

21ST October 2026

Conduct Supervision

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Dear Chief Executive Officer,

Dear Compliance Officer,

THEMATIC REVIEW ON THE VALUE FOR MONEY OF PRODUCTS DISTRIBUTED ON A CROSS-BORDER BASIS

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

1.0 BACKGROUND

The safeguarding of consumers of financial services constitutes a core objective of the Authority. This objective includes insurance products and services which are manufactured by its licensed insurance undertakings and distributed on a cross-border basis to clients situated in other Member States. The Authority aims to effectively reach this goal through the effective use of its supervisory tools, including but not limited to onsite inspections, supervisory meetings, and thematic reviews.

One of the focus areas of the European Insurance and Occupational Pensions Authority (“EIOPA”) for 2025, highlighted in the [Union-wide Strategic Priorities – Focus areas for 2025](#), identified *Value for Money* as a key supervisory priority particularly in terms of non-life insurance products and the ongoing assessment of the value of the product throughout the product lifecycle. The Commission [Delegated Regulation \(EU\) 2017/2358](#) supplementing Directive (EU) 2016/97 with respect to product oversight and governance requirements (hereinafter referred to as the “POG Delegated Regulation”), which sets out Product Oversight and Governance measures which need to be implemented by manufacturers and intermediaries when designing new products, or when significantly adapting new ones, outlines the importance of ensuring that the products are consistently in line with the needs, characteristics and objectives of the identified target market to prevent any consumer detriment. Products shall therefore provide value for money by ensuring that the customers’ expectations are met. The manufacturer shall thus ensure that appropriate testing and monitoring is done on the product throughout its lifespan.

An essential element which contributes to the value of a product, is the level of costs and charges included in, or in addition to, the premium charged to the customer. Such costs and charges are expected to be proportionate to the benefits provided by the product. Another element which contributes to a product’s value, is determining whether the terms and conditions deliver good consumer outcomes in line with the product’s target market’s expectations. The importance of proportionality between coverage and premium paid was also highlighted in [EIOPA’s Consumer Trends Report of 2024](#), as EU consumers identified fair coverage as the most important factor when assessing value for money.

A number of insurance undertakings licensed by the Authority operate on a cross-border basis through the freedom of services and/or establishment. Where product distribution is not carried out directly by the insurer, such activities may be undertaken through arrangements with Managing General Agents (“MGAs”), other intermediaries, and/or Third-Party Administrators (“TPAs”). These arrangements may involve the delegation of key functions, including underwriting, claims handling, and distribution, and are typically formalised through contractual agreements.

Enhancing cross-border monitoring and ensuring the effective oversight of licensed undertakings operating across multiple jurisdictions have consistently formed part of the Authority’s ongoing supervisory remit. In recognition of the growing relevance of such business models, the Authority identified cross-border supervision as one of its supervisory priorities for [2025](#) and [2026](#). Cross-border insurance activity was also highlighted in EIOPA’s 2024 [Consumer Trends Report](#) which noted an increasing provision of insurance products on a cross-border basis across various classes of business and jurisdictions.

In furtherance of its cross-border supervisory objectives, the Authority conducted a thematic review targeting licenced insurance undertakings engaged in cross-border activities. This thematic review was carried out by the Conduct Supervision Unit, as part of its supervisory work undertaken in 2025. The scope of the thematic review focused on assessing value for money of a sample of non-life insurance products distributed by insurance undertakings who passport in other jurisdictions under the freedom of services (“FOS”) and/or freedom of establishment (“FOE”). The distribution of such products was facilitated through arrangements with Managing General Agents and/or an intermediary (“INT”) and/or Third-party Administrators involving delegation of authorities such as underwriting, claims handling and distribution.

The thematic exercise was launched in 2025, where the Authority engaged with the identified sample of entities and requested the data and documentation to be submitted in around three weeks from receipt of the cover letters. The analysis of the submitted information was then carried out by the Authority’s officials in the months following the submission of the data.

This thematic review builds upon, rather than repeats the thematic review carried out in 2023 and leading to the Authority’s [Dear CEO Letter](#) issued in October 2023 concerning Product Oversight and Governance (“POG”) requirements and product exclusions in the context of value for money. In fact, this thematic review has a distinct supervisory focus on insurance undertakings conducting cross-border business through arrangements involving MGAs, intermediaries and other delegated distribution models. The objective of this exercise is to assess how manufacturers apply POG requirements and oversee such distribution arrangements to ensure that products continue to deliver value for money throughout their lifecycle. While the broader principles of value for money outlined in this letter may apply for all types of insurance products, the findings contained in this report reflect the Authority’s supervisory observations arising from this specific thematic exercise and the additional risks associated with cross-border distribution and oversight.

