Conduct Supervision, within the Authority, has chosen to carry out part of its supervisory engagements through the use of this tool, as further detailed in this letter. This thematic review falls within the scope of the Authority's 2025 Supervisory Priorities outlined in the Authority's press release and has been undertaken using the Authority's Compliance Outcomes-Based Supervision approach.

Compliance Outcomes-Based Supervision is a supervisory approach that evaluates supervised entities on the basis of the tangible outcomes achieved in key areas during supervisory interactions. It seeks to ensure that such outcomes align with clearly defined and pre-established regulatory objectives. The main goal of this framework is to concentrate supervisory efforts on the achievement of intended regulatory results and to identify the most effective and proportionate means of attaining them. This approach underpins the core objectives of financial regulation: protecting consumers, maintaining financial stability, and preserving market integrity.

This letter outlines the main findings arising from the Thematic Review and outlines the Authority's supervisory expectations in respect of insurance undertakings regarding the sales processes and procedures implemented by their TIIs. It further details the Authority's expectations regarding the oversight, governance, and ongoing monitoring of such intermediaries by insurance undertakings.

2.0 Methodology

Tied Insurance Intermediaries represent a significant distribution channel for insurance products in Malta. It is therefore essential that such intermediaries conduct their activities in full compliance with applicable regulatory requirements, thereby ensuring the protection of customers' best interests and the integrity of the market. In this context, the MFSA prioritised an Outcomes-Based supervisory initiative aimed at assessing TIIs' adherence to their regulatory obligations, with particular emphasis on the sales process.

The scope of the review included an examination of demands and needs assessments, and, where applicable, appropriateness and suitability assessments in relation to the distribution of insurance-based investment products. The supervisory exercise also encompassed a review of pre-contractual disclosures, product distribution arrangements, and compliance with record-keeping requirements.

At the commencement of this project, there were 410[1] licensed TIIs. For the purposes of this Outcomes-Based project, the Authority focused **on corporate entities registered as TIIs and licensed to distribute long-term insurance products**. Out of the 85 corporate TIIs, 32 were licensed to distribute life insurance products, including 19 that were licensed to sell both life and non-life products, while the remaining 54 distributed non-life insurance products only. During the course of the review, the population of TIIs authorised to distribute life insurance decreased to 31, following the surrender of one TII license due to inactivity. All the remaining 31 TIIs were the subject of this supervisory engagement.

This exercise is scheduled to span across a period of three (3) years. The year 2025 marked the first year of this supervisory exercise, during which the Authority conducted 31 supervisory meetings with corporate TIIs that can distribute life insurance.

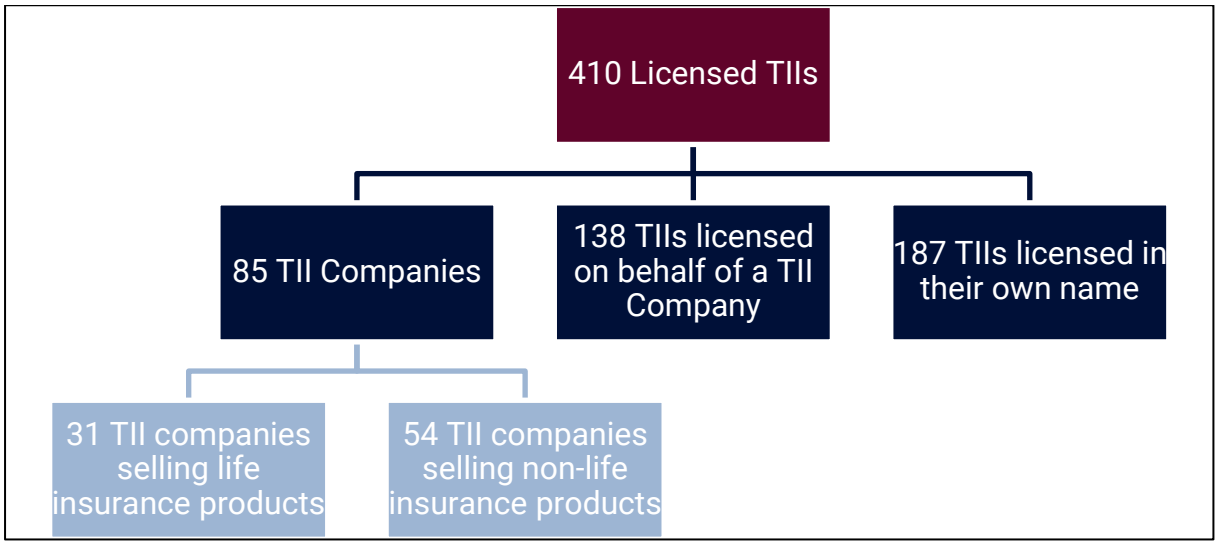

Figure 1: Diagram showing the split of licensed TIIs in Malta as of January 2025

Each supervisory meeting was preceded by a formal communication to the respective TII outlining the scope and objectives of the engagement. Meetings were conducted with a designated client-facing

[1] According to the Authority's data as at January 2025.

representative and, where applicable, the individual responsible for oversight of TIIs within the undertaking. Each session had an approximate duration of two hours.

To ensure consistency, proportionality, and a level playing field across all supervisory engagements, the Authority developed a standardised set of questions based on the applicable provisions of the Conduct of Business Rulebook ("COBR"). TIIs were also requested to provide and explain a client file relating to an IBIP. Where applicable, TIIs that also distribute non-life insurance products were asked to provide a walkthrough of an additional client file relating to general insurance business. TIIs that do not distribute IBIPs were instead asked to provide a walkthrough of a client file relating to a loan protection policy.

Subsequent to the meetings, the Authority undertook a comprehensive assessment of the information obtained. A formal communication was thereafter issued to each corporate TII setting out the relevant regulatory requirements, any identified shortcomings and the Authority's observations arising from the supervisory review.

The year 2026 has been designated as a remediation period, during which the relevant TII companies are expected to implement appropriate corrective measures to address the identified shortcomings and achieve full alignment with the regulatory framework, as specified in the Authority's correspondence. The Authority intends to re-engage with these entities in 2027, applying the same assessment criteria in order to evaluate whether the identified shortcomings have been satisfactorily rectified.

2.1 General market statistics

In preparation for this supervisory exercise, the Authority compiled and analysed relevant statistical data to identify prevailing market trends. This analysis was undertaken to gather data and to determine whether any observed trends may be indicative of, or provide context for, certain practices identified within the market.

The Authority's analysis indicates that the majority of TIIs within scope (88%) conduct business directly on behalf of their insurance principal, while the remaining 12% operate on behalf of an appointed agent. Figure 2 below illustrates the volume of life insurance sales effected by TIIs, distinguishing between those acting directly for their principal and those operating through an agent.

During supervisory engagements, TIIs acting on behalf of an agent stated that such arrangements were generally driven by long-standing commercial relationships with the respective agent or, in certain instances, by perceived operational efficiencies in the referral of business for underwriting purposes, as compared to direct interaction with the principal undertaking.

For the purpose of this analysis, all agents and principals included within the sample have been anonymised and are referenced as "AG" (agent) and "PR" (principal). Instances where a TII acts directly on behalf of a Principal are labelled as "Direct" in the graph below.

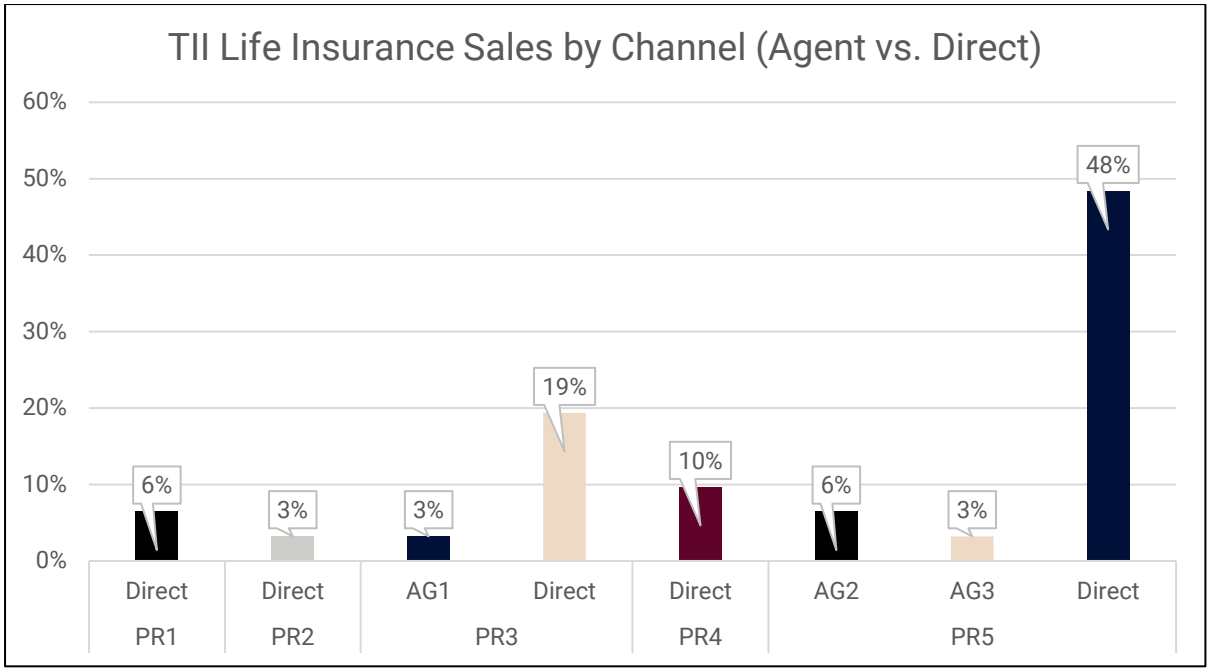

Figure 2

As illustrated in Figure 5 below, 25 entities selected for this thematic review are authorised to distribute life insurance products in both Class I and Class III, while the remaining 6 TIIs are authorised to distribute Class I products only.

