

23rd September 2026

Conduct Supervision
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Dear Chief Executive Officer
Dear Compliance Officer

Re: Thematic Review of the Distribution of Insurance-Based Investment Products – Key Findings from the 2026 Mystery Shopping Exercise

1.0 Introduction

You are receiving this letter as a Chief Executive Officer and/or Compliance Officer of an Insurance Undertaking (hereinafter referred to as the "Company") that manufactures and distributes Insurance-Based Investment Products ("IBIPs") in Malta. This letter relates to the Mystery Shopping exercise (hereinafter referred to as the "Exercise") conducted in connection with the distribution of IBIPs by Tied Insurance Intermediaries ("TIIs"), which are authorised and supervised by the Malta Financial Services Authority (the "MFSA" or the "Authority").

The MFSA is issuing this communication to promote good conduct practices across the market by highlighting areas where improvements are expected. The Authority considers mystery shopping to be an important supervisory tool that provides valuable insight into customer experiences and the practical application of conduct of business requirements during the sales process.

This Exercise complements the Authority's broader supervisory activities, including offsite reviews, onsite inspections and thematic reviews, and forms part of the MFSA's ongoing efforts to strengthen consumer protection and promote fair and transparent distribution practices within the insurance sector.

The Exercise identified a number of recurring observations across the reviewed interactions. The principal observations included:

- inconsistent completion and documentation of demands and needs assessments;
- insufficient evidence supporting appropriateness assessments;
- weaknesses in the provision of pre-contractual information, including Key Information Documents ("KIDs");
- inadequate explanation of costs, risks and product features;
- inappropriate or insufficiently substantiated comparisons with competing products;
- instances where communications risked creating the impression that investment advice was being provided; and
- excessive reliance on tax-related incentives during product discussions.

2.0 Background and Methodology

The Authority considered it necessary to undertake this mystery shopping exercise in light of observations made across the industry, including concerns relating to the quality and consistency of information being provided to prospective customers during the sales process. In fact, in June 2024, the Authority issued a circular titled [“Marketing Campaign and Selling Practices in relation to Financial Products and the Use of Cold Calling”](#), which highlighted shortcomings in the communication of certain product features, including government tax incentives, and the risk of such features being presented in a manner that could be unfair, unclear or misleading. In this circular, the Authority emphasised that Regulated Persons must ensure that customers are provided with accurate, balanced and sufficiently detailed information to enable them to understand the key features, benefits, limitations and risks of the products being offered and to make informed financial decisions. Notwithstanding this communication, Following the publication of this Circular, the Authority embarked on this mystery shopping exercise to obtain a better understanding of whether, in practice, Regulated Persons were meeting the required standards of the customer disclosure, transparency and fair treatment.

Following a public procurement process the Authority engaged an independent third-party provider to conduct the fieldwork of a mystery shopping exercise involving a selected group of TILs distributing IBIPs, in particular products related to retirement planning.

The scope of the Exercise was limited to TILs that are not authorised to provide investment services and, consequently, are not permitted to provide investment advice. Accordingly, TILs holding an investment services licence to provide advice were excluded from the population considered for this exercise.

The intermediaries selected for the Exercise were identified using a risk-based approach, with particular focus on distribution models involving corporate TILs and/or sales practices that rely significantly on cold-calling as a primary means of generating client meetings and acquiring new business. In determining the population for inclusion, the Authority considered a range of factors, including the volume of gross written premiums (“GWP”) generated in the preceding year, the intermediary’s distribution model, and other supervisory considerations, including instances where concerns or shortcomings had previously been brought to the Authority’s attention. The final selection was also influenced by practical considerations inherent to the nature of the exercise, including the availability of distributors to participate during the period of the fieldwork and the availability of publicly accessible contact details, necessary to facilitate the mystery shopping interactions.

The Exercise comprised 17 unique mystery shopping interactions, with certain distributors assessed on more than one occasion as a control measure to support the consistency and reliability of the observations collected and to minimise the risk of conclusions being attributed to isolated experiences.

Based on the population of intermediaries falling within the scope of the project, the Exercise covered approximately 50% of applicable TILs. These intermediaries accounted for approximately 58% of IBIP-related GWP reported to the Authority, ultimately reflecting the risk-based approach generally taken by the Authority.