2.0 SCOPE

The local insurance market is made up of around forty-two (42) retail insurance companies, thirty-six (36) of which passport in other jurisdictions. Around 79.82% of non-life insurance policies issued by Maltese insurance undertakings in 2024, were sold outside of Malta via FOS and FOE. This demonstrates that cross-border distribution is an integral part of the Maltese insurance industry. For the purposes of this thematic review, the following products sold on a

cross-border basis were selected: **Accident and Health Insurance, Gadget Insurance and Travel Insurance.**

- **TRAVEL INSURANCE PRODUCTS**

Travel insurance products generally provide cover against losses or damages arising in connection with travel-related events. The scope of coverage and applicable limits may vary depending on the level of cover selected by the policyholder. Based on the travel insurance products submitted for the purposes of the thematic review, common insured risks include, inter alia, flight or ticket cancellation, baggage delay or damage, hospital benefits, and missed departures. The insurance undertakings included in the sample submitted various types of travel insurance products, ranging from comprehensive travel insurance policies to more limited products, such as ticket cancellation cover, which is considered to be a relatively basic type of insurance.

Travel insurance products were selected to form part of his review based on the findings highlighted in the thematic review conducted by EIOPA in 2018 on [Consumer Protection Issues in Travel Insurance](#), and its subsequent [Warning to Travel Insurance Industry](#) regarding high commissions. These supervisory findings highlighted concerns relating to risks of consumer detriment due to the remuneration structures implemented by insurance undertakings, low claims ratios and exclusions of pre-existing medical conditions. Additional data extracted from the Authority's annual Conduct Related Data Returns ("CRDR"), indicated that from all the products distributed on a cross-border basis by the chosen sample of insurance undertakings, travel insurance had one of the greatest number of complaints which amounted to around 29.12% of the total share of complaints registered in 2023 from all the retail products distributed by the chosen sample of undertakings submitted in the returns. In light of the above, this product was chosen given the risk of value for money concerns.

- **GADGET INSURANCE PRODUCTS**

This type of insurance typically provides cover against loss of or damage to electronic devices, including, inter alia, mobile phones, laptops, cameras, and other portable gadgets. Such products generally operate in a manner comparable to a warranty arrangement, whereby the insured device is covered against specified accidental loss or damage events, including theft, mechanical or electrical breakdown, and liquid damage. Policy duration for this type of product generally varies from monthly policies up to one year, or even longer. The chosen insurance undertakings submitted gadget products which have similar coverage.

Gadget insurance was selected on the basis of [EIOPA's 2024 Consumer Trends report](#) where issues of value for money in non-life insurance products in terms of unjustified costs and commissions were observed particularly in payment protection insurance, **gadget insurance** and income protection insurance, by a number of National Competent Authorities ("NCAs"). Following the trends identified for travel insurance, Gadget insurance accounts for approximately 27.22% of the total number of complaints registered in 2023 CRDRs of the chosen sample of insurance undertakings. This indicates the need for further investigation.

- **ACCIDENT AND HEALTH INSURANCE**

Accident and Health insurance products are designed to provide protection in the event of personal injury, illness, or death, covering, inter alia, medical expenses, disability-related costs, and other associated expenditures. For the purposes of this review, the products requested for submission were defined as those providing cover for personal accident and sickness.

In view of this thematic review, data extracted from the CRDR indicated that Accident and Health products distributed on a cross-border basis by the selected insurance undertakings, had higher number of claims when compared to the other non-life products (around 94.6% of the total claims) which is on the higher end when compared to other products. Due to this observation this product was chosen to determine whether any value for money concerns exist in products which are distributed on a cross-border basis.

The products submitted by the insurance undertakings, had different features, such as cover for dental, products which are add-ons (i.e. are linked to another product), cover which is compulsory and comprehensive cover tailored for individuals who are ex-patriates.

- **MANAGING GENERAL AGENTS**

It is common practice that insurance undertakings enter into agreements with MGAs in order to facilitate the distribution process on a cross-border basis. Such agreements generally involve delegating authorities including underwriting, administration and claims handling. MGAs may also approach insurance companies, to create products tailored for the market they cater for. It is also common that MGAs co-manufacture the product which is eventually distributed by their distributors. This means that MGAs also have some responsibilities which do not merely relate to the distribution of such products but also extend to certain aspects of the manufacture of the products concerned

Under these arrangements, MGAs exercise delegated authorities in accordance with the terms of the agreement and are able to underwrite risks and onboard clients on their own within such terms. Both the insurance undertaking and the MGA may terminate the agreement, and depending on which party initiates the termination, an alternative risk carrier or distributor is sought. There may also be instances where a book of business is run-off until all policies expire.

3.0 METHODOLOGY

The thematic review was carried out through the use of a detailed questionnaire designed to collect information, documentation, and specific data sets on the products distributed on a cross-border basis as outlined above. The review sought to examine the processes and procedures implemented by insurance undertakings within their POG framework when designing, launching, and monitoring products distributed on a cross-border basis, with the ultimate objective of assessing the value for money of the products under scope, and highlight any concerns that may hinder such outcome.

In line with the supervisory priorities outlined above, a sample of insurance undertakings which have binding authority arrangements in place, to distribute products on a cross-border basis, was selected based on a number of key metrics extracted from the CRDR. An analysis of the insurance entities' data such as volume of sales, ratio of complaints to sales, percentage rate of passporting and ratio of settled claims was conducted and compiled in tables in order to illustrate which insurance entities manufacture and distribute the products under scope and an overview of the aforementioned metrics which provide an indication of

the products' performance in terms of value provided to the policyholders. This practice facilitated the process of choosing the sample of insurance entities which provide a number of these products on a cross-border basis.

