

21st October 2026

Conduct Supervision

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Dear Chief Executive Officer,

Dear Compliance Officer,

THEMATIC REVIEW ON THE VALUE FOR MONEY OF UNIT-LINKED LIFE INSURANCE PRODUCTS

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 (here in after referred to as "MFSA" or "the Authority").

1.0 BACKGROUND

Consumer protection in financial services constitutes a core supervisory priority of the Authority. In pursuing its mandate, the Authority utilises a number of supervisory tools in order to reach its goals, namely onsite inspections, supervisory meetings and thematic reviews.

Thematic reviews are undertaken to obtain a comprehensive understanding of prevailing market practices, as well as to identify, assess and address common trends and potential risks. In this context, the Conduct Supervision function within the Authority initiated a Thematic Review ("Review") focusing on the Value for Money of unit-linked insurance products manufactured by locally authorised life insurance undertakings. The Review assessed manufacturers' methodologies and governance frameworks for determining and monitoring the value delivered by their unit-linked life insurance products.

This Review was conducted in view of the Union-Wide Strategic Supervisory Priorities ("USSP") of the European Insurance and Occupational Pensions Authority ("EIOPA") for 2025, particularly the priority relating to [Value for Money](#). One of the key supervisory focuses for EIOPA is the requirement for insurance manufacturers to assess and continuously monitor the value of products throughout their lifecycle. This is a requirement set out in the Product Oversight and Governance ("POG") [Delegated Regulation 2017/2358](#), which establishes the governance arrangements to be implemented by manufacturers and distributors when designing new insurance products or making significant adaptations to existing products and Chapter 2 of the Conduct of Business Rulebook ("COBR"). The Regulation requires, inter alia, that products remain consistently aligned with the needs, characteristics and objectives of the identified target market, thereby mitigating the risk of consumer detriment. It further requires manufacturers to undertake appropriate testing prior to launch and ongoing monitoring throughout the product lifecycle.

In line with EIOPA and MFSA's supervisory expectations, a unit-linked product is considered to provide value for money when the costs and charges are proportionate to the benefits provided to the target market. Manufacturers are therefore expected to evidence that all the costs and charges are transparent, clearly identified, appropriately quantified and not excessive as further elaborated in [EIOPA's supervisory statement on the assessment of value for money of unit-linked insurance products under POG](#). Manufacturers are also expected to conduct regular reviews of costs and charges, investment performance, guarantees, product features, coverage and associated services. Adequate product testing must be performed to

ensure that the product continues to deliver value for money in accordance with the needs of the identified target market.

This letter outlines the Authority's main findings arising from the Thematic Review, together with examples of good practices identified. The Authority's supervisory expectations and its overarching commitment to consumer protection are reflected throughout this communication.

3.0 SCOPE AND METHODOLOGY

3.1 SCOPE

The scope of this Thematic Review comprised a selected sample of unit-linked insurance products manufactured by locally authorised insurance undertakings.

[EIOPA's Consumer Trends Report 2024](#), highlights ongoing concerns regarding value for money in insurance-based investment products ("IBIPs"), including unit-linked products. The Report indicates that 17% of EU consumers refrained from purchasing or renewing an IBIP due to high costs and charges associated with such products. Subsequently, [the 2025 consumer trends heat map](#) indicates that only 17% of consumers reported to having a savings product. Persistently low value for money in certain products may further undermine consumer confidence and trust in insurance-based investment products. The findings also suggest that, from a consumer perspective, IBIPs are perceived as offering comparatively lower value for money when assessed against other insurance products, including motor, household and private pension products.

In light of these findings, and in alignment with the relevant supervisory priorities, the Authority undertook this Review to assess the value for money ("VFM") of unit-linked products offered by locally authorised undertakings. The assessment considered a range of product features, including the extent to which value for money considerations are embedded and evidenced within the Product Oversight and Governance ("POG") product approval process applicable to the respective products.

UNIT-LINKED LIFE INSURANCE PRODUCTS

Unit-linked life insurance products qualify as insurance-based investment products, incorporating both an insurance component and an investment component. The investment element typically provides policyholders with the option to allocate premiums among a range of underlying investment funds. Accordingly, the value of the policy is directly linked to, and dependent upon, the performance of the selected underlying assets.

As a result, such products present varying degrees of investment risk, given that the policyholder's capital is exposed to market fluctuations. Consequently, neither the capital invested nor the returns generated are generally guaranteed, unless specific guarantees are expressly embedded within the product structure.