The sample selected included different types of distributors active in the IBIP market and included TILs generally operating through both face-to-face and remote distribution channels. Mystery shoppers contacted the selected TILs by telephone or online channels to arrange meetings, during which the assessment was undertaken.

The Exercise was designed to assess the pre-contractual stage of the customer journey, focusing on the experience of prospective customers when engaging with TILs in relation to the distribution of IBIPs evaluating both the quality of information provided to prospective customers and the conduct demonstrated by TILs throughout the sales process.

Particular attention was given to whether communications were fair, clear and not misleading, and whether customers received sufficient information to make informed decisions. The review also assessed the extent to which TILs provided balanced explanations of product features, risks, potential returns, costs and charges, duration, and any relevant tax considerations.

In addition, the Exercise considered how distributors established customers' demands and needs, assessed appropriateness where required, and whether product discussions and any provisions regarding investment options were consistent with the customer's objectives, knowledge and overall profile. The Authority also assessed whether customers were subject to inappropriate sales practices, including misleading statements, unfair or unsubstantiated comparisons with competing products or providers, undue pressure to purchase a product, or attempts to induce the replacement of existing policies without appropriate justification.

Through the Exercise, the Authority therefore sought to:

- a. assess the quality, accuracy and completeness of the information provided by TILs in relation to IBIPs;
- b. evaluate compliance with applicable regulatory framework, including disclosure obligations, accuracy of product information, and adherence to conduct of business standards;
- c. identify recurring practices that may give rise to customer detriment, including weaknesses in product disclosures, customer assessments and sales practices; and
- d. obtain insight into the overall customer experience, including the clarity of communication, transparency of the sales process, and the professionalism and conduct demonstrated by authorised persons.

3.0 Key Thematic Findings

3.1 Demands and Needs/ Appropriateness Assessment

Regulatory Requirements

R.4.4.64 of the COBR states that prior to the conclusion of an insurance contract, the Regulated Person shall specify, on the basis of information obtained from the Client, the demands and the needs of that Client and shall provide the Client with objective information about the Product in a comprehensible form to allow that Client to make an informed

decision. Any proposal shall be consistent with the client's demands and needs. This Regulatory requirement is further reinforced in Volume XI of the Authority's [Nature and Art of Financial Supervision](#), which highlights the importance of conducting an effective demand and needs assessment to ensure that products presented to customers are aligned with, and appropriate for, their identified demands and needs.

Key observations

The mystery shopping exercise identified a number of recurring weaknesses in the manner in which customer demands and needs were established, assessed and documented during the sales process.

Across a number of interactions, product explanations and quotations were presented before sufficient information had been gathered regarding the customer's overall demands and needs and risk profile. As a result, it was not always evident that the products discussed were appropriately aligned with the customer's individual demands and needs.

The Authority also observed limited evidence that customer information obtained during discussions was appropriately documented or retained. Although TILs frequently asked customers relevant questions during meetings, there was often no corresponding record demonstrating how this information had been assessed or how it formed the subsequent product discussion. In most instances, not even system-generated records, supporting quotations or pre-contractual documentation were available to evidence the assessment process or demonstrate that appropriate customer fact-finding had been undertaken.

Furthermore, inconsistencies were identified between the products discussed during customer interactions and the documentation subsequently provided. In some cases, only one product was supported by documentation despite multiple products having been discussed, while in others, different product types were presented without a documented rationale explaining their appropriateness for the client. The Authority also noted instances where subsequent correspondence appeared inconsistent with the customer's previously expressed preferences.

Taken together, these observations indicate weaknesses in the documentation and evidencing of customer assessments according to Rule R.4.4.64. The absence of a clear audit trail limits TILs' ability to demonstrate that appropriate demands and needs and, where applicable, appropriateness assessments were undertaken in accordance with Rule R.4.4.86 of the COBR and that product discussions were appropriately tailored to the customer's individual circumstances.

MFSA Expectations

The Authority expects TILs to ensure that an adequate and appropriately documented assessment of each customer's demands and needs is completed before any product is proposed or discussed in detail. Such assessments should be based on sufficient information regarding the customer's demands and needs.