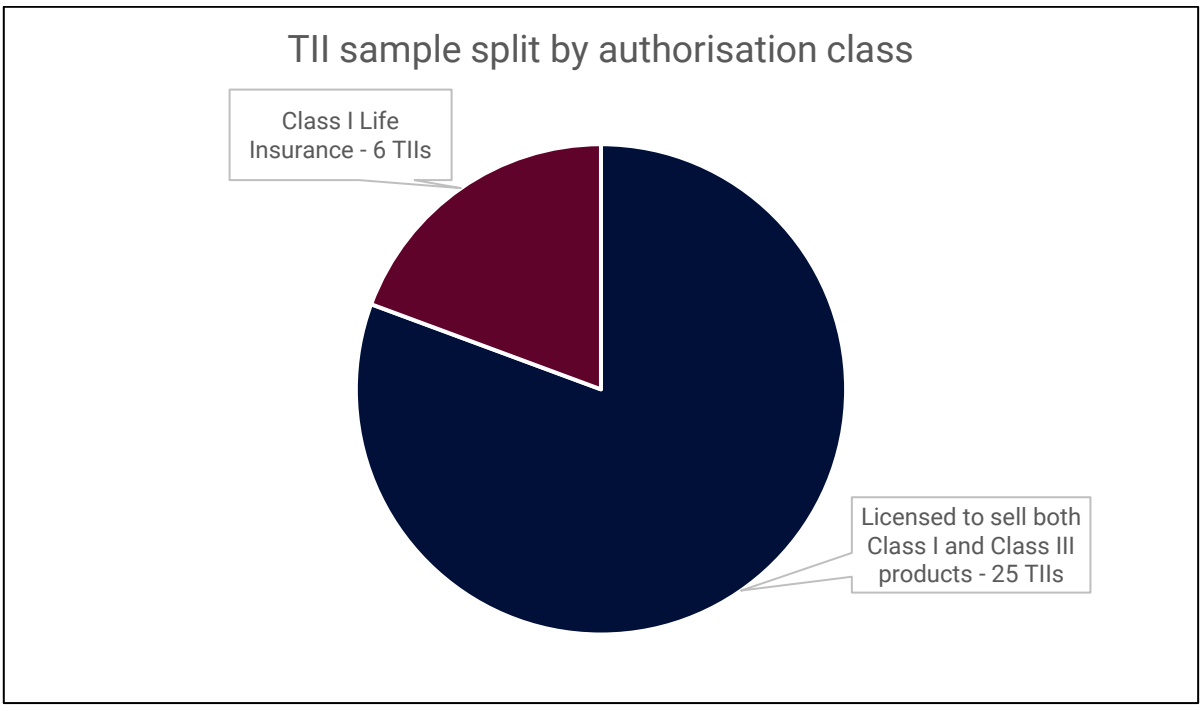

Figure 3

During the supervisory engagements, 7 of the 25 TIIs authorised to distribute both Class I and Class III products informed the Authority that they do not currently distribute Insurance Based Investment

Products ('IBIPs'), as reflected in Figure 6 below. These TIIs advised that they retain the relevant authorisation in order to facilitate the potential distribution of such products at a future date.

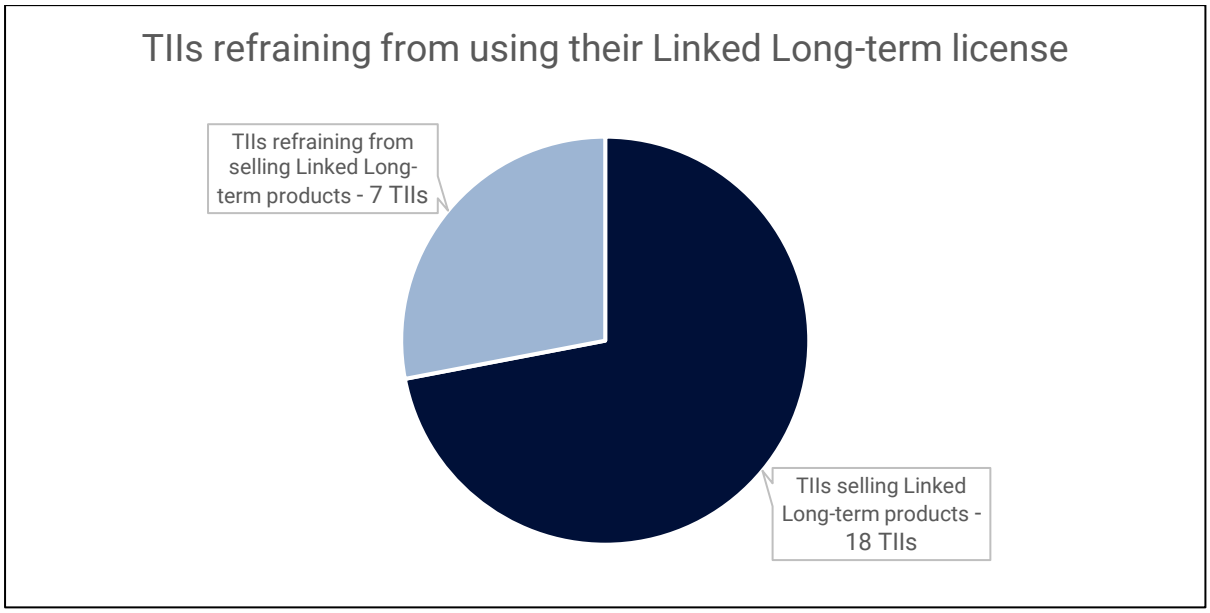

Figure 4

Notwithstanding the absence of sales activity, these TIIs remained subject to assessment in respect of their regulatory obligations relating to Class III products. In particular, TIIs are required to complete the prescribed training and maintain the requisite level of competence for such products for the duration of the relevant authorisation.

As no sales of Class III products were undertaken during the review period, the Authority was not in a position to examine any associated client files. In this regard, the relevant TIIs advised that, where a client expresses an interest in an IBIP product, they would either decline to provide the product or refer the client directly to the Principal for the execution of the transaction.

3.0 Key Observations

As previously noted, in order to ensure consistency across all TIIs subject to this review, the Authority developed a standardised set of questions derived from the relevant provisions of the Conduct of Business Rulebook ('COBR') to guide discussions during the supervisory meetings. These questions addressed, inter alia, sales processes, remuneration practices, marketing activities, internal procedures, the provision of advice, sustainability considerations, and the training undertaken by TIIs.

The following section sets out the key issues identified by the Authority in respect of each of the aforementioned areas. It also highlights examples of both good and poor practices observed within the market and outlines the MFSA's supervisory expectations in each case.

3.1 Sales processes

3.1.1 Business Cards

Observations

At the commencement of the supervisory meetings, TIIs were asked to confirm whether they inform clients of the capacity in which they act and whether they provide clients with their business card.

As illustrated in Figures 7 and 8, the majority of TIIs demonstrated an awareness of their obligation to clearly disclose the capacity in which they operate. However, 13% of TIIs indicated that they do not provide their business cards to clients. Furthermore, 6% of TIIs reported that they were not aware of their obligation to inform clients that they act on behalf of an insurance undertaking and, where applicable, on behalf of an insurance agent.

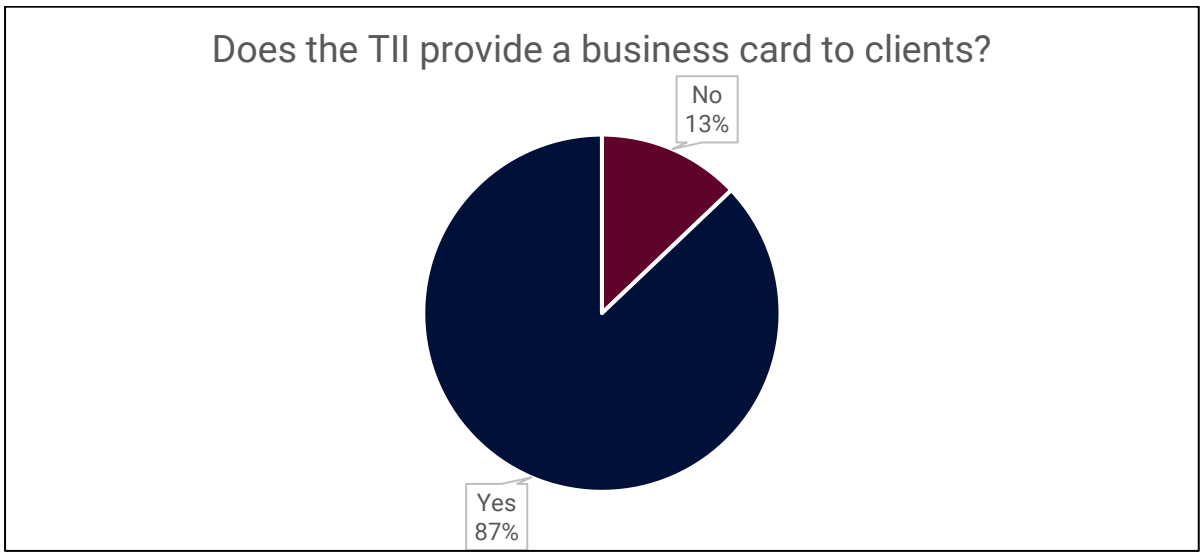

Figure 5

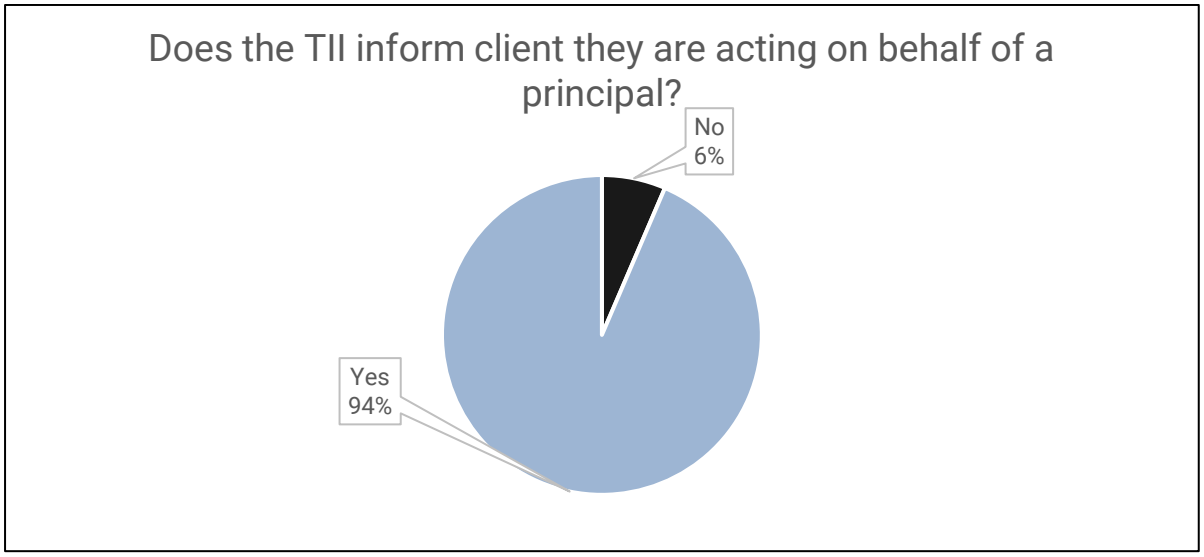

Figure 6

Regulatory Requirements and MFSA Expectations

It is important that customers clearly understand the distinction between an insurance undertaking and an insurance intermediary. In 2020, the Authority commissioned a survey examining consumer attitudes and behaviour towards home insurance products. The findings indicated that, of the 700 respondents surveyed, 18% identified the intermediary, rather than the insurance undertaking, as their insurance provider, while a further 12% were unable to identify their insurance provider altogether.