3.2 METHODOLOGY

Having regard to the observations raised by EIOPA, the Authority determined that unit-linked life insurance products would be the focus of this thematic review. A risk-based sample of products manufactured by locally authorised insurance undertakings was selected. The undertakings concerned were formally requested to submit specified data and documentation in respect of the product(s) identified by the Authority.

Data collection was conducted by means of a bespoke questionnaire addressed to insurance undertakings manufacturing and distributing unit-linked insurance products. Product selection was based on defined criteria, including: the existence of a unit-linked life insurance product; premium payment structure (particularly regular premiums payments to ensure that the product chosen is relatively more accessible), exclusion of products primarily characterised as pension products; availability of underlying fund options for policyholder selection; gross written premium; and other relevant information identified prior to commencement of the review. The application of these criteria facilitated the selection of products with broadly comparable features. To ensure a comprehensive market coverage, one product was selected from four insurance providers offering products aligned with the above-mentioned criteria. The sample of selected products represents around 44.4% of the unit-linked products provided by locally licensed insurance undertakings.

Following product selection, undertakings were required to submit the completed questionnaire together with supporting documentation, including: the Key Information Document ("KID"); policy wording; POG policy and product approval process documentation (including the most recent POG approval documentation for the selected product); POG committee minutes; and any related assessments or reports.

The analysis hence took a both quantitative and qualitative approach. The analysis was based on EIOPA's methodology to assess value for money in the unit-linked market. Given that products selected had similar characteristics, it was possible to cluster the products in line with EIOPA's clustering approach outlined within the [Value for Money Benchmark Methodology](#) issued by EIOPA in 2024 to provide an overview of the chosen products. This has recently been replaced by the [Revised Methodology on Value for Money Benchmarks](#) published on the 6th of July 2026. The quantitative analysis was based on the value for money indicators set out within this methodology, with particular focus on the 'surrenders' indicator to observe the real customer returns generated from the selected products. Similarly, layer II of the [EIOPA's assessment of value for money of unit-linked market](#) was also incorporated into the assessment. Three main assessments outlined below were the main factors which were utilised to determine value for money of each product for the quantitative analysis conducted:

1. Assessment of the **Key Information Document** including whether it provided a clear and comprehensible summary of the product's key features and risks.
2. Assessment of the **break-even point** for policyholders based on the data submitted through the Questionnaire.
3. Assessment of **early terminations** including analysis of the break-even position of surrendered policies.

Supplementary quantitative assessments included:

4. Assessment of the **performance of the five largest underlying funds** and the related monitoring practices implemented by the insurance entities under scope.
5. Assessment of the **profitability of the product** from the undertaking's perspective.
6. Assessment of the **cost structure** of the product from a customer perspective in terms of transparency.
7. Assessment of the insurance entities' **own interpretation and implementation** of EIOPA's VFM indicators
8. Assessment of the insurance entities' own approach of **customer centric assessments** incorporated into their POG procedures.

The assessments were undertaken on the basis of the information submitted to the Authority through the prescribed questionnaire, which included dedicated sections covering, inter alia, product features, profitability, portfolio data, underlying fund data, customer returns, and other relevant information.

The qualitative assessment was conducted with reference to the controls set out under Layer III of EIOPA's methodology, with a particular focus on the POG framework and its application. In line with EIOPA's supervisory approach to POG, five key governance factors were considered:

1. Manufacturer's systems and controls
2. Defining the Target Market
3. Product Testing
4. Assessing the distribution strategy
5. Product monitoring and review

On the basis of the documentation submitted, including the manufacturer's POG product approval process, an analysis was conducted of the POG process applicable to each product. This analysis sought to determine whether, and the extent to which, the Companies had assessed their products as delivering value for money.

Prior to commencing the assessment, the Authority held bilateral meetings with the participants of the review to outline its expectations regarding the data to be submitted through the questionnaire and to address any queries raised by the entities in relation to the requested information.

Following completion of the individual assessments, the quantitative and qualitative analyses were cross-referenced to evaluate the overall adequacy of the value-for-money assessments for the products within the scope of this thematic review. This process also enabled the identification of good practices, as well as areas where supervisory improvement is warranted.

4.0 PRODUCT FEATURES OBSERVED

For the purposes of this thematic review, unit-linked products with regular premium payment frequencies were selected for assessment. These products are principally designed to generate long-term investment returns while incorporating a life insurance component. Notwithstanding this common objective, the products within scope display a range of additional, product-specific features which serve to differentiate them.