To ensure a representative sample and consistency of the submitted products, the following criteria were applied: only products launched after the entry into force of the POG Delegated Regulation (EU) 2017/2358 were considered; where multiple products within the same class were distributed cross-border, the product generating the highest sales in the preceding year was to be submitted, where a binding authority agreement covered multiple products, only the data of the product within scope was requested. In the case of group policies, the number of insured persons was treated as equivalent to the number of contracts. These criteria facilitated the submission of one product per class from each undertaking for the purposes of the thematic review.

The data collection instrument used by the Authority comprised multiple sections, each addressing different aspects of the product and the associated arrangements. The first section captured general product and distribution information, including product type, average number of contracts, cost structure, claims handling and rejections, complaints, and policy cancellations. The second section focused on product performance, collecting data on projections, forecasts, and actual outcomes for sales, claims, expense ratios, and profitability, enabling an assessment of the alignment between premium composition and profit generated.

In addition to quantitative data, documentation was requested to assess how undertakings incorporate fair value considerations within their processes. This included POG policy documentation, records of the product approval process, policy wording, Insurance Product Information Documents ("IPIDs"), POG committee meeting minutes, and reports relating to claims and complaints, as well as relevant actuarial reports. The purpose of requesting these materials was to verify that the procedures outlined in the POG policy were consistently applied in practice throughout the product lifecycle.

The following table provides an overview of the products reviewed under the scope of this exercise:

Product Class	Number of Products Reviewed	GWP generated from these products in € (2023)
Travel Insurance	3	7,865,196
Gadget Insurance	4	25,352,950
Accident and Health Insurance	4	338,589,334

The following part of this document will outline the findings observed from the analysis of the questionnaire responses and the supplementary documentation, organised into distinct sections. In addition, the document highlights a number of good market practices observed from the chosen insurance undertakings, together with MFSA expectations and guidance which are referenced throughout the rest of this document.

4.0 KEY FINDINGS

4.1 PRODUCT OVERSIGHT AND GOVERNANCE POLICY AND PRODUCT APPROVAL PROCESS DOCUMENTATION

A review of the insurance undertakings' POG policies and procedures was conducted to gain a comprehensive understanding of the processes applied throughout the product lifecycle, with particular emphasis on how value for money is assessed by the undertaking. In accordance with the POG Delegated Regulation (EU) 2017/2358, POG arrangements are expected to ensure that products continue to deliver value to the identified target market over their lifetime.

The product approval process is required to set out the procedures for the introduction of new insurance products to the market, as well as for any significant adaptations to existing products. This process should ensure that, during product design, the objectives, interests, and characteristics of the target market are appropriately considered, that products do not have an adverse impact on clients, and that potential consumer detriment is prevented or mitigated.

In support of this review, POG committee meeting minutes were also requested to determine whether considerations of value for money were actively discussed and embedded within the oversight of the products.

REGULATORY REQUIREMENTS AND GUIDELINES

Insurance undertakings are required to ensure that all products launched after the entry into force of the **POG Delegated Regulation (EU) 2017/2358** in February 2018 are subject to the product approval process as outlined within their POG policy. Pursuant to Article 4 of the POG Delegated Regulation, manufacturers must maintain a product approval process for newly designed products, as well as for existing products that have undergone significant adaptation

Moreover, undertakings are expected to conduct subsequent product reviews in accordance with Article 7 of the POG Commission Delegated Regulation (EU) 2017/2358 which states that manufacturers are required to monitor and review insurance products on a regular basis, which have been launched, in order to identify any occurrences which could materially affect any features, coverage and guarantees of the products.

Product testing, as set out in Article 6 of the POG Delegated Regulation, must be carried out prior to the launch of a new product or the significant adaptation of an existing product. Such testing should be conducted on both a qualitative and quantitative basis to ensure that the product continues to meet the needs of the identified target market throughout its lifecycle.

Proper record-keeping practices are required to evidence compliance with the POG arrangements. As stipulated in the **Conduct of Business Rulebook ("COBR")**, specifically **R.2.84**, all POG processes and procedures must be fully documented. This includes the retention of minutes from POG related meetings, which serve as evidence of discussions and decisions taken.

Products must be monitored on an ongoing basis to ensure that distribution is conducted in accordance with the terms of the applicable distribution agreements, including the administration and claims-handling functions delegated to MGAs. Manufacturers are also required to continuously monitor and periodically review products after launch to identify any events that may affect the product's features, and to ensure that products remain aligned with

the needs and characteristics of the identified target market. This requirement is further reinforced under **R.2.71 of the COBR**.