In this context, Rule R.1.3.7 of the COBR requires TIIs to disclose the capacity in which they are acting and to provide clients with a business card. Adherence to this requirement promotes transparency within the insurance distribution process, reduces the risk of consumer misunderstanding as to the role of the intermediary, and contributes to enhancing overall levels of financial literacy among clients.

3.1.2 Demands and Needs

Observations

As part of the sales process, TIIs are required to undertake a demands and needs assessment prior to offering an insurance product to a client, in order to ensure that the proposed product is consistent with the client's identified demands and needs. This assessment constitutes a fundamental control aimed at mitigating the risk of mis-selling and safeguarding the client's best interests.

A review of the client files submitted by TIIs revealed that 2 of the 31 TIIs had not conducted a demands and needs assessment. It was further observed that both TIIs were operating under the same Principal. As illustrated in Figure 9, 94% of TIIs were able to provide evidence demonstrating that a demands and needs assessment had been completed. This level of compliance was attributed to the system controls implemented by the relevant Principal, whereby the demands and needs assessment is embedded within the sales process and TIIs are prevented from proceeding with the sale of an insurance product unless the assessment has been duly completed.

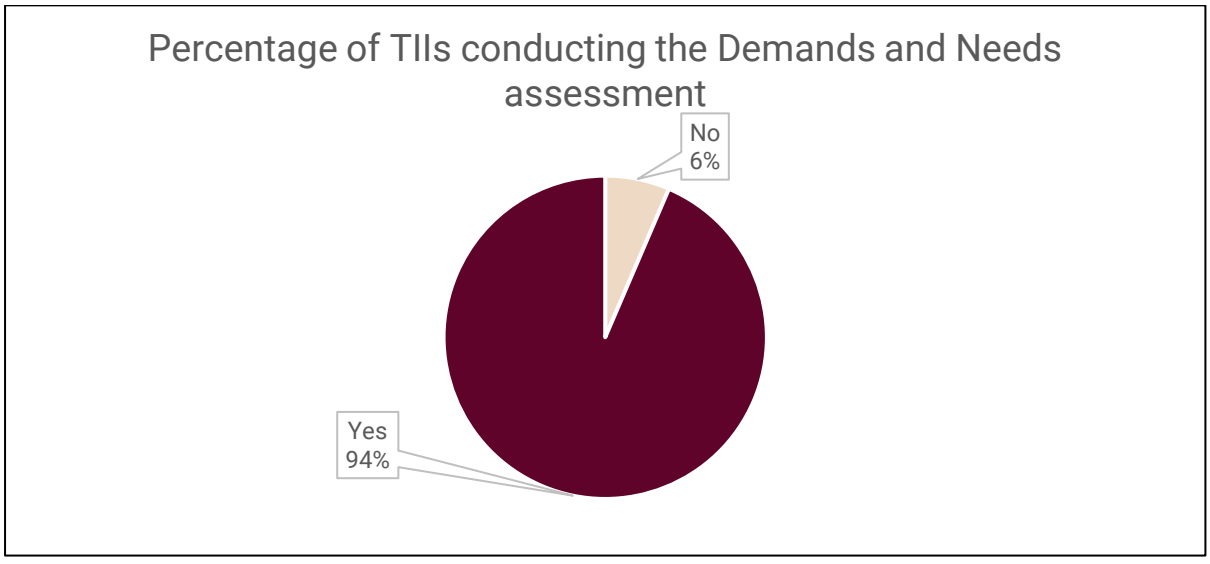

Figure 7

Regulatory Requirements and MFSA Expectations

In accordance with Rule R.4.4.64 of the COBR, insurance distributors are required to undertake a demands and needs assessment prior to proposing an insurance product to a client. This requirement ensures that distributors obtain all relevant information necessary to recommend a product that is consistent with the client's demands and needs and constitutes a key safeguard against the risk of mis-selling.

Where Principals have not embedded the demands and needs assessment within their IT systems, they must ensure that effective monitoring mechanisms are in place to verify that TIIs are conducting the assessment as required. Such mechanisms may include, for example, periodic client file reviews. Principals are encouraged to integrate the demands and needs assessment into their systems and to ensure that system controls prevent employees or intermediaries from bypassing this assessment.

The Authority has set out its supervisory expectations in relation to the conduct of the demands and needs assessment in Volume VI of the Nature and Art of Financial Supervision.

3.1.3 Disclosures

Observations

During the sales process, insurance distributors are required to provide clients with all relevant product disclosures. This includes informing clients of the implications of providing inaccurate or incomplete information at the underwriting stage. In particular, clients must be made aware that the provision of such information may prejudice their rights under the policy and may result in the repudiation of a claim.

As illustrated in Figure 10, 10% of TIIs demonstrated a lack of awareness of their obligation to communicate this information to clients.

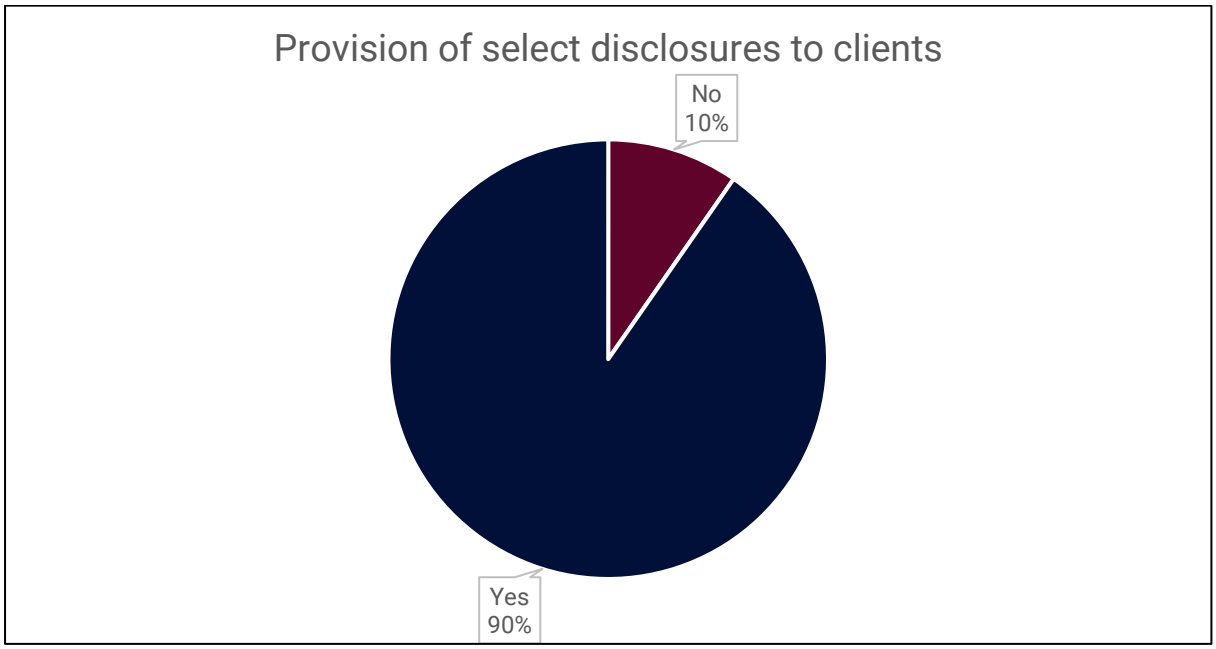

Figure 8

Regulatory Requirements and MFSA Expectations

TIIs are required to disclose all relevant information to clients in order to ensure that clients are appropriately informed and given adequate protection in respect of their rights under the policy. While the client remains obliged to provide complete and accurate replies to underwriting questions put forth by the intermediary, the latter are also required, in terms of Rule R4.1.8(b) of the COBR, to inform clients of the consequences of failing to provide such information. The MFSA expects that such warnings are given clearly and unambiguously to clients every time underwriting questions are asked before the conclusion of a contract.

3.1.4 Record keeping of meetings

Observations

Certain discussions between clients and insurance distributors may not be fully captured through the structured questions included in the demands and needs statement, quotation documentation, or proposal forms, yet may nevertheless be material to the client's selection of an appropriate policy. Insurance distributors are therefore required to maintain adequate records of face-to-face engagements to ensure that all relevant information is properly documented.

This thematic review identified that 19% of TIIs advised that they do not retain records of meeting discussions. In contrast, 81% of TIIs (as illustrated in Figure 11) indicated that they maintain such records, either through internal note-taking systems or by scanning and retaining written meeting notes within the client file.

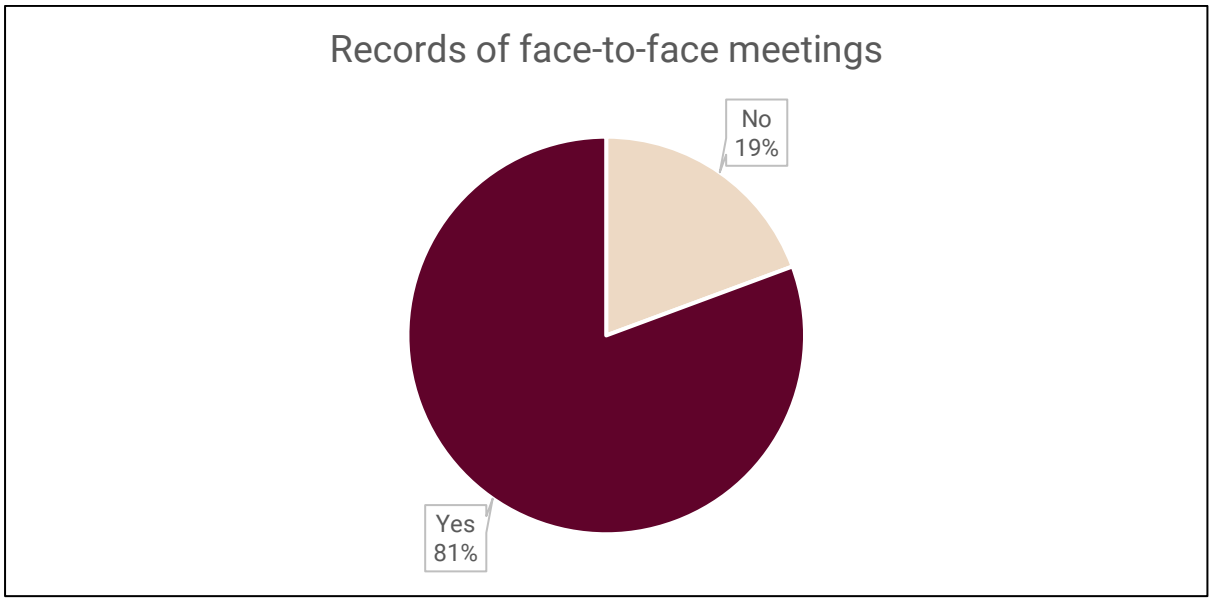

Figure 9

Regulatory Requirements and MFSA Expectations

Rule R.4.1.24 of the COBR requires insurance distributors to maintain records of all face-to-face engagements with clients. Such records must include, inter alia, the purpose of the meeting and any other relevant information pertaining to the insurance contract being entered into. While the Authority

does not prescribe a specific format or method for maintaining these records, distributors are allowed discretion in determining the manner in which meeting records are retained.

