

22 June 2026

**Insurance and Pensions
Supervision**

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Dear Chief Executive Officer,
Dear Chief Financial Officer,
Dear Compliance Officer,

The Ongoing Financial Analysis of (Re)Insurance Undertakings

You are receiving this letter as the Chief Executive Officer, Chief Financial Officer and/or Compliance Officer of an authorised (Re)Insurance Undertaking supervised by the Malta Financial Services Authority (hereinafter referred to as “MFSA” or “the Authority”).

Background

(Re)Insurance Undertakings operate on a fundamental principle: the commitment to provide financial compensation to policyholders in the event of a covered loss, which may occur years after a policy is incepted. A critical factor in a (Re)Insurance Undertaking’s ability to fulfil claims is its financial strength. (Re)Insurers must therefore maintain a sustainable business model and sound investment strategies to remain solvent over extended periods of time. Poor management of assets, excessive risk-taking, or economic downturns can all jeopardize a (Re)Insurer’s ability to meet future claims.

Given the importance of financial strength and long-term solvency, there is a strong need for robust regulatory oversight. The Insurance and Pensions Supervision Function (“IPS”) within the MFSA plays a key role in supervising the insurance sector. (Re)Insurance Undertakings are required to submit regular financial regulatory returns to IPS, which include detailed data on their financial position, risk exposure, and solvency margins. Close monitoring of these submissions helps ensure that (Re)Insurance Undertakings remain financially sound, protecting policyholders and maintaining stability in the broader financial system.

Scope and Methodology

A team of Financial Analysts within IPS analyse and assess financial data submitted by (Re)Insurance Undertakings, Insurance Intermediaries, and Retirement Scheme Administrators through a combination of onsite and offsite supervisory engagements. In this regard, this Dear CEO Letter will be focusing on the offsite work undertaken, particularly the desk-based reviews carried out on (Re)Insurance Undertakings.

Through this type of interaction, the MFSA aims to provide the insurance market with a clear understanding of its expectations, ensuring that the market is fully informed about the regulatory focus of the MFSA and the standards it sets for and expects from the industry.

Financial Regulatory Returns submitted to the MFSa

Pursuant to Chapter 8: “Financial Statements and Supervisory Reporting Requirements” of the Insurance Rules issued under the Insurance Business Act (Cap. 403) or the Licensing Conditions issued upon Authorisation, Re(Insurance) Undertakings are required to submit the following financial regulatory returns to IPS.

Quarterly Financial Regulatory Returns:	
1.	Management Accounts
2.	Quarterly National Specific Templates (“QNSTs”)
3.	Quarterly Quantitative Reporting Templates (“QRTs”)

Table 1: Quarterly Financial Regulatory Returns

Annual Financial Regulatory Returns:	
1.	Audited Financial Statements (“AFS”)
2.	Annual National Specific Templates (“ANSTs”)
3.	Annual Quantitative Reporting Templates (“AQTs”)
4.	Own Risk and Solvency Assessment (“ORSA”)
5.	Solvency Financial Conditions Report (“SFCR”)
6.	Regular Supervisory Report (“RSR”)
7.	Management Letters

Table 2: Annual Financial Regulatory Returns

Quarterly Financial Regulatory Returns - Review Process

Upon receipt of the quarterly financial regulatory returns outlined in Table 1 above, preliminary metrics are run so that any potential red flags are detected. Subsequently, quarterly desk-based reviews are undertaken on a risk-based approach.

In this regard, these reviews take into account a number of factors, some of which are noted below.

Risk Assessment

- Risk Assessments are conducted to ascertain whether (Re)Insurance Undertakings faced any shifts in their risk profile. In this process, Financial Analysts also take into consideration any new business or key organisational changes of the (Re)Insurance Undertakings.

Key Performance Indicators

- Key Performance Indicators (“KPIs”), prepared using data submitted by (Re)Insurance Undertakings, are reviewed to gauge the historical and current performance of (Re)Insurance Undertakings, as well as perform a trend analysis. The KPIs include both Financial Statement Line Items (“FSLIs”), as well as, profitability, loss, expense, investment yield, liquidity and solvency ratios.