FINDINGS

- The review identified that certain products launched following the entry into force of the POG Delegated Regulation (EU) 2017/2358 on 23rd February 2018 were not subjected to the product approval process as required. Furthermore, for some of these products, no recent product review had been conducted, despite the products having been available for a number of years. In most instances, product review documentation was not provided, and instead the initial product approval process document was provided. This indicates an absence of evidence demonstrating that product reviews are conducted on an ongoing basis.
- While most insurance undertakings' POG policies reference the review of remuneration structures for distribution channels, the cost assessments provided to the Authority were generally limited in detail. Responses were largely binary (yes/no) and did not provide adequate justification for the costs associated with distribution.
- Although the POG policies of certain undertakings specify that product reviews should be conducted on an annual basis, as per the Companies' own POG policy, it was observed that these reviews were not consistently carried out in practice.
- It was noted that certain product reviews provided by the sample of insurance undertakings distributing products on a cross-border basis, reference "*value for money*" testing without providing a rationale as to why the selected pricing represents value for money. Product reviews are required to be conducted, by all insurance undertakings including in the context of cross-border distribution. In this regard, these need to document the testing which was conducted including any assessments relating to value for money.
- Certain POG policies submitted by insurance undertakings did not specify procedures for the selection of the intermediaries responsible for the distribution of products on a cross-border basis. Policies must include mechanisms to ensure that distributors are appropriately chosen for the identified target market.
- Minutes of POG committee meetings were not provided by some insurance undertakings. The absence of such documentation may indicate that meetings are not being held with the required frequency regarding Product Oversight and Governance matters, or that discussions are not being properly recorded and documented.
- One of the POG policies submitted for the thematic review, provided a high-level overview of the product oversight and governance processes without detailing the methodology of how it is being done.

MFSA EXPECTATIONS

Insurance undertakings are expected to conduct product reviews on a regular basis and to determine appropriate intervals for such reviews, in accordance with Article 7(2) of Commission Delegated Regulation (EU) 2017/2358. Products launched or materially amended after the implementation of the POG Delegated Regulation are required to comply with product oversight and governance requirements. The review process should be appropriately documented.

Intermediaries may be co-manufacturers where product governance and manufacturing responsibilities are shared with the insurance undertaking. These responsibilities are outlined in the binding authority agreements. Nonetheless, the Authority expects that insurance undertakings retain ultimate responsibility for the products they design and distribute. This includes monitoring the activities of intermediaries responsible for distribution. In this regard, undertakings, must ensure that they implement robust monitoring controls to verify that

products are being distributed to the identified target market in accordance with the terms of the distribution agreement. The review of POG policies observed that some undertakings rely heavily on intermediaries to perform key responsibilities, including monitoring of distributors. Undertakings must therefore establish and maintain adequate oversight to mitigate any risks arising from such delegation.

Insurance undertakings are expected to maintain POG policies that clearly document the methodology and procedures applied throughout the product lifecycle. High-level principles alone are insufficient to demonstrate that effective POG arrangements are consistently implemented in practice.

Furthermore, the effectiveness of the distribution channel must be actively assessed. Sales quality controls and other KPIs are essential to determine whether the distribution process is being conducted in line with the regulatory requirements to ensure that the policyholders are offered products which are in line with their needs, objectives, and expectations, supporting the overall integrity and value of the insurance product in the market.

4.2 COST STRUCTURE

The cost structure of the product is an essential element into determining whether value for money is provided to the target market. Manufacturers are required to test products to ensure that the needs and objectives of the target market are met throughout the product's entire lifecycle as outlined in **R.2.67 of the COBR**. Accordingly, manufacturers shall have adequate processes in place to test the product's value by determining whether the product is cost-efficient for the intended target market.

These processes may include quantitative thresholds or benchmarks, as deemed appropriate by the manufacturer. When reviewing the product's cost structure, manufacturers shall provide a clear and appropriate justification for the charges imposed, including an explanation of the benefits received by the customer in return. Commissions, as a component incorporated into the premium charged to the customer, represent a material consideration in this assessment.

As part of the review process, information on the premium structure was requested through the questionnaire, together with supporting documentation to substantiate the rationale for the selected pricing. In addition, the questionnaire included a dedicated section addressing the profitability of the product.

REGULATORY REQUIREMENTS AND GUIDELINES

The Authority acknowledges that insurance undertakings participating in this thematic review operate within a market environment, where Managing General Agents typically propose their expected commission levels for the distribution of insurance products. Notwithstanding this market practice, the Authority expects insurance undertakings to ensure that any proposed commission levels contribute to the overall value for money of the product.

Where proposed commission levels do not appear to support value for money outcomes, insurance undertakings are expected to raise such concerns with the MGA and engage in discussions to identify a consumer-centric approach. Any such engagement and the resulting outcomes shall be appropriately documented in accordance with the undertaking's POG process.

Insurance undertakings are therefore required to assess the costs associated with the distribution of their products and to determine whether such costs provide demonstrable

additional value to the customer. The Authority emphasises that the imposition of undue costs may result in consumer detriment.

Furthermore, insurance undertakings acting as manufacturers must ensure that their products do not adversely affect customers, in line with **R.2.57(a) of the COBR**. Undue or excessive costs may negatively impact policyholders and, as a result, undermine the value for money of the product.

FINDINGS

• TRAVEL INSURANCE PRODUCTS

Data extracted from the questionnaire responses was collated and presented in tabular format to provide an overview of the commission levels and cost structures of the insurance undertakings selected for this thematic review.