Notwithstanding the above, the Authority expects that such records are readily accessible within the client file and can be made available to the Authority upon request. A number of TIIs included within the sample for this thematic review demonstrated compliance with this Rule through internal system-generated meeting notes, follow-up correspondence issued to clients subsequent to meetings, or records maintained on the Principal's system and made available to the TII through a computer-link arrangement.

3.1.5 Receipts

Observations

As part of the insurance documentation provided to clients, TIIs are required to issue a receipt acknowledging the receipt of client monies. Such receipts must clearly provide a breakdown of all amounts received, with the premium, document duty, and any other applicable costs, such as the vehicle licence fee or TII administration fees, disclosed separately. In the case of life insurance policies, premiums are often paid directly by clients into the bank account of the Insurance Principal and therefore, a receipt is issued directly from the principal in due course.

As illustrated in Figure 12, 7 TIIs do not provide receipts to clients. For the 24 TIIs that do issue receipts, a review of client files confirmed that the receipts appropriately reflected a breakdown of monies received, distinguishing between the premium, document duty, and other costs where applicable.

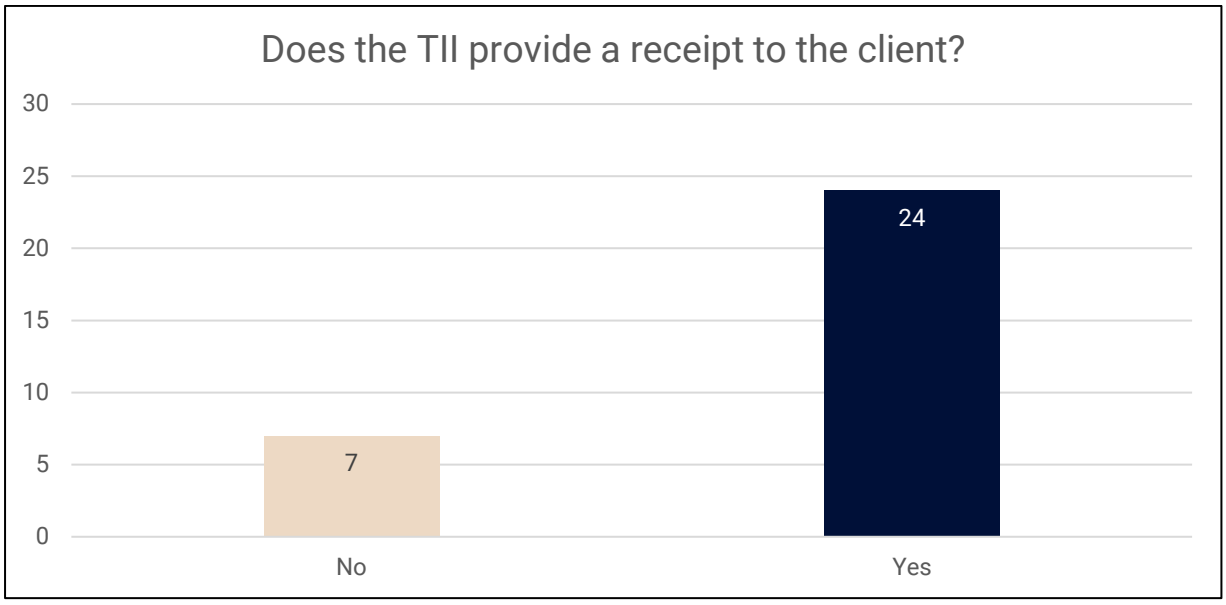

Figure 10

Regulatory requirements and MFSA Expectations

TIIs are required to acknowledge the receipt of monies received from clients. In accordance with Rule R.4.1.48 of the COBR, the premium, document duty, and other applicable costs, such as the motor vehicle licence fee and TII administration fees, must be disclosed separately. Any additional fees

charged to the client, including those outlined in the ***Remuneration*** section below, must also be disclosed distinctly to ensure transparency. MFSA expects that such distinction in receipts should be done in a format which is clear and which is easy for the client to understand.

3.2 Remuneration

Observations

The Authority assessed TIIs' methods of remuneration due to the potential for conflicts of interest arising from certain remuneration structures. In the local market, TIIs are generally remunerated by their Insurance Principal through commission fees. However, some TIIs also charge fees to clients in addition to receiving commission. As illustrated in Figure 13, three TIIs (10% of the sample) were found to charge a fee for their services while also receiving a commission from their Principal.

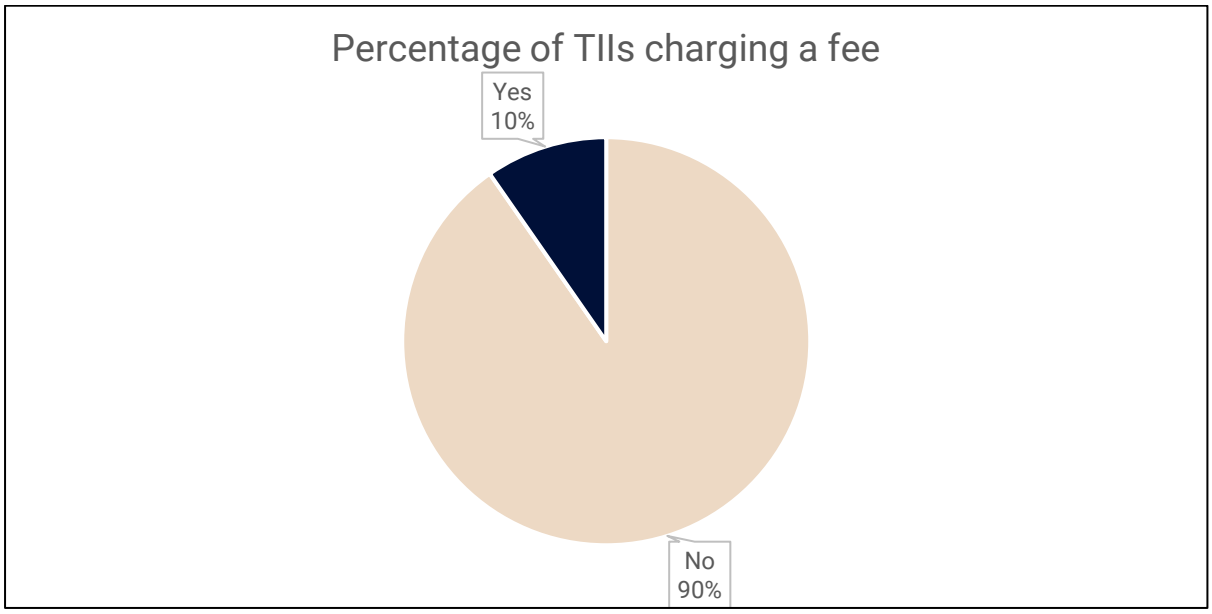

Figure 11

TIIs that indicated they charge fees to clients were asked whether documented procedures exist to classify such fees and to demonstrate that the fees enhance the quality of service provided. As shown in Figure 14, only one TII (3% of the overall sample, and one of the three TIIs charging a fee) had a formal procedure in place detailing how the fee is calculated.

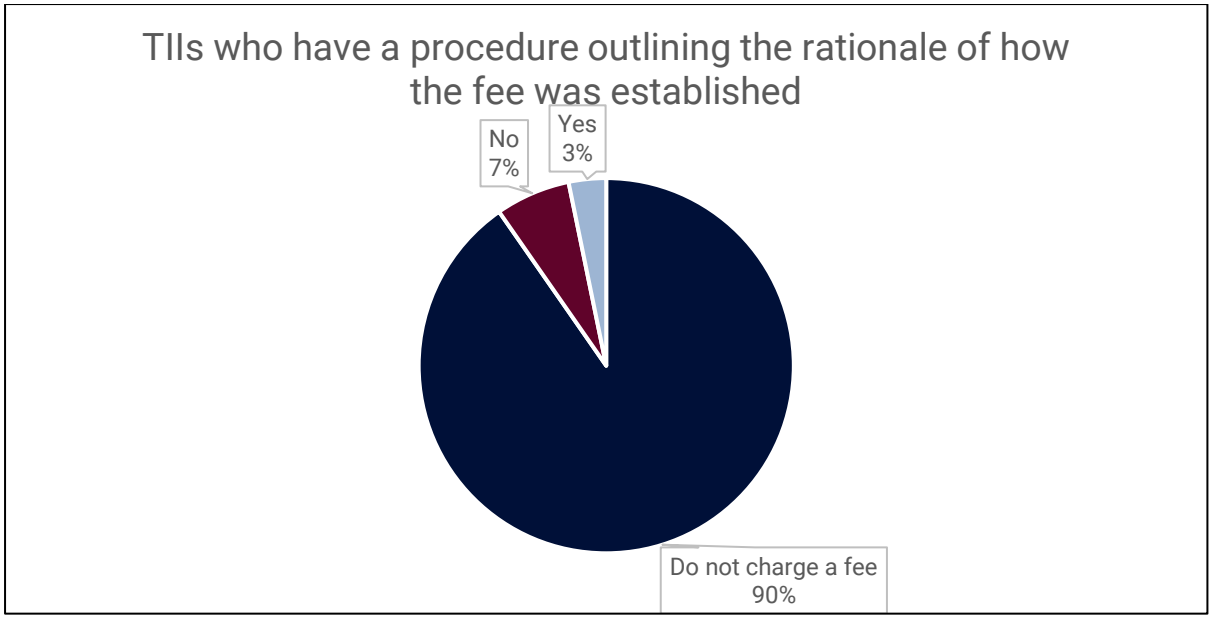

Figure 12

Furthermore, 13% of TIIs in the sample (Figure 15) did not disclose their method of remuneration to clients. These TIIs are distinct from the 10% of TIIs identified in Figure 13 that charge fees to clients, the 13% represented in Figure 15 are remunerated solely through a commission paid by their Insurance Principal.