Product discussions and any information provided should be clearly aligned with the customer's identified demands and needs and supported by objective, balanced and comprehensible explanations. Where more than one product is presented, TILs should maintain appropriate records demonstrating the rationale for the products discussed and how these align with the customer's requirements.

The Authority further expects Insurance Undertakings to maintain robust record-keeping arrangements that clearly evidence the information obtained from customers by their TILs, the assessment undertaken, and the basis upon which products were discussed or presented. An appropriate audit trail should enable TILs to demonstrate compliance with the relevant COBR requirements and evidence that customers have been treated fairly, professionally and in their best interests throughout the sales process.

3.2 Comparisons

Regulatory Requirements

R.4.1.12 of the COBR outlines that a Regulated Person shall not:

- a) make inaccurate or unfair criticism of any other Regulated Person or any Product offered by such other Regulated Persons;***
- b) make comparisons with other types of Products or Services unless the differing characteristics of each Product or Service are made clear.***

Key observations

The mystery shopping exercise identified a number of recurring observations regarding the manner in which product comparisons were presented during customer interactions.

Whilst product comparisons can assist customers in understanding the characteristics of different products, the Authority observed instances where comparisons lacked sufficient context, were based on incomplete information, or were not supported by objective and verifiable evidence. In some interactions, references were made to specific charges applicable to competing products without explaining their duration or the circumstances in which such charges applied, thereby creating the potential for customers to form an incomplete or misleading understanding of the overall cost structure.

The Authority also identified examples where statements regarding competing products or providers were not adequately substantiated. These included assertions relating to product features, coverage limitations and the potential loss of invested capital, without providing balanced explanations or objective evidence to support such statements. In addition, qualitative statements regarding the relative merits or superiority of certain products, including references to expected returns or performance, were not always accompanied by sufficient explanation of the underlying assumptions or aligned with the information contained in the relevant KID or Key Features Document ("KFD").

Furthermore, the Authority observed that comparisons were, in some cases, primarily based on isolated product features or individual cost components rather than a balanced assessment of the products as a whole. There was limited evidence that comparisons were undertaken on a like for like basis, taking appropriate account of the respective product features, contractual terms, costs, risk profiles, investment objectives and other material characteristics.

Taken together, these observations highlight the importance of ensuring that product comparisons are objective, balanced and appropriately contextualised, enabling customers to understand the key similarities and differences between products and to make informed decisions based on accurate and complete information.

MFSa Expectations

The Authority expects TILs to ensure that any comparison between products or providers is undertaken in accordance with the principles of fairness, accuracy and transparency set out in the COBR.

Comparisons should be based on objective, current and verifiable information and should not include inaccurate, misleading or unfair statements regarding competing products or regulated persons. Where comparisons are made, TILs should ensure that customers are provided with sufficient context to understand the basis of the comparison, including any relevant assumptions, limitations or differences in product design.

In particular, comparisons should consider the overall characteristics of the products concerned, including their objectives, features, costs and charges, risk profile, contractual terms and any other material factors that may influence a customer's decision. References to projected or illustrative returns should be appropriately contextualised and remain consistent with the information contained in the relevant pre-contractual documentation, including the KID.

The Authority further expects Companies to maintain appropriate governance and oversight arrangements over customer communications to ensure that product comparisons remain balanced, evidence-based and capable of supporting informed customer decision-making.

Companies should periodically review the manner in which comparisons are used during the sales process and implement appropriate controls to mitigate the risk of misleading or unsubstantiated statements being communicated to customers.

3.3 Distinction Between Product Information and Investment Advice

Regulatory Requirements

TILs that are not authorised under Article 3(2) of the Investment Services Act (Cap. 370) are not permitted to provide investment advice when distributing IBIPs.

In accordance with Rule R.4.3.4 of the COBR, investment advice is deemed to be provided where a personal recommendation is made to a customer in relation to an IBIP. This may include, for example, recommending one product over another, advising on the selection of specific underlying investment funds, or making recommendations relating to particular products that are presented as suitable for customers in the context of their investment objective, financial situation and knowledge and experience.

Key observations

The mystery shopping exercise identified a number of interactions where the distinction between providing factual product information and making a personal recommendation was not always sufficiently clear.