Review of the Financial Regulatory Returns submitted to the Authority

- An assessment of the financial performance is done through a review of the Management Accounts, QNSTs and selective QRTs. In this respect, key FSLIs such as insurance revenues and/or premiums; insurance service expenses and/or claims; investment income; and operating expenditure are analysed in comparison to prior period and prior year performance, as well as rolling budgets presented in the Management Accounts, forecasts outlined within the ORSA report and through any Supervisory engagements.

Financial Assets

The review of financial assets is crucial as these comprise a significant proportion of a (Re)Insurance Undertaking's assets in its Statement of Financial Position ("SOFP"). An Undertaking's investment portfolio, including movements within, are considered in light of the approved investment policy and strategy and in accordance with the Prudent Person Principle ("PPP").

The Authority assesses the prudence of the investment portfolio by considering the security, quality, liquidity, and profitability of investments, as well as asset–liability management, potential conflicts of interest, diversification, valuation practices, and asset localisation and availability.

Intra-Group and Related Party Transactions

- Related party transactions, including intra-group loans, are given due consideration with respect to their scope and significance. A detailed exercise is therefore undertaken in relation to intra-group loans to ascertain alignment with Annex of Chapter 5 of the Insurance Rules issued under the Insurance Business Act (Cap. 403). In case of intra-group loans receivable in the SOFP, verification against the relevant loan agreements approved by the Authority is conducted.

Solvency Capital Requirement and Minimum Capital Requirement

- An assessment of the Solvency Capital Requirement ("SCR") and Minimum Capital Requirement ("MCR") covers are undertaken to ensure that (Re)Insurance Undertakings are compliant with regulatory capital requirements and hold adequate capital buffers. The SCR and MCR covers are compared to historical solvency covers for trend analysis and significant movements, as well as the set Risk Appetites and Risk Thresholds.

Annual Financial Regulatory Returns – Review Process

The annual financial regulatory returns outlined in Table 2 above are reviewed and analysed by the Financial Analysts.

The year-end results of (Re)Insurance Undertakings are assessed for their performance, profitability, and solvency, among other key metrics. Hence, beyond the quarterly reviews, an in-depth review is performed as these Annual Financial Reports are audited by Independent External, approved by the Authority in line with Chapter 4: "Authorisation to Act as Approved Auditor" of the Insurance Rules issued under the Insurance Business Act (Cap. 403). Furthermore, the Finance team assesses the Independent External Auditor's report, whereby it pays particular attention to the Auditor's Opinion, Audit Approach and the Key Audit Matters.

The External Auditor's Management Letters in respect of the International Financial Reporting Standards and the SFCR audits, and the (Re)Insurance Undertaking's replies thereto ("letters"), serve to highlight any deficiencies in internal controls and provide information on how the Undertakings' Management plans to address these shortcomings. These letters are reviewed and where necessary, follow-up communication is issued to (Re)Insurance Undertakings to obtain clarifications on the (Re)Insurer's planned actions, or to monitor any progress of management actions agreed upon with the Independent External Auditor.

Upon completion of both the quarterly and the annual financial review process explained above, the MFSA may engage with the (Re)Insurance Undertakings for further detail or explanations.

Through the guidelines published by EIOPA in 2017 "Guidelines on facilitating an effective dialogue between competent authorities supervising (Re)Insurance Undertakings and statutory auditor(s) and the audit firm(s) carrying out the statutory audit of those undertakings", the MFSA is able to carry out dialogues with external auditors of (Re)Insurance Undertakings.

In cases where the MFSA deems fit and necessary, meetings are held with the respective statutory auditor(s) of a specific (Re)Insurance Undertaking to obtain further clarifications regarding matters that arose during the audit, or else had an impact on the financial audit of the year-end financial statements. During such meetings, the MFSA may also obtain an explanation on any of the observations raised in the Independent External Auditor's Management Letters.

It is pertinent to highlight that the RSR, ORSA, and SFCR reviews follow separate review procedures and are conducted jointly with other sub-teams within IPS, including the prudential compliance team and the actuaries.