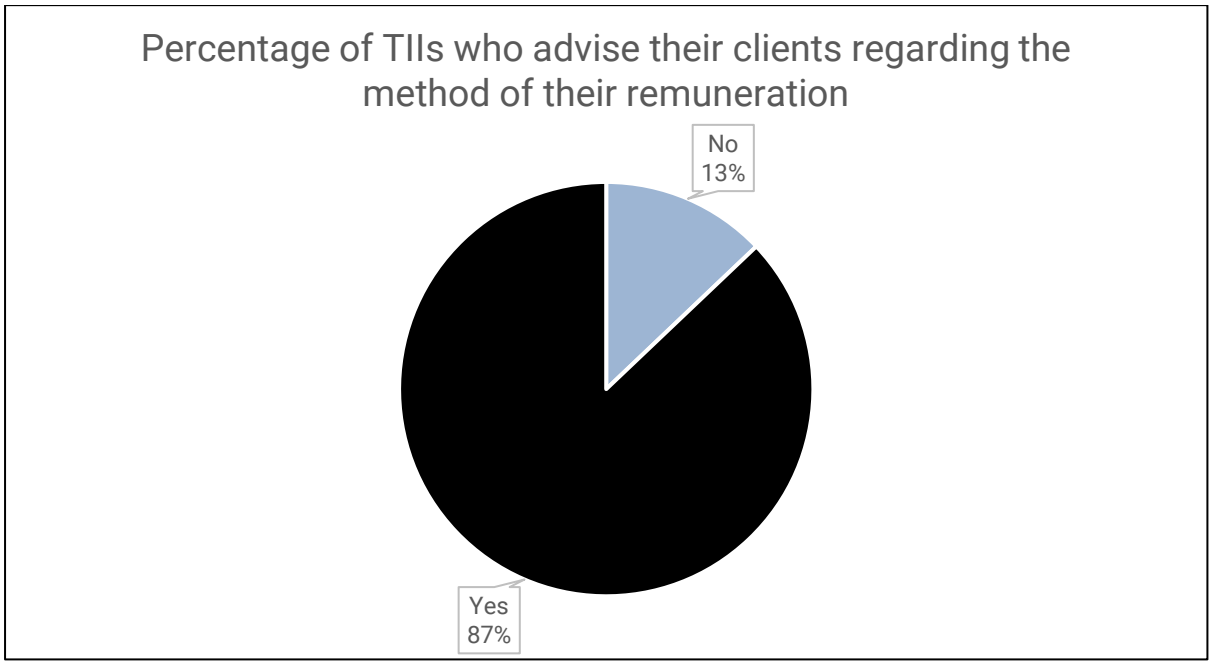

Figure 13

TIIs were also asked whether their employees receive incentives linked to insurance sales or are remunerated solely through a fixed salary. This assessment is relevant as remuneration structures tied to sales volumes may incentivise aggressive sales practices and increase the risk of mis-selling. As illustrated in Figure 16, 16% of TIIs in the sample remunerate their employees through commissions.

This factor was considered alongside other indicators, including sales and marketing practices, to assess the potential risk of mis-selling.

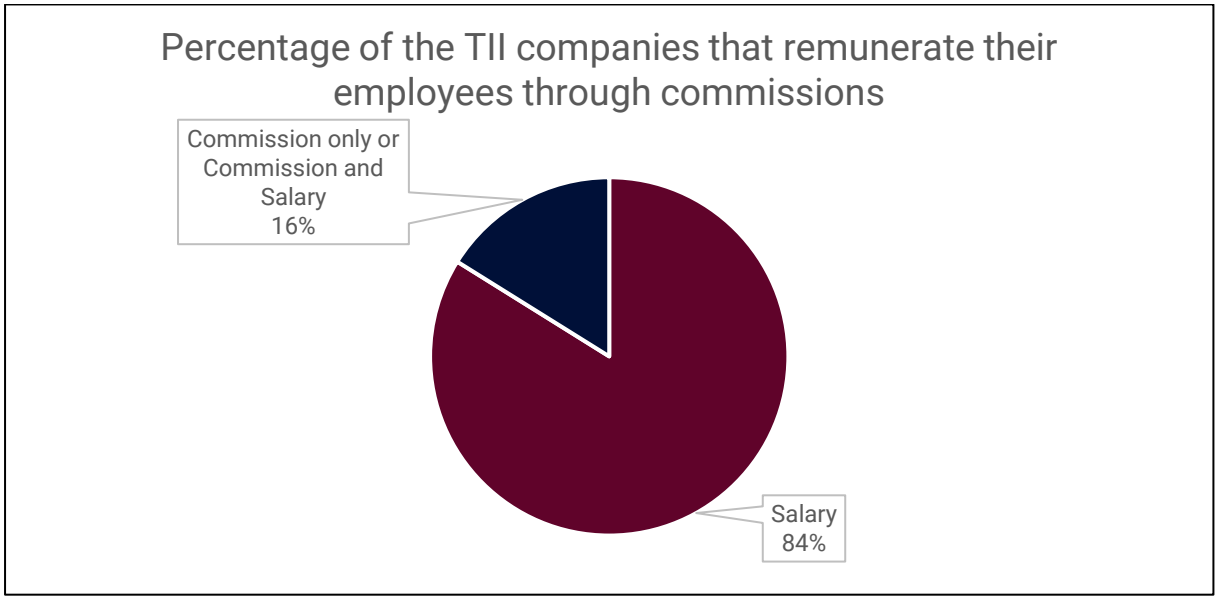

Figure 14

Regulatory Requirements and MFSA Expectations

TIIs that charge fees to clients are required to assess whether such fees enhance the quality of service provided, in accordance with Rule R.3.9 of the COBR. All fees must be documented in a formal procedure that identifies and classifies each fee, as required under Rule R.3.8 of the COBR. This procedure should clearly set out the rationale for the basis of the fees and, where a TII also receives commission from its Insurance Principal, the assessment must take this into account to justify the imposition of any additional client fees. Any such fees must be disclosed separately from other charges on receipts, in accordance with Rule R.4.1.48 of the COBR, as referenced in section 3.1.5 above.

Insurance distributors are also required to ensure that clients are informed of the method of remuneration, whether by commission, fee, or a combination thereof. Rule R.1.5.17 of the COBR requires that this disclosure be provided prior to the conclusion of any insurance contract.

Finally, insurance manufacturers and distributors must ensure, through consistent and adequate monitoring, that commissions paid to distributors or their employees do not give rise to aggressive sales practices. Commission structures and bonus arrangements should also take into account TIIs' adherence to the applicable regulatory requirements. Excessive sales targets or high commission levels may incentivise the sale of products that do not meet clients' demands and needs. It is therefore imperative that manufacturers and distributors place the client's best interests at the centre of their sales practices, as required under Rule R.3.2 of the COBR and, for the distribution of IBIPs specifically, under Part E of Chapter 3 of the COBR.

3.3 Contact with clients and cross-selling

3.3.1 Cold Calls

Observations

Out of the 31 TIIs which were chosen for this thematic review, 8 (26%) conduct cold calls (figure 17 below), where common practice is utilising a random number generator to generate telephone numbers using the local country code. These telephone numbers are then provided to the individual TIIs, or in some cases to call centre agents. Since only licenced individuals are able to promote and sell insurance products, call centre agents conduct the cold calls to see whether the customer would be interested in the product and then collect their details for further follow-up by a licenced TII. However, the Authority has observed call centre agents in the past, promoting products even though they are not licenced to do so.

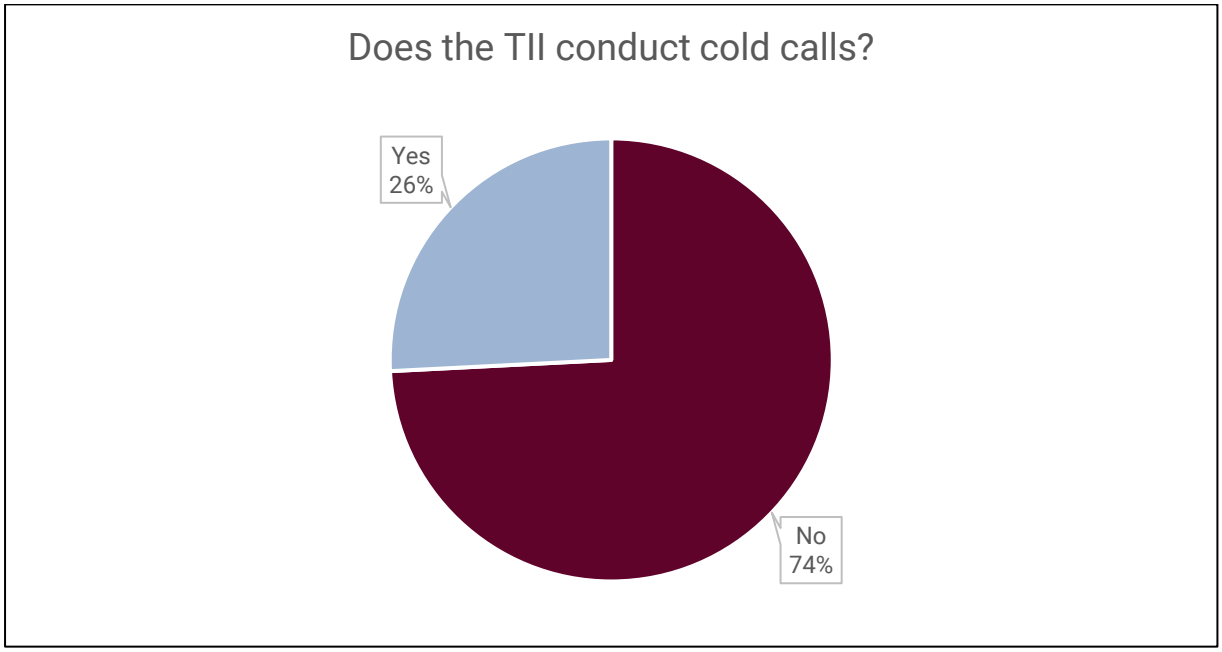

Figure 15

Among the TIIs identified in Figure 17 above as engaging in cold calling, all indicated that they have received requests from clients not to be contacted again for the purposes of cold calling. The Authority therefore assessed how such requests are recorded and monitored to ensure that clients' preferences are respected. The majority of TIIs advised that they maintain a list of clients who have requested not to be contacted again and that telephone numbers generated through random number generator are verified against this list prior to being forwarded to TIIs or call centres for contact.

Regulatory Requirements and MFSA Expectations

While TIIs are permitted to conduct cold calls, they are subject to a number of regulatory requirements designed to ensure appropriate consumer protection. Rules 4.1.15, 4.1.16 and 4.1.17 of the COBR set out the procedures that TIIs must follow to safeguard the client's best interests and to ensure that clients are not subjected to undue pressure to purchase a product. In addition, where a client requests

that a TII cease further contact, the intermediary is required to record and comply with such a request in accordance with Rule 4.1.23 of the COBR.

In June 2025, the Authority held a meeting with Insurance Undertakings that manufacture IBIPs to outline its concerns regarding cold-calling practices in the market. Following this meeting, the Authority issued a communication to the Undertakings setting out its expectations that Insurance Undertakings closely monitor their distributors and ensure they have adequate resources in place to carry out effective oversight.

In this context, the Authority advised that they may request that any new applications for the authorisation of TIIs to sell IBIPs to be accompanied by an assessment from the Undertaking. This assessment should, among other matters, outline the Undertaking's resource capacity to supervise the additional TIIs and confirm whether a comprehensive training programme has been implemented covering all relevant aspects of the TII's role.

3.3.2 Home visits

Figure 18 shows that 7 TIIs (23% of the sample) conduct home visits. Of these, 5 TIIs also conduct cold calls, as illustrated in Figure 17. All the TIIs that undertake home visits advised that client consent is obtained through a written consent form, which is signed prior to the visit.