In most cases, TIIs used language or adopted an approach that could reasonably have been interpreted by customers as constituting a personal recommendation. Examples included presenting particular IBIPs, investment funds or product structures as being the "most suitable" option, expressing personal preferences for certain products, or discouraging consideration of alternative solutions without providing an objective explanation of the basis for such statements.

The Authority also observed instances where customers were encouraged to modify existing financial arrangements, including reducing contributions to existing products, placing pension plans on premium holiday or reallocating investments, without sufficient explanation of the associated costs, risks, contractual implications or long-term financial consequences. In addition, references to potential returns and product benefits were, in certain interactions, afforded greater prominence than the associated risks, limitations and uncertainties.

Taken together, these observations highlight the importance of maintaining a clear distinction between providing objective product information and making a personal recommendation. They also reinforce the need for Companies to maintain appropriate governance, documentation and controls to ensure that customer interactions remain within the scope of the distributor's regulatory permissions and support customers in making informed decisions based on balanced, accurate and comprehensive information.

MFSa Expectations

The Authority expects TIIs to operate strictly within the scope of their regulatory permissions when distributing IBIPs.

Where a TII is not authorised to provide investment advice under Article 3(2) of the Investment Services Act, communications with customers should be limited to providing factual, objective and balanced information regarding the products being distributed. Furthermore, TIIs should ensure that customer interactions do not, either explicitly or

implicitly, create the impression in the customer's mind that a personal recommendation is being provided.

Information relating to product features, investment options, potential returns, risks and costs should be presented in a neutral and balanced manner, enabling customers to make their own informed decisions without being directed towards a particular product or investment solution. Where customers seek guidance beyond the scope of the distributor's regulatory permissions, Companies should ensure that appropriate procedures are in place to manage such situations in accordance with the applicable legal and regulatory framework.

The Authority further expects Insurance Undertakings to implement effective governance, oversight and monitoring arrangements to ensure that TIs clearly understand the regulatory boundary between providing factual product information and regulated investment advice. This should be supported by appropriate policies, training, quality assurance activities and periodic reviews of customer interactions to ensure ongoing compliance with the COBR and the Investment Services Act.

3.4 Presentation of Tax Benefits and Product Features

Regulatory Requirements

The Authority's Circular "Marketing Campaigns and Selling Practices in relation to Financial Products and the Use of Cold-Calling" issued on 21st June 2024 reminds Regulated Persons that all communications relating to financial products must comply with rule R.1.2.6 of the COBR and therefore be fair, clear and not misleading.

In particular, Companies should ensure that tax benefits are not presented as the primary feature of a product at the expense of explaining its nature, characteristics, purpose, risks and limitations. Customers should clearly understand the type of product being offered, its regulatory classification and the circumstances in which any tax incentives or government benefits may apply. Companies are also expected to maintain appropriate governance and control arrangements to ensure that customer communications remain accurate, balanced and compliant with applicable regulatory requirements.

Key Observations

The mystery shopping exercise identified a number of recurring observations regarding the manner in which tax-related benefits and product features were communicated during customer interactions.

In most instances, discussions were predominantly centred on potential tax advantages or government incentives, with comparatively limited emphasis placed on the underlying characteristics, objectives and long-term nature of the product itself. The Authority also observed examples where customer records and meeting notes focused extensively on

potential tax considerations without sufficiently evidencing a broader assessment of the customer's overall demands and needs.

The Exercise further identified examples where references to tax treatment or government incentives lacked sufficient clarity or consistency. In certain interactions, products that did not qualify as pension products were discussed alongside references to tax rebates or government grants, creating the potential for customers to misunderstand the product's eligibility for such benefits. In other instances, explanations regarding the tax treatment were not adequately supported or appropriately contextualised.

The Authority also observed that certain product features, including references to withdrawal flexibility and access to funds, were occasionally presented as key selling points without sufficient explanation of the applicable conditions, contractual limitations, eligibility criteria or potential long-term implications. Where such features are highlighted without appropriate context, there is a risk that customers may form an incomplete understanding of the product and its intended purpose.

Taken together, these observations highlight the importance of ensuring that tax-related information and product features are presented in a balanced and consistent manner. Customers should be provided with sufficient information to understand not only any potential tax implications, but also the product's objectives, characteristics, limitations and long-term nature, enabling them to make informed decisions based on clear, fair and comprehensive information.