Data Quality

The importance of data quality is reflected within the MFSA's Supervisory Priorities for 2025. Indeed, data submitted to the Authority is used to analyse trends, assess performance, and perform other key evaluations. Therefore, the submitted data must be accurate, consistent, relevant, and complete. To this end, cross-checks and sense checks are performed on regulatory returns to ensure data quality.

This data is not solely used for analysis by the Finance team within IPS but is also shared with other sub-teams including the actuaries within IPS, the Financial Stability Function at the MFSA, and the European Insurance and Occupational Pensions Authority ("EIOPA").

Supervisory Expectations from (Re)Insurance Undertakings

This section sets out Supervisory Expectations for (Re)Insurance Undertakings. In this regard, (Re)Insurance Undertakings are expected to:

- I. Prepare Quarterly Management Accounts that are as comprehensive as possible, including comparative figures for the corresponding period of the previous year for the Statement of Profit or Loss, as well as the latest figures for the Statement of Financial Position as reported within the AFS;
- II. Provide detailed breakdowns of significant FSLIs;
- III. Incorporate rolling budgets within the Management Accounts to ensure that the most up-to-date projections are made available to the Authority;
- IV. Include a narrative on quarterly performance, with particular emphasis on significant deviations or movements from comparative figures and/or financial projections;
- V. Include a narrative explaining major quarter-on-quarter movements in solvency ratios;
- VI. Ensure that the Quarterly Management Accounts are reviewed and signed off by a Certified Public Accountant;
- VII. Ensure that all required declaration forms are duly completed and signed prior to submission;
- VIII. Submit to the Authority the latest Investment Policies, including the applicable investment parameters; and
- IX. Ensure that all information contained within quarterly and annual submissions is accurate and consistent across all regulatory reporting.

Supervisory Approvals

A financially healthy and solvent (Re)Insurance Undertaking protects the general public by ensuring that claims are settled, economic stability is maintained, and trust in the insurance market is upheld. For this reason, the MFSA requires (Re)Insurance Undertakings to attain supervisory approval prior to taking any decision on the following items detailed in Table 3.

Supervisory Approvals:	
1.	Dividend distributions
2.	Approval of intra-group loans
3.	Capital contributions and repayments thereof
4.	Changes to the authorised and/or issued share capital
5.	Subordinated loans
6.	Ancillary own funds and release thereof
7.	Changes in external auditors
8.	Changes to the financial year-end
9.	Updates to the Memorandum and Articles of Association

Table 3: Supervisory Approvals

The MFSA expects (Re)Insurance Undertakings to conduct internal assessments on the above, and these should subsequently be communicated to the Board of Directors for review and discussion. Furthermore, the Board of Directors should approve the outcomes of these internal assessments before the (Re)Insurance Undertakings seek approval from the Authority.

This process ensures that all internal evaluations are rigorously reviewed at the highest level of governance before engaging with the Authority. Furthermore, the Authority stresses that (Re)Insurance undertakings should be both proactive and comprehensive in their submissions, allowing adequate time for the Authority's assessment and any follow-up queries. This also applies to all documentation required for specific supervisory approvals, particularly in cases where agreements are approaching renewal or termination.

Concluding Remarks

In conclusion, reviewing the financials and solvency of (Re)Insurance Undertakings is fundamental for effective regulatory supervision. This letter is therefore intended to enhance transparency and alignment, ensuring that the market is well-informed about the MFSA's supervisory expectations.

Should you require any clarification on the above, please do not hesitate to contact the Authority's IPS Function on ipsu@mfsa.mt.

Yours Sincerely,

Malta Financial Services Authority

Christopher P. Buttigieg

Chief Officer Supervision

Ray Schembri

Head – Insurance & Pensions Supervision

The MFSA ensures that any processing of personal data is conducted in accordance with Regulation (EU) 2016/679 (General Data Protection Regulation), the Data Protection Act (Chapter 586 of the Laws of Malta) and any other relevant European Union and national law. For further details, you may refer to the MFSA Privacy Notice available on the MFSA webpage www.mfsa.mt.