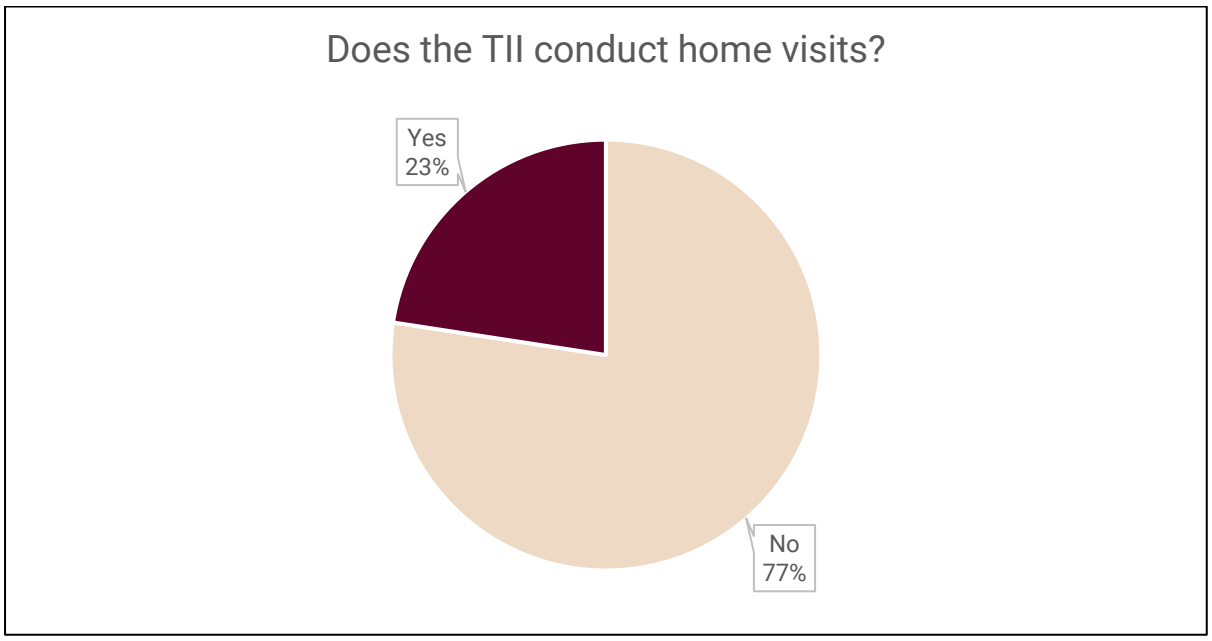

Figure 16

Regulatory Requirements and MFSA Expectations

Where a client requests a home visit from a TII, the TII must ensure that the client's explicit consent for the visit is appropriately recorded, in accordance with Rule 4.1.18 of the COBR. This requirement is intended to evidence that the visit was initiated at the client's request and that the client was not subject to any pressure or undue influence. In particular, clients should not be made to feel obliged to purchase an insurance policy as a result of the TII visiting them in their home.

3.3.3 Premium holidays

Observations

The Authority has identified certain market practices concerning the promotion of switching insurance undertakings for IBIPs sold as pension products. Specifically, some TIIs, through cold calling and subsequent meetings with clients, are encouraging them to discontinue contributions with respect to their current long term insurance policy (take a premium holiday) and commence contributions in another, similar policy underwritten by the insurance principal they represent. For IBIPs sold as pension products, clients are generally unable to transfer or withdraw their existing pension policy before they reach pensionable age. Consequently, clients may potentially end up with a number of pension pots which may leave them exposed to risks, since these policies are not maintained by regular premium payments and may be significantly eroded over time due to ongoing charges, potentially resulting in minimal or no returns.

During the supervisory engagements, TIIs involved in the distribution of IBIPs were asked whether they encourage or accept policy switching. While some TIIs indicated that they do not promote switching and instead advise clients to increase contributions to their existing pension arrangements where appropriate, the Authority's review of cold call recordings identified instances where alternative practices were observed. The Authority is actively engaging with the relevant TIIs and their respective Principals to address these findings.

Regulatory Requirements and MFSA Expectations

TIIs are required to ensure that they do not influence or encourage clients to establish an alternative pension arrangement while advising them to cease contributions to an existing pension plan, where such actions may not be aligned with the client's best interests. This obligation is set out under Rule R.4.1.13(a) of the COBR which states that a Regulated Person shall not persuade or attempt to persuade a client to surrender or cancel any product or service which such client may have already purchased, if such surrender or cancellation is not in the best interest of the client. As noted above, where a client has commenced contributions to a pension plan and subsequently enters a premium holiday, ongoing administrative charges may continue to apply to the fund, potentially reducing the value of the pension pot over time.

In this context, both Principals and intermediaries are required to recognise that pension products constitute the long-term investment of clients' savings, intended to provide financial security at retirement. Firms must ensure that commercial considerations, including sales targets and profitability, do not override their duty to act in the best interests of clients and to ensure that clients are treated fairly at all stages of the sales and advisory process, as outlined in the Authority's circular on Marketing Campaigns and Selling Practices.

3.3.4 Cross Selling

Observations

As noted previously, some TIIs within the sample are licensed to sell Class I products, others are licensed to sell Class III products, and some hold authorisations for both. In addition, certain TIIs may also be licensed to distribute non-life insurance products.

As illustrated in Figure 19, 6 TIIs (19%) licensed to sell both Class I products and Class III products reported using client information from their life insurance portfolios to promote products offered under their other licences, including non-life insurance. These TIIs indicated that such marketing activities are undertaken either on the basis of client consent provided at the point of onboarding or when clients engage with the TII during the renewal of an existing policy.

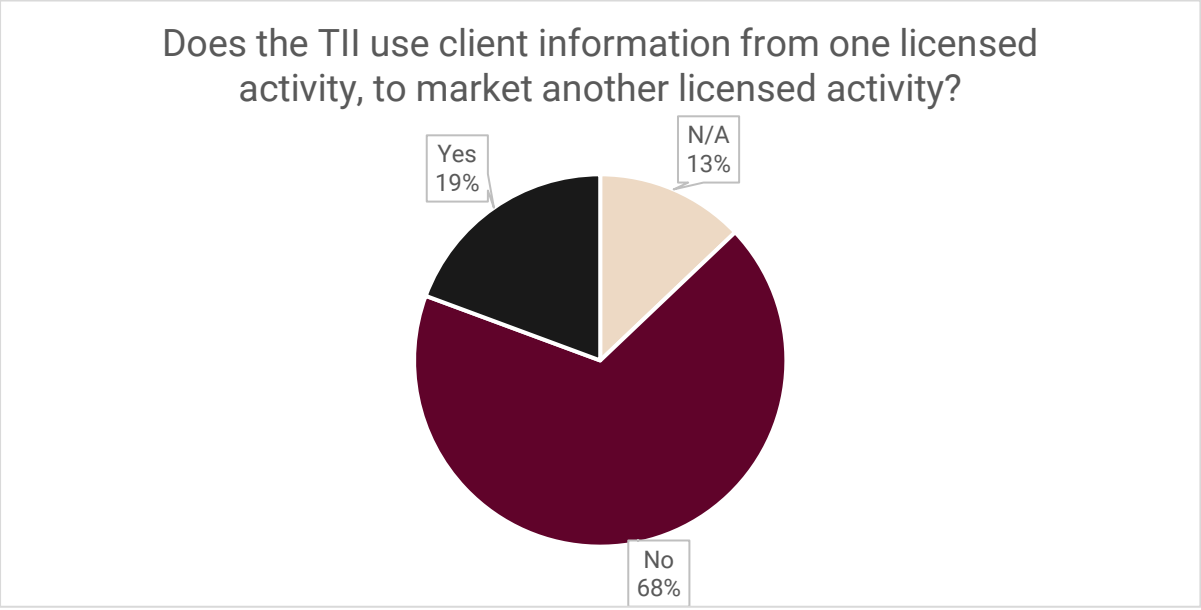

Figure 17

In contrast, 21 TIIs (68%) advised that, notwithstanding holding multiple licenses (a licence to sell life insurance products and another licence for non-life insurance products), they do not use existing client information to market other products to their clients. A further 4 TIIs (13%) are categorised as not applicable in Figure 19, as they hold only a single license and, accordingly, this question does not apply to their business model.

Regulatory Requirements and MFSA Expectations

Where a license holder conducts more than one regulated activity and seeks to use existing client information, such as contact details, obtained in the course of one regulated activity to market another regulated activity, the license holder is required to obtain the client's explicit consent. This requirement is set out in R.4.1.19 of the COBR and ensures that client information is used strictly in accordance with the client's expressed preferences and expectations.

Furthermore, licence holders must ensure that any cross-selling practices are carried out in the client's best interests and do not exert undue pressure or undue influence. These obligations are reflected in R.4.1.5 and R.4.1.8 of the COBR, respectively.

3.3.5 Sale of life insurance products in conjunction with credit facilities

Observations

Within the sample for this thematic review, 5 TIIs are authorised as banks and also provide insurance services to their clients. In 2022, EIOPA conducted a thematic review on the sale of credit protection insurance (CPI) products in Europe, which identified instances of mis-selling where banks sold CPI products alongside credit products.

As part of the present review, the Authority posed a series of targeted questions to the relevant TIIs to assess whether similar practices were occurring locally. Based on the responses received and the Authority's assessment, there were no clear indications of the mis-selling practices identified by EIOPA within the TII sample reviewed

Regulatory Requirements and MFSA Expectations

Credit institutions authorised as TIIs must ensure that insurance products offered in conjunction with credit facilities are sold without exerting undue pressure on clients. Clients must be clearly informed that, although the bank may offer insurance products, they are under no obligation to purchase such products from the bank and are free to obtain them from alternative providers, as outlined in Appendix 3 of Chapter 4 of the COBR. The decision to grant a credit facility must not be conditional upon the client purchasing insurance directly from the bank, provided that any alternative insurance arrangement meets the institution's reasonable requirements for the purposes of the credit facility, in accordance with Rule R.4.1.29 of the COBR.

3.4 Provision of Advice

Observations

As noted previously, 81% of the firms included in this thematic review are TIIs authorised to sell both Class I products and Class III products. However, not all TIIs within this cohort are authorised to provide advice in terms of the Investment Service Act in relation to the sale of IBIPs. Of the total sample, 5 TIIs (16%) are duly authorised to provide advice when selling IBIPs, while a further 20 TIIs (65%) sell IBIPs on a non-advisory basis, as illustrated in Figure 20. The remaining 6 TIIs (19%) are classified as not applicable, as they do not engage in the sale of IBIPs products.