	Range of values observed across the selected Insurance Undertakings
Insurer's Profit derived from the Product as a % of GWP	36% - 5%
Cost Structure (expressed as a % of Premium)	
Insurer	48% - 50%
Agent	30% - 48%
Sub-Agent	20% -47%
Administration & Claims Handling	2%- 3%

It was noted that travel insurance commission rates were around 47% to 50%. These commission rates are lower than those outlined within the EIOPA warning issued in October 2019 in relation to travel insurance commissions, where it was reported that at the extreme a maximum commission of 94% was being charged in certain instances. However, these need to be considered on a nominal basis when compared to the average premium.

The average premiums for individual policies within the sample selection vary between €6.00 and €46.00, which shows that the products differed from one another in view of the different coverage and target markets, thereby premium varied across the products examined. In nominal amounts, the commission amounts are not considered to be high, yet a breakdown of the distribution costs as a percentage of the respective commission fees was requested to identify whether a justification of such costs is provided. The insurance undertakings could not provide a copy of such documentation, however certain entities listed the type of costs which the distributors bear when distributing the product.

Discrepancies were observed, from the data provided in the Questionnaire as opposed to the documentation provided in relation to intermediary commission. Commissions were found to be higher than what was explicitly outlined within the Questionnaire. Higher commissions complimented with a low loss ratio were rated as a high conduct risk. Further assessments regarding the commission viability were not provided to the Authority.

Conversely, one insurance undertaking reported a higher profitability rate of 36% primarily attributed to a low claims ratio. Although the product was launched prior to Covid-19 pandemic, it experienced minimal impact from COVID-19 related claims. As a result, premium

rates were subsequently reduced and the undertaking indicated that further reviews were to be conducted to determine whether enhancements to coverage could be implemented to improve customer value. Ongoing review and monitoring of such metrics by insurance undertakings is essential in order to identify emerging trends and to determine whether supervisory or remedial action is required.

- **GADGET INSURANCE PRODUCTS**

Four gadget insurance products were assessed as part of this thematic review. The products submitted by the insurance undertakings exhibited variation in both premium levels and scope of cover, with annual premiums ranging from €13.00 to €108.00. The products also differed in terms of launch dates, with some introduced in 2019 and others more recently in 2023. The table below sets out an overview of the cost structures applicable to each product.

	Range of values observed across the selected Insurance Undertakings
Insurer's Profit derived from the Product as a % of GWP	-23%- 10%
Cost Structure (expressed as a % of Premium)	
Insurer	0% -53%
Agent	38%- 65%
Sub-Agent	0% - 40%
Administration & Claims Handling	9%- 15%

Based on the information presented, the profitability of the gadget insurance products appears to be comparatively low when assessed against other products within the scope of this thematic review. In contrast, commission levels were observed to be relatively high, ranging from 38% to 65%.

In certain cases, higher commission rates were observed to be at the expense of the risk premium, which in some instances amounted to approximately 20% of the total premium. This premium composition raises concerns and may warrant further analysis, particularly in relation to the justification for commission levels of up to 65%. While the responsibilities of the intermediary were outlined, a detailed breakdown of the commission costs as a proportion of the overall premium was generally not provided. Such information was submitted by only one insurance undertaking.

In addition, it was observed that one product, which had previously been carried by another undertaking through the same MGA, was being distributed at a higher level of premium than the previous undertaking. No supporting justification for the subsequent increase in premiums was provided as part of the documentation submitted for this review.

- **ACCIDENT AND HEALTH INSURANCE PRODUCTS**

Accident and Health insurance products provided by the sample of undertakings, demonstrated a range of characteristics, including variations in coverage, distribution arrangements and target markets. The products were distributed across different jurisdictions and included a compulsory insurance product, a product sold as an add-on to another product, and a product marketed to corporates to provide cover for their employees.

The following information regarding cost structures was populated in a table for ease of reference:

	Range of values observed across the selected Insurance Undertakings
Insurer's Profit derived from the Product as a % of GWP	-14% - 43%
Cost Structure (expressed as a % of the premium)	
Insurer	53% - 95%
Agent	3%-15%
Sub-Agent	6% - 47%
Administration & Claims Handling	1% - 5%

Commission levels varied across the products reviewed. These differences may be attributable to variations in product design, scope of cover and the characteristics of the intended target market. Significant disparities were also observed in the average premiums charged to policyholders, which ranged from €4.00 to €2,984. In general, broader coverage was associated with higher premium levels.

Low risk premium rates were observed in accident and health insurance products, which indicates that the portion of the premium attributable to the actual insurance risk is relatively low compared to the overall premium charged to policyholders. However, no supporting documentation was provided in relation to commission structures and other costs incorporated into the premium. In view that certain products had a low pure risk premium (i.e. that portion of the premium which covers the risk), insurance undertakings are expected to provide appropriate justification for the level of costs incorporated into the premium to indicate that such costs deliver value to policyholders.

In addition, the use of profit-based commission arrangements was identified, as outlined in the supplementary documentation submitted by the insurance undertakings. Insurance undertakings are expected to assess whether such remuneration arrangements create risks of consumer detriment, including aggressive sales practices or inappropriate claims handling driven by profit incentives, and implement appropriate controls to mitigate such.