MFSA Expectations

The Authority expects all customer communications and marketing activities relating to financial products, including IBIPs, to be fully aligned with the principles set out in the Authority's Circular of 21st June 2024.

Product discussions should focus on the overall characteristics of the product rather than placing undue emphasis on tax incentives or government benefits. Where tax considerations are discussed, TIIs should ensure that such information is accurate, appropriately contextualised and only communicated where it is relevant to the specific product and the customer's circumstances.

Insurance Undertakings and TIIs should ensure that customers clearly understand the nature, purpose and eligibility of the product being offered, together with its principal features, risks, limitations and any conditions attached to potential benefits. References to product flexibility, withdrawal options or other product features should always be accompanied by a balanced explanation of the applicable contractual terms, restrictions and potential financial implications.

The Authority further expects Companies to maintain effective governance, oversight and quality assurance arrangements to ensure that marketing communications, sales

presentations and customer interactions consistently present information in a manner that is fair, clear and not misleading. This should include appropriate training, periodic monitoring and regular reviews of customer-facing communications to ensure that tax-related information and product features are presented accurately, consistently and in a manner that supports informed customer decision-making.

3.5 Client Information and Pre-Contractual Disclosures

Regulatory Requirement

Rules R.1.4.27, R.4.1.5 and R.4.1.8(c) of the COBR require Regulated Persons to provide customers, in good time and prior to the conclusion of a transaction, with information that is fair, clear and not misleading. Customers should receive sufficient information regarding the nature, characteristics, risks, costs and charges of the product, together with the relevant pre-contractual documentation, to enable them to make informed decisions.

3.5.1 Provision of Pre-Contractual Documentation

Key Observations

The mystery shopping Exercise identified recurring shortcomings in the timely provision of KIDs and other mandatory pre-contractual documentation.

Across a number of interactions, customers did not receive a KID or equivalent product documentation at any stage of the sales process, irrespective of the product discussed or the communication channel used. In most cases, customers received only limited supporting material, while in others no quotations, product literature or explanatory documentation were provided.

The Authority considers that the timely provision of pre-contractual documentation is fundamental to enabling customers to understand the key features, risks, costs and limitations of an IBIP before making an investment decision. Where such documentation is not provided, customers may have limited opportunity to compare products effectively or to understand the financial implications of the proposed investment.

The observations also suggest that Companies should review whether existing governance arrangements and sales controls adequately support the consistent provision of mandatory disclosures throughout the customer journey.

MFSA Expectations

The Authority expects TILs to ensure that customers receive the KID and all other relevant pre-contractual documentation sufficiently in advance of any commitment to enable meaningful consideration of the information provided.

Pre-contractual documentation should complement verbal explanations and form an integral part of the sales process rather than being treated as a procedural requirement. Companies should maintain appropriate controls to ensure that mandatory disclosures are provided

consistently across all distribution channels and that suitable records are retained demonstrating compliance with these obligations.

3.5.2 Disclosure of Product Features and Customer Communications

Key Observations

The Exercise identified a number of recurring observations regarding the quality and consistency of customer communications. In most interactions, product features, risks and contractual characteristics were not explained with sufficient clarity, resulting in uncertainty regarding the nature of the products being discussed. Customers were, in some cases, presented with technical terminology or complex explanations that were not adapted to their level of knowledge and experience.

The Authority also observed examples where product features were illustrated through personal experiences or anecdotal examples rather than objective explanations of the product itself. Whilst such examples may assist customer engagement, they should not replace balanced explanations of the product's actual characteristics, risks, limitations and contractual terms.

In addition, certain promotional statements relating to product flexibility, capital protection, withdrawal options or policy enhancements were not always accompanied by sufficient explanation of the applicable conditions, limitations or financial implications.

The Exercise also highlighted opportunities for Companies to further strengthen customer understanding by ensuring that explanations are delivered at an appropriate pace, that customers are encouraged to ask questions, and that TILs verify whether the information provided has been understood before progressing with the discussion.

MFSA Expectations

The Authority expects TILs to communicate product information in a manner that is clear, balanced and appropriate to the customer's level of understanding.