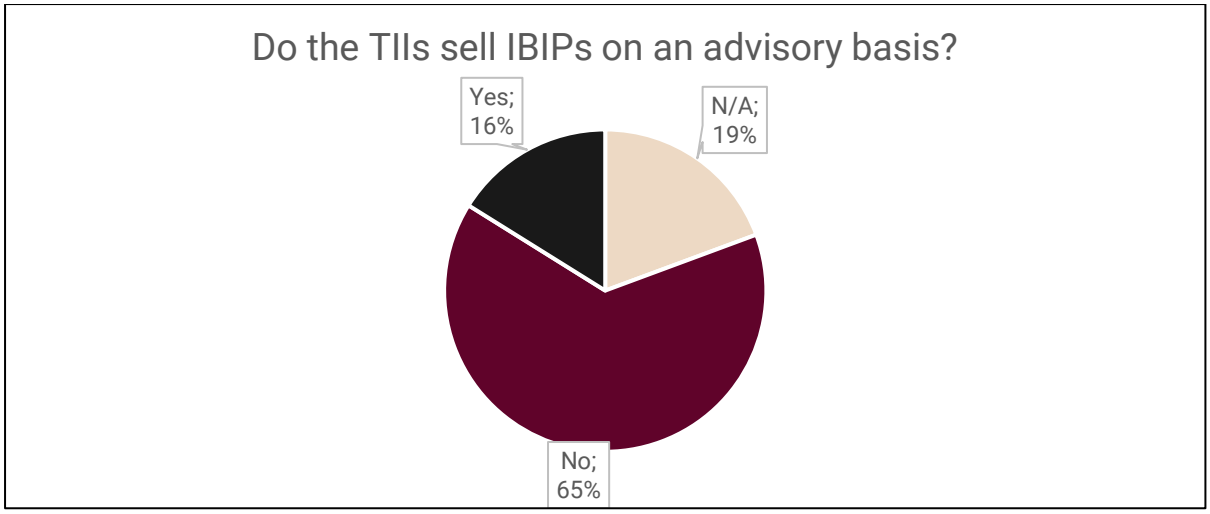

Figure 18

TIIs authorised to sell IBIPs on an advised basis were asked whether they provide clients with a personalised recommendation explaining why a particular product meets the client's demands and needs. The 16% of TIIs identified in Figure 20 as selling IBIPs on an advised basis confirmed that they provide such personalised recommendations. The remaining 84% of TIIs, which either do not sell IBIPs or sell them only on a non-advised basis, are therefore marked as not applicable (N/A) in Figure 21.

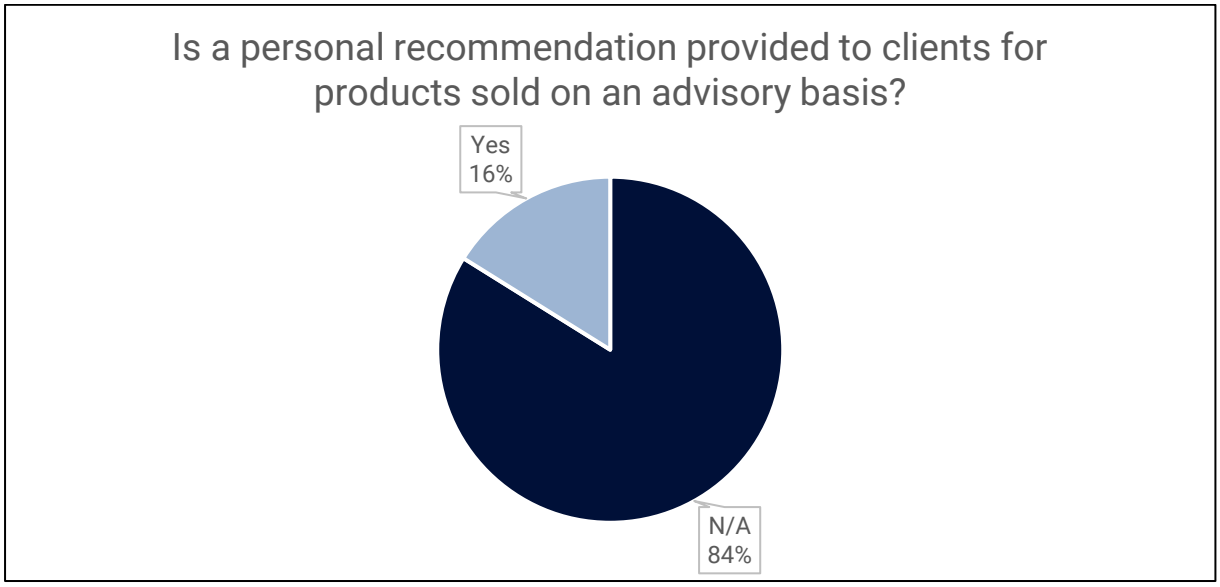

Figure 19

Where IBIPs are sold on an advisory basis, TIIs are required to conduct a suitability assessment and provide clients with a suitability statement summarising the outcome of that assessment. The findings for this requirement mirror those presented in Figure 21, with all TIIs authorised to provide advice on

IBIPs confirming that they perform the necessary suitability assessments and issue suitability statements to clients. This was evidenced through the Authority's review of client files.

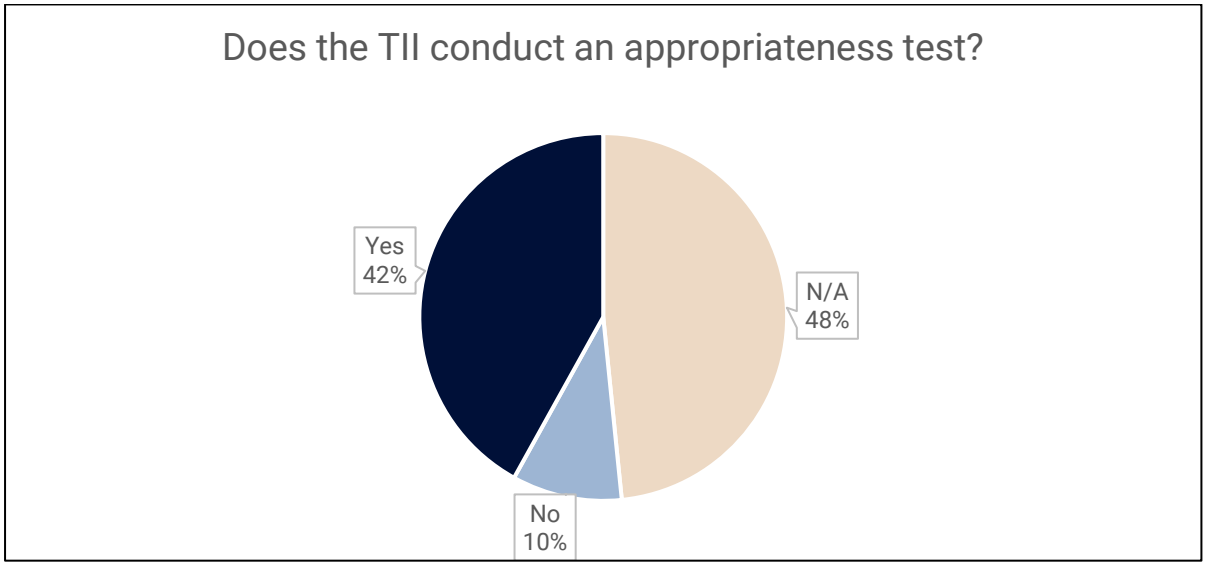

Figure 20

Where a TII sells IBIPs on a non-advised basis, they are required to carry out an appropriateness assessment to evaluate the client's knowledge and experience in the relevant investment sector, unless the requirements of R.4.4.90 are all met.

As shown in Figure 22 above, 10% of TIIs were unable to provide evidence, within the client files reviewed, that an appropriateness assessment is being carried out. In some cases, TIIs were providing personal recommendations without recognising that such activity constitutes regulated advice, while in others, firms demonstrated a lack of understanding of the distinction between conducting a suitability assessment and performing an appropriateness assessment.

TIIs that do not actively utilise their Class III license were nonetheless asked to demonstrate their understanding of the distinction between suitability and appropriateness assessments, as they remain subject to the training requirements associated with holding the license. With the exception of one TII, which forms part of the 10% cohort referenced above, all TIIs were able to articulate this distinction.

Regulatory Requirements and MFSA Expectations

TIIs that are not authorised under Article 3(2) of the Investment Services Act (Cap. 370) are prohibited from providing investment advice to clients in the course of distributing IBIPs. In this context, Rule R.4.3.4 of the COBR specifies that a regulated person is deemed to be providing investment advice where a personal recommendation is made to a client in relation to the products being sold. For example, assisting the client to select the underlying funds or personally recommending one product over another, would constitute investment advice.

Where TIIs are licenced to provide investment advice, the personal recommendation must clearly explain why the proposed product is suitable and how it addresses the client's specific demands and needs in accordance with Rule R.4.4.65 of the COBR. In this regard, insurance distributors providing investment advice are further required to conduct a suitability assessment. As set out in Rule R4.4.67 of the COBR, this assessment must consider the client's knowledge and experience in the investment

sector, financial situation and capacity to bear losses, as well as investment objectives, including risk tolerance. The purpose of the suitability assessment is to ensure that any recommended product is consistent with the client's investment objectives.

Where a TII is not authorised to provide investment advice, it must instead perform an appropriateness assessment. In accordance with Rule R4.4.86 of the COBR, this assessment is designed to evaluate the client's knowledge and experience in the relevant investment sector to determine whether the product is appropriate for the client.

Furthermore, Insurance Principals are expected to provide training to their TIIs on the distinction between advised and non-advised sales, and on what constitutes a personal recommendation. Furthermore, as part of their regular monitoring activities, Principals should assess whether TIIs are overstepping into the provision of investment advice where they are not authorised to do so.

3.1 Sustainability Preferences

Observations

When providing investment advice in relation to IBIPs, TIIs are required to take into account the client's sustainability preferences, ensuring that funds are invested in products aligned with both the client's investment objectives and sustainability objectives.

The 5 TIIs authorised to provide investment advice were asked a series of questions to assess their understanding of, and approach to, identifying and applying clients' sustainability preferences. In particular, TIIs were asked to explain the questions posed to clients to determine their sustainability preferences. Overall, TIIs demonstrated a sound understanding of the relevant questions and disclosures, as evidenced by their walkthrough of the documentation contained within client files.

TIIs were further asked how they would proceed where no product is available that fully meets a client's stated sustainability preferences. Four of the five TIIs indicated that they would explain the situation to the client and advise that the client may either choose to adapt their sustainability preferences or that no product can be offered which fully aligns with those preferences. One TII stated that, where the available product does not meet the client's sustainability preferences, they would decline to provide a product and inform the client accordingly. Notably, this TII was the only firm unable to provide evidence of how a client's decision to adapt their sustainability preferences is recorded, as illustrated in Figure 23.

For TIIs that do record a client's decision to adapt their sustainability preferences, this is typically documented either through the completion of a revised sustainability questionnaire accompanied by a file note, or within a dedicated section of the questionnaire capturing the rationale for the adaptation.