MFSA EXPECTATIONS

The Authority does not favour commission structures that include high upfront commissions combined with additional remunerations, such as profit share arrangements, particularly when supported by evidence of low loss ratios. Such practices may increase the risk of consumer detriment, including potential mis-selling or inappropriate claims handling to maximise profit share. In this regard, the Authority expects insurance undertakings to provide clear

justification for their commission structures within their POG documentation. Where necessary, companies are to take the appropriate remedial measures to ensure that cost structures fairly support value for money for policyholders.

4.3 CLAIMS AND COMPLAINTS

Claims and complaints constitute key indicators in assessing whether a product delivers value to its identified target market. Analysis of claims data can provide insight into whether a product is being distributed to the appropriate target market, while complaints data may highlight product features or practices that are not aligned with the needs, objectives or expectations of that market.

For the purposes of this thematic review, insurance undertakings were requested to submit claims and complaints reports in order to assess whether such data is subject to ongoing monitoring and whether any trends have been identified and addressed.

From the information provided through the Questionnaire and supporting documentation, claims data was reviewed, including the number of claims fully settled, partially paid claims, claims settlement timeframes, fully rejected claims and reasons for such rejections. This analysis was undertaken to identify any potential concerns relating to value for money. In parallel, complaints data was analysed to check complaints volumes and to determine whether there were any recurring or common causes of complaints.

REGULATORY REQUIREMENTS AND GUIDELINES

Insurance undertakings are required to implement effective product monitoring arrangements in accordance with the requirements set out in the **R.2.70 of the COBR**. This includes the ongoing monitoring of products to assess whether they continue to meet the needs, characteristics and objectives of the identified target market.

The monitoring of claims and complaints forms an integral part of these obligations. Where claims metrics exceed thresholds established by the insurance undertaking, additional analysis and supporting evidence should be obtained to assess the underlying causes and to ensure that any potential consumer detriment is identified and appropriately mitigated.

FINDINGS

- **TRAVEL INSURANCE PRODUCTS**

CLAIMS REPORTS AND ADDITIONAL QUESTIONNAIRE DATA

Certain travel insurance products indicated a low claims ratio, in some cases falling below 10%. Low claims ratios may indicate that policyholders are not claiming or are otherwise unable or unwilling to do so. In one instance, a product exhibited persistently low claims ratios notwithstanding the manufacturer's expectation that claims ratio would be higher given that Covid-19 was covered. However, the data provided by the insurance undertaking did not support this expectation. Low claims ratios may therefore indicate that policyholders are not aware of or do not understand the coverage provided by the product.

In addition, certain travel insurance products exhibited low claims acceptance ratios indicating a high incidence of claims rejections. Claims acceptance ratios varied between 21% to 82%, indicating that, in some cases, a significant proportion of claims were not accepted.

As part of the Questionnaire, insurance undertakings were requested to identify the three primary reasons for claim rejections. For one product, a key reason for claim rejection related to the application of policy exclusions. This information prompted further supervisory scrutiny, following which the insurance undertaking conducted a root cause analysis and reviewed the relevant exclusions. Such actions are important in assessing whether the product remains aligned with the needs, objectives and characteristics of the identified target market. In contrast, claims reports submitted for other travel insurance products within scope did not include information on claim rejections or the reasons for such rejections.

Discrepancies were also identified within the claims data provided, particularly between claims paid ratios and claims rejection ratios, both of which were reported as low. These inconsistencies were attributable to the application of differing and undefined methodologies in the calculation of these ratios. The relevant definitions and methodologies were not specified within the claims reports, nor were they documented within the POG policy.

With regard to claims settlement timeframes, data submitted within the Questionnaire indicated that the proportion of claims settled within 30 days varied from 37% to 57% out of the total number of settled claims. Other product classes exhibited both higher and lower rates indicating that within the same product class claims handling practices differed in quality of service. Within the product reviews additional details were provided, particularly where an insurance undertaking conducted a review of the claims handling administrator in view of the issues in relation to claims turnaround times. This underscores the importance of monitoring claims on a regular basis, as through this practice, insurance undertakings are able to spot whether there are any areas of consumer detriment in the claims process.

COMPLAINTS REPORTS

A significant volume of complaints may indicate potential areas of consumer detriment. In this context, insurance undertakings were requested to provide complaints reports for review. Analysis of the complaints data indicated that the primary issues raised by policyholders related to policy exclusions, administrative processes, premium levels, communication, and delays in claims processing.

Where claims rejection rates were higher and claims settlement timeframes were longer, it was observed that complaints were predominantly related to rejections and delays, reflecting these underlying issues. This demonstrates the close correlation between claims handling practices and the nature and volume of policyholder complaints, highlighting the importance of effective monitoring of both claims and complaints to identify and address potential consumer detriment.

- **GADGET INSURANCE PRODUCTS**

CLAIMS REPORTS AND ADDITIONAL QUESTIONNAIRE DATA

For gadget insurance products under scope of this review, reported claims ratios varied widely, ranging from 3% to 72%. Lower claims ratios were generally observed for newer products, where limited data is available for analysis. Conversely, products that have been in the market for a longer period demonstrated higher claims ratios, indicating that policyholders' claims are being accepted.