Product features should be explained objectively, avoiding technical jargon wherever possible, and should always be accompanied by appropriate explanations of any applicable conditions, limitations, risks and contractual implications.

Companies should also implement appropriate governance arrangements to ensure that customer communications remain consistent across verbal discussions, written correspondence and formal product documentation.

3.5.3 Disclosure of Costs and Charges

Key Observations

The mystery shopping exercise identified opportunities to improve the transparency and completeness of cost disclosures.

Whilst cost information was discussed during most interactions, the level of detail provided varied considerably. In some cases, key charges were not disclosed proactively and were only explained when customers asked for further clarification, whilst certain cost components, including allocation charges, surrender charges or transfer fees, were not consistently disclosed during the initial discussion.

The Authority also observed instances where information communicated verbally differed from the information contained within the relevant KID or supporting documentation, creating the potential for customer confusion.

Where comparisons with competing products referred to costs or charging structures, these were not always supported by sufficient context or objective evidence.

MFSA Expectations

The Authority expects TILs to disclose all relevant costs and charges proactively, correctly and transparently before customers make any investment decision.

Customers should receive a comprehensive explanation of the overall cost structure, including the purpose and financial impact of all material charges which may be triggered by the customer (e.g. early surrenders or premium holidays) throughout the life of the product.

Cost information communicated during customer interactions should remain fully consistent with the information contained within the KID and all other formal product documentation.

3.5.4 Presentation of Returns and Risks

Key Observations

The Authority observed that discussions regarding potential investment returns frequently received greater emphasis than the associated investment risks.

Illustrative returns and projected investment growth were often discussed without equivalent prominence being given to the assumptions underpinning those projections, the variability of investment performance or the possibility of capital loss.

The Exercise also identified examples where products were compared with alternative savings arrangements without adequately explaining the different objectives, contractual features and risk characteristics of the respective products.

In addition, explanations relating to investment risk, market volatility, withdrawal restrictions and long-term investment considerations were not always communicated with the same degree of prominence as potential returns.

These observations highlight the importance of ensuring that customers receive balanced information that enables them to understand both the potential benefits and the inherent risks associated with the proposed investment.

MFSA Expectations

The Authority expects TILs to present information relating to returns and risks in a balanced, fair and non-misleading manner, in line with Rule R.1.4.9(b).

Illustrative or projected returns should be clearly identified as such and accompanied by appropriate explanations of the underlying assumptions, together with clear disclosure that investment performance is not guaranteed.

Discussions relating to investment returns should always be balanced by clear explanations of the associated risks, including market volatility, potential capital loss, product limitations and any restrictions on access to invested funds.

The Authority further expects TILs to ensure that all verbal explanations remain fully aligned with the information contained in the KID and other pre-contractual documentation, enabling customers to make informed investment decisions based on complete, accurate and balanced information. Companies are expected to have the necessary governance and oversight systems in place to ensure adequate monitoring of their TILs compliance with the regulatory requirements and MFSA expectations in this area.

4.0 Other General Expectations

Whilst the observations set out in this letter arise directly from the mystery shopping exercise, the Authority considers that they also highlight a number of broader supervisory considerations that are relevant to the effective distribution of IBIPs. These considerations extend beyond individual customer interactions and relate to the governance, oversight and conduct frameworks that support good customer outcomes across the distribution process.

4.1 Governance and Oversight

In the context of IBIPs, in line with R.2.65 of the COBR, insurance undertakings are expected to identify the group or groups of clients for whom a product is considered likely not to be aligned with their needs, interests, objectives and characteristics. Particular attention should be given to ensuring that such negative target market considerations are adequately identified, documented and incorporated into distribution arrangements, especially where products are distributed through TILs. Undertakings should have appropriate oversight and monitoring mechanisms in place to ensure that products are distributed in accordance with the identified target market and are not marketed or sold to Clients falling within identified negative target markets. The Authority further reminds Insurance Undertakings that, pursuant to Article 37(9) of the Insurance Distribution Act, responsibility for compliance with

applicable regulatory requirements remains with the Undertaking notwithstanding the appointment of TILs. Accordingly, Insurance Undertakings are expected to Exercise effective oversight over their appointed TILs and to ensure that the distribution activities carried out on their behalf are consistent with the Product's target market and distribution strategy.