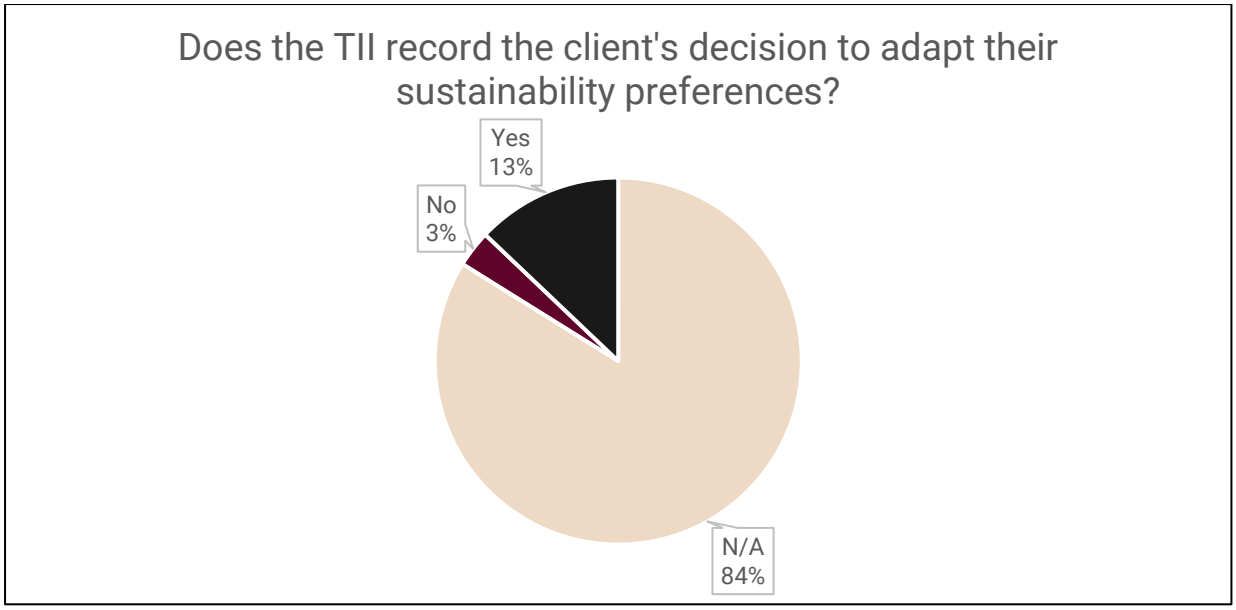

Figure 21

Regulatory Requirements and MFSA Expectation

TIIs providing investment advice in relation to IBIPs are required to identify and assess clients' sustainability preferences to mitigate the risks of mis-selling and greenwashing. In accordance with Rule R.4.4.74 of the COBR, any product offered must be consistent with the client's stated sustainability preferences.

Where a TII is unable to offer a product that aligns with the client's sustainability preferences, it must not offer a product that does not meet those preferences. In such cases, the TII is required to clearly explain the reasons to the client and retain an appropriate record of that explanation.

Furthermore, where a client elects to adapt their sustainability preferences in order to align with a product offered by the TII, the decision must be appropriately documented, including a clear record of the rationale underpinning the client's decision.

Principals should also refer to the Dear CEO letter on IDD Suitability Requirements issued by the Authority in February 2026, which addressed the client's suitability assessment process in the context of advisory sales of IBIPs.

3.2 Complaints Procedure

Observations

To assess the knowledge and competence of TIIs in this area, TIIs were asked to describe their complaints handling procedures as they would explain them to clients. A total of 22 TIIs (71%) were able to clearly and confidently explain the process. 2 TIIs (6%) were unable to explain the procedure, while a further 7 TIIs provided explanations that were only partially correct, as illustrated in Figure 24.

Among the TIIs providing partially correct explanations, a common gap identified was a lack of awareness regarding the role of the Arbiter for Financial Services within the market. In some instances,

TIIs indicated that they would refer clients directly to the MFSA in the event of a complaint, rather than the Arbiter.

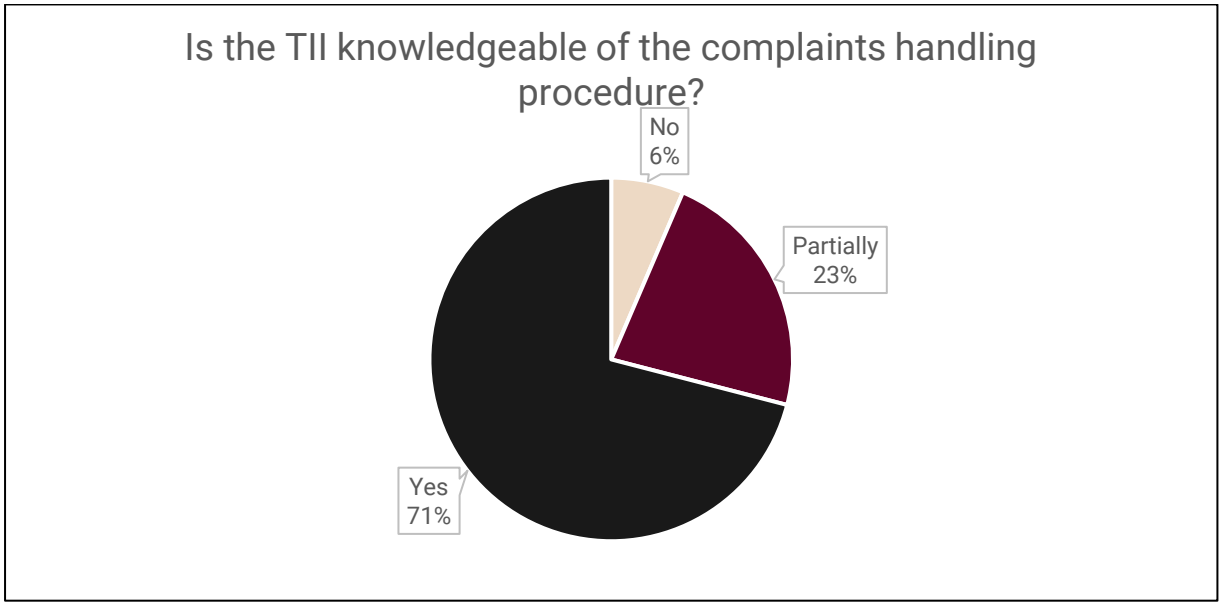

Figure 22

Regulatory Requirements and MFSA Expectations

TIIs must be able to clearly and accurately explain the required disclosures to clients, which includes the complaints handling procedure of their Principal, as required by R.4.6.9 (c) of the COBR. Furthermore, in accordance with Rule 6.8.6 of the Insurance Distribution Rules (IDR), TIIs should possess a thorough understanding of these disclosures to ensure that complete and correct information is communicated, including but not limited to knowledge of the complaints handling procedure, including the client's right to escalate a complaint to the Office of the Arbiter for Financial Services.

All insurance distributors are required to undertake continuous professional development (CPD) to maintain and enhance their knowledge and competence, thereby ensuring that clients receive accurate and up-to-date information. Such training must be relevant and proportionate to the nature, scale, and complexity of the products for which the TII is authorised, as set out in Chapter 7 of the IDR. CPD should not be undertaken solely to satisfy minimum hour requirements.

To be deemed relevant, training must cover the subject areas specified in Chapter 6 of the IDR, including, but not limited to, product knowledge and complaints handling.

4.0 Good Practices

During the interview phase of this thematic review, the Authority identified several examples of good practices adopted by TIIs which, while not explicitly mandated by regulatory requirements, are designed to ensure that clients' best interests are prioritised. The Authority considers it important that such practices are shared across the market, as their adoption by other participants can contribute to a more harmonised and resilient insurance distribution environment.

In relation to the demands and needs assessment, it was noted that a number of TIIs indicated that their Principals had embedded the assessment within their IT systems. In these cases, system controls prevent intermediaries from progressing with a sale unless the demands and needs assessment has been fully completed.

Furthermore, certain TIIs reported the use of system-generated meeting notes within their Principals' platforms. This facilitates more efficient record-keeping during the sales process while ensuring that comprehensive and accurate records are maintained for future client interactions.

In the case of TIIs who also provide investment advice, it was noted that clients' pension contributions are assessed in the context of the client's overall financial portfolio, thereby ensuring that such contributions are in line with the client's best interests and investment objectives.

In addition, a number of TIIs stated that they do not operate formal sales targets and avoid aggressive sales practices in the acquisition of new clients. These firms advised that their business model is centred on the provision of high-quality aftersales service as a means of client retention, and that this approach has supported their continued presence in the market over a sustained period.

By way of example, certain TIIs indicated that they make themselves readily available to clients outside of standard business hours, while others reported personally delivering renewal documentation to clients' homes. While such practices are not formally required by the MFSA, TIIs submitted that these measures form a key component of their competitive advantage.

Conclusion

The Authority's primary objective is to promote a resilient insurance market while ensuring that licence holders consistently act in the best interests of their clients. In this regard, the adoption of an outcomes-based supervisory approach seeks to identify areas for improvement within the market and to provide licence holders with the opportunity to address identified issues prior to further supervisory assessment.

Through its broader supervisory remit, the Authority has identified instances of aggressive sales practices, based on information obtained from reports submitted by licence holders as well as complaints received directly from clients. Several of these matters have been addressed on an individual basis, with the Authority engaging directly with the relevant licence holders to remediate the identified issues.

At the same time, the Authority recognises that many market participants conduct business responsibly, ensuring that clients are fully informed of the products being purchased, including the obligations associated with long-term investments.

The Authority expects this standard of conduct to be consistently observed by all licence holders in line with their overarching obligation to act fairly, honestly, professionally and in accordance with the best interest of their clients.

Next Steps

This thematic review was conducted to assess market practices by TIIs on a broader basis. The year 2025 marked the first phase of this outcomes-based supervisory project, during which 31 TIIs were invited to attend meetings at the MFSA. A standardised set of questions, aligned with applicable regulatory requirements, was posed to each TII to ensure consistency and a level playing field throughout the assessment.

Following the review, each participating licence holder received an individualised communication detailing specific areas of concern and/or opportunities for improvement identified during the assessment. The relevant Principals also received a copy of this communication, as they retain ultimate responsibility for the conduct of their insurance intermediaries. Principals are therefore expected to maintain effective oversight and monitoring arrangements to ensure full compliance with applicable regulatory requirements. For TIIs, such monitoring may include, among other measures, the review of cold-calling practices, assessments of client files, and on-site inspections.

During 2026, these TIIs are expected to address the Authority's observations and enhance their practices to remediate the identified gaps. A follow-up assessment is scheduled for 2027 to verify that the necessary remedial actions have been effectively implemented.

In addition, this Dear CEO letter is being issued to inform the wider market of the Authority's key observations and to clearly articulate its supervisory expectations in this area. This approach ensures that TIIs not included in the 2025 sample are aware of the Authority's expectations and are able to conduct their own gap analysis to identify and address any areas for improvement.

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

Yours faithfully,

Malta Financial Services Authority

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