Some insurance undertakings reported low claims acceptance ratios, with one key reason for claim rejection relating to conditions specified in the policy terms. This underscores the importance of ensuring that policyholders are adequately informed of the terms and conditions of their coverage. Observed discrepancies between policyholder expectations and

actual coverage suggest a potential misalignment between the product design and the needs of the identified target market.

Additional reasons for claim rejections, including instances where policyholders did not pursue claims further (“walkaways”), should be subject to further review to determine whether these reflect difficulties experienced during the claims process.

It was also noted that the integration of claims and complaints data into the regular product review process, which would allow trends to be identified and necessary remedial actions to be taken, was not consistently evident in the documentation provided by the insurance undertakings. This highlights a gap in ongoing product monitoring and oversight practices.

COMPLAINTS REPORTS

Analysis of the complaints reports submitted by the insurance undertakings indicated that the issues identified in the claims reports were similarly reflected in the complaints data. This suggests that policyholders may have submitted formal complaints following the rejection of claims or delays in claims processing.

For one specific gadget insurance product, a notable number of complaints were related to the choice of repairer. This observation highlights the need for further review of the repairer’s service quality and consideration of whether an alternative repairer should be appointed. No supporting evidence was provided to demonstrate whether any remedial actions were taken in response to these complaints.

- **ACCIDENT AND HEALTH INSURANCE PRODUCTS**

CLAIMS REPORTS AND ADDITIONAL QUESTIONNAIRE DATA

For the accident and health insurance products within the scope of this review, reported claims ratios ranged from 8% to 100%. In general, higher claims ratios were observed, with the exception of a particular product exhibiting a low claims ratio. Notably, this product recorded a relatively high claims payout whereby the average claim amount paid to the policyholders was higher than that of the other products in scope.

It was observed that ‘add-on’ products, provided at no additional cost as part of another product, may report low claims ratios. This may be attributable to policyholders being unaware of the insurance coverage provided. Conversely, it was observed that the compulsory products generally registered higher claims frequency due to the nature of the product and the high volume of claims submitted. These findings suggest that products offered ancillary to other non-insurance products may not deliver additional value if clients are not made aware of such products, whereas compulsory products are fully utilised, indicating alignment with the needs of the identified target market. Claims acceptance rates for accident and health products were generally high, representing a positive observation as it indicates that claims are predominantly accepted. However, longer claims settlement timeframes were reported for certain products. This underscores the importance of monitoring claims to ensure the policyholders’ claims are being processed and settled in a timely and efficient manner.

COMPLAINTS REPORTS

For this product, a low complaints ratio was observed across the sample of insurance undertakings within the scope of this thematic review. No specific issues or trends were identified from the complaints reports submitted.

MFSA EXPECTATIONS

Insurance undertakings are also expected to analyse key performance indicators (KPIs) and investigate instances where these fall outside acceptable limits. High claims rejection rates, for example, should be examined to ensure that any underlying issues are identified and appropriately addressed. Regular monitoring of complaints is also essential to detect gaps in product offerings and to mitigate potential consumer detriment.

4.4 POLICY WORDING

To support a comprehensive assessment as part of this thematic review, the Authority requested, as supplementary documentation, the relevant policy wordings and Insurance Product Information Documents. Clear and transparent terms and conditions are essential in promoting product value, as they enable policyholders to understand the scope of coverage provided.

The findings from this review are presented in the sections below. As part of the assessment, the clarity of the policy wordings was evaluated through a structured set of questions specifically developed to assess the transparency and comprehensibility of the policy documentation.

REGULATORY REQUIREMENTS AND GUIDELINES

Policy wording and pre-contractual documents such as IPIDs are to be drafted in a clear and transparent manner outlining the exclusions and conditions to ensure that clients are able to understand the product and be able to make an informed decision. The **R.1.4.8 of COBR** sets out the requirements of how information shall be presented to clients highlighting the importance of presenting information which is understood by the target market.

Insurance undertakings are to follow the standardised format of an IPID as per the Commission Implementing Regulation (EU) 2017/1469 which outlines the information to be included in the IPID required to ensure that clients can easily understand product information.

• TRAVEL INSURANCE PRODUCTS

An observation arising from the review of travel insurance products was that, for certain products, claims were rejected due to exclusions specified within the policy. This may indicate that policyholders do not fully understand these exclusions, or that such exclusions are not being clearly communicated prior to policy inception. Trends of this nature may require further assessment by the insurance undertaking to ensure that policy terms are transparent and that the product is distributed appropriately to the identified target market.

Overall, the policy wordings were generally clear and free of technical jargon. Glossaries were provided to define terms used within the documents, although the placement of glossaries varied, with some positioned at the beginning of the policy and others at the end. Evidence from previous studies, including IVASS's "[*Qualitative-Quantitative analysis of the clarity of insurance contracts: results and suggestions*](#)" indicates that glossaries placed at the beginning

of the policy enhance clarity for policyholders. Additionally, the use of indexes was implemented by most of the insurance undertakings.