Furthermore, in line with the POG requirements, Manufacturers are required to identify both a positive and a negative target market for their insurance products, communicate these target market to distributors and implement appropriate monitoring and review arrangements to ensure that IBIPs are distributed only to customers falling within the identified positive target market. Effective governance, oversight and monitoring arrangements are essential to identifying conduct risks at an early stage and ensuring that appropriate and timely remedial action is taken where necessary.

The Authority expects Insurance Undertakings to periodically review the effectiveness of their governance arrangements, quality assurance activities and compliance monitoring programmes to ensure that distribution practices remain aligned with regulatory requirements, internal policies and the customer outcomes expected under their product oversight and governance framework. Boards and Senior Management should receive appropriate management information to enable effective oversight of conduct risks associated with IBIP distribution.

4.2 Training and Competence

The observations arising from the Exercise reinforce the importance of maintaining appropriate levels of competence amongst individuals involved in the distribution of IBIPs.

Training programmes should extend beyond product knowledge and are expected to include practical guidance on customer, demands and needs assessments, disclosure requirements, communication standards, record keeping, product comparisons and the distinction between factual product information and regulated investment advice. Firms should ensure that training remains up to date and reflects regulatory developments, supervisory expectations and lessons learned from monitoring activities.

4.3 Quality Assurance and Customer Communications

The findings also highlight the importance of effective quality assurance arrangements in assessing the consistency and quality of customer interactions.

Insurance Undertakings should ensure that customer-facing communications, including sales presentations, marketing material, product literature and any supporting sales tools, are subject to appropriate governance and review processes. Ongoing monitoring activities, including file reviews, observation of customer meetings, review of customer correspondence and thematic testing where appropriate, can provide valuable insight into emerging conduct risks and support continuous improvements in sales practices.

In addition, the Authority recommends that Insurance Undertakings should consider conducting periodic mystery shopping exercises of their own distribution channels, including its TILs, as a complementary oversight tool. Such exercises can provide valuable

independent insight into the manner in which products are being presented to customers in practice, assist in identifying potential conduct risks at an early stage, and support the ongoing enhancement of sales and disclosure practices.

4.4 Consumer-Centric Culture

The Authority observed that the strongest customer outcomes were achieved where interactions were characterised by clear explanations, balanced disclosure of both risks and benefits, appropriate questioning and sufficient time for customers to consider the information provided.

Insurance Undertakings should endeavour to promote a culture that places customers' interests at the centre of the distribution process, ensuring that sales practices are focused on supporting informed decision-making rather than encouraging product selection through promotional messaging or perceived incentives.

4.5 Distribution Through Digital Channels

The Authority reminds Insurance Undertaking that the same conduct of business obligations applies irrespective of the distribution channel used. Whether customer interactions take place face-to-face, remotely, by telephone or through digital platforms, customers should receive the same standard of information, disclosures and regulatory protections.

Insurance Undertakings should periodically review their digital distribution arrangements to ensure that customer understanding, record keeping and pre-contractual disclosure requirements are consistently achieved across all distribution channels.

5.0 Way Forward

Insurance Undertakings and TIIs should view the findings contained in this letter as an opportunity to strengthen their conduct frameworks and continuously enhance customer outcomes.

Furthermore, the findings of this Exercise highlight the importance of maintaining robust controls, high-quality customer interactions and consistent disclosure standards throughout the sales process.

Through the Authority's Circulars on "[Marketing Campaigns and Selling Practices in relation to Financial Products and the Use of Cold Calling](#)", its guidance in [Volume VI of the Nature and Art of Financial Supervision concerning demands and needs assessments](#), this Dear CEO Letter, and its continued engagement with the industry, including meetings held with Insurance Undertakings, the Authority has clearly communicated its supervisory expectations regarding sales and distribution practices. The Authority expects regulated persons to take all necessary measures to ensure that these expectations are appropriately embedded within their governance arrangements, systems, controls and customer facing processes.

The Authority will continue to monitor industry practice in this area through its ongoing supervisory activities, including further mystery shopping exercises, and may consider regulatory action against TILs and their principals for any shortcomings identified.

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

Kindly be guided accordingly.

Yours Sincerely,
Malta Financial Services Authority

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