- **GADGET INSURANCE PRODUCTS**

A similar observation to that for the travel insurance policy wordings, is that claims for certain gadget insurance products were rejected on the basis that they fell outside the terms and conditions or were subject to an exclusion in the policy. It was observed that the wording of some policies may not clearly communicate what is excluded as policyholders were submitting claims for damages beyond the scope of coverage of the policy. Other common reasons for claim rejections included damage covered under the manufacturer's warranty, damage occurring prior to the start of the policy, and no sufficient evidence demonstrating that the gadget was functioning properly before the inception of the policy. While these conditions are typically outlined within the policy documentation, such data suggests that insurance undertakings should consider reviewing policy wordings to determine whether any changes can be made to enhance clarity and readability.

It was noted that length of policies varied with certain policies being considerably longer than others. From a consumer perspective, longer policies may reduce the likelihood that policyholders read and fully understand the terms and conditions. Presenting policy terms in a concise and clear manner, outlining coverage and exclusions in a straightforward way, supports policyholder comprehension and ensures that products are aligned with the needs of the target market. As highlighted in the Authority's [Dear CEO letter on Product Exclusions and POG Requirements](#), transparency is an important element when establishing policies and exclusions to avoid any instances where policyholders end up purchasing cover which is not suitable for their needs.

Overall, the policy wordings were drafted in plain English without the use of technical jargon. Glossaries were provided to define terms, and the use of indexes was also observed, which facilitates policyholder navigation and access to relevant sections of the policy.

- **ACCIDENT AND HEALTH INSURANCE PRODUCTS**

An observation arising from the review of accident and health insurance products was that the clarity of certain policy wordings was limited. In particular, a low claims ratio was noted for one product, which may be attributable, at least in part, to the clarity of the policy wording or policyholder awareness of the coverage. Certain policies did not include a glossary to define key terms, potentially reducing transparency.

Given the nature of the coverage, some policy wordings were longer than those of other product types. In contrast, other policies were clearly drafted, incorporating glossaries and indexes to enhance transparency and assist policyholders in understanding the terms and conditions of their coverage.

MFSA EXPECTATIONS

The Authority notes that certain claims rejections and complaints were linked to policy exclusions. This may indicate that policyholders were not fully aware of the terms and conditions of their policies. Insurance undertakings are expected to review the clarity and transparency of policy documentation, while also assessing the effectiveness of their distribution channels in communicating key terms and conditions. Furthermore, undertakings should ensure that the products being distributed are appropriately aligned with the objectives, characteristics and needs of the target market.

5.0 GOOD MARKET PRACTICES

- The use of a conduct risk framework to determine whether a product's conduct risk is rated as high, medium or low based on different ratios such as sales and percentage of complaints, customer service levels, claims acceptance and complaints and fair value ratios.
- The adequate monitoring of conduct metrics, which include key indicators and thresholds, such as sales complaints as a percentage of the policies sold, cancellations during the cooling off period, and claims acceptance rates, represent good practice in identifying potential consumer detriment. Where any indicator exceeds the established threshold, insurance undertakings are expected to investigate the underlying causes and take appropriate remedial action.
- Certain insurance undertakings have implemented software systems to facilitate the product review process. For example, one undertaking maintains a system that supports record-keeping for product approval. Stakeholders input the required information and data, which is then submitted for approval. Automated reminders are subsequently generated prior to scheduled product reviews. Such systems enhance the efficiency and governance of the product launch and review processes.
- One insurance undertaking conducts multiple tests to assess product value, including analysis of contracts and complaints for similar products, focus groups, and evaluations of product costs and pricing. These measures aim to ensure that the product delivers appropriate value to the identified target market.
- The Authority notes that certain insurance undertakings maintain effective product monitoring controls, such as reviewing reasons for low take-up rates to determine whether product adjustments, such as widening coverage, are necessary. This practice supports ongoing monitoring to ensure that changes in market conditions or consumer needs are reflected in the product features.
- The collection of customer feedback through surveys was also observed as a positive practice. Gathering policyholder insights can help identify whether product features require adjustment and whether the product continues to meet the needs of the target market. Such practices are encouraged to support consumer-centric product governance.
- A common practice identified was the review of policy wording to ensure clarity and ease of understanding for policyholders. Transparent and comprehensible terms and conditions contribute to the overall value for money of the products.
- Some insurance undertakings conduct market research to appropriately position products and assess whether the product proposition provides value relative to comparable offerings. Evidence of such testing was documented in the materials provided to the Authority.
- Detailed reviews of distributor commissions were also observed, enabling insurance undertakings to ensure that commission structures are justified. Assessing the costs incorporated into premiums allows the manufacturer to confirm that products are fairly priced, supporting a balance between the price paid by the policyholder and the value delivered by the product.

6.0 WAY FORWARD

The Authority maintains ongoing supervision of insurance undertakings to ensure that products distributed on a cross-border basis continue to provide appropriate value to the identified target market. The Authority may engage with insurance undertakings regarding the matters highlighted in this letter to ensure compliance with regulatory expectations.

Should you require further information on the above, please do not hesitate to contact the Authority's Conduct Supervision Unit on csuinsurance@mfsa.mt.

Yours faithfully,

Malta Financial Services Authority

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