It was observed that the majority of the products assessed are unit-linked in nature and do not provide any capital guarantee. However, one product includes the option to invest in a with-profits fund. In accordance with the clustering as outlined in the [Methodology on Value for Money Benchmarks](#), this product would be classified as a hybrid product¹. Certain products also offer flexibility in premium payment structures, permitting either single or regular contributions. Where regular premiums apply, payment frequencies include monthly, quarterly, half-yearly, and annual instalments, monthly premiums appear to be the most prevalent. The most common monthly premium opted for by the policyholders ranged between €50 to €100 per month.

Material variation was noted in relation to death benefit structures. Certain products provide for higher sums assured payable on death, while others limit the benefit to the policy account value. One product incorporates a terminal illness benefit. While enhanced death cover may increase the benefit payable upon the occurrence of the insured event, it may also result in higher associated costs. In some instances, death benefits are granted without additional

¹ A hybrid insurance product is an insurance-based investment product (IBIP) that combines both a unit-linked component and a with-profits participation component.

charge and without medical underwriting, whereas products offering higher sums assured are generally subject to underwriting requirements.

One product exhibited a notably higher Summary Risk Indicator ("SRI") compared to others. The underlying funds available consisted mainly of asset allocation and equity funds. Most products had an SRI ranging between 2 and 4, whereas only one product was classified within the higher risk category of 5 to 7.

A number of products also offered optional features available some for an additional premium, including permanent disability, critical illness, and additional life assurance whereas other product benefits were at no additional cost. Take-up of these additional benefits was generally low, with only one product reporting a 39% uptake for permanent total disability cover, while others reported negligible uptake rates. One product did not offer any additional benefits.

An allocation rate ranging between 102% and 104.5%, contingent upon the premium invested, was observed in respect of one product. This mechanism operates as a form of loyalty enhancement, increasing the policy account value. Another product provides loyalty bonuses of 10% and 20% at the fifth and tenth policy anniversaries, respectively, subject to eligibility criteria such as age at inception, sum assured, and smoking status. Such features may enhance the overall value proposition for policyholders.

Only one product was distributed strictly on a non-advisory basis. All other products were distributed either on an advisory basis or on a non-advisory basis, depending on the distributor. The availability of advice, both at the point of sale and during the policy term, on its own is generally considered to be a positive feature, helping to mitigate the risk of sales outside the target market.

The questionnaire also addressed aspects of digitalisation, including whether policy performance information is accessible via a digital platform. Such functionality may enhance service quality at the proposal stage, reduce policy issuance times, and facilitate policy amendments and ongoing monitoring of performance. In this regard, certain entities offer digital access to policyholders, while others do not provide such functionality.

The findings from this exercise are being outlined below.

5.0 KEY FINDINGS

The main observations arising from this review include the following:

- Target market assessments did not consistently account for the complexity of the products.
- KIDs and KFDs were not always updated, particularly regarding the RIY.
- Clear and transparent cost structures were not consistently evidenced.
- Monitoring of the performance of underlying investments was not carried out by all entities within the scope of this review.
- SRIs of underlying investments were generally within the range of 2–4.
- Break-even points and customer outcomes, including those for existing and surrendered policies, were not provided and evidenced by all entities.

5.1 TARGET MARKET ASSESSMENT AND COMPLEXITY

The Authority notes that variations were observed in both the granularity of the identified target markets and the level of product complexity. For the unit-linked products within the scope of this thematic review, the degree of complexity differed by the Companies' own classifications, with certain products designed as complex and others as non-complex. As a general supervisory principle, an increase in product complexity necessitates a correspondingly more granular definition of the target market. However, this correlation was not always evident in the documentation provided by the entities.

This requirement stems from Article 5(1) of Commission Delegated Regulation (EU) 2017/2358, and R.2.62 of the Conduct of Business Rulebook, which requires manufactures to identify the target market at a sufficiently granular level, including characteristics, risk profile, complexity, and the type of insurance product. Certain target market assessments examined by the Authority as part of this exercise, did not adequately reflect the product risk profile and level of complexity, both of which are essential components when determining the target market.

Products offering differing fund options, capital guarantees, and insurance benefits inherently exhibit varying levels of complexity. It follows that product design, and available options should appropriately reflect the distinct needs, objectives, and characteristics of the identified target market to ensure distribution to the intended clientele. Such differentiation was not consistently demonstrated in the documentation reviewed.

Furthermore, it was observed that certain assessments did not identify a negative target market, as outlined under Article 5(2) of Commission Delegated Regulation (EU) 2017/2358. This provision specifically refers to, in the case of insurance-based investment products, the identification of categories of consumers for whom the product would not be compatible with their needs, characteristics, and objectives.

MFSA EXPECTATIONS

The Authority observed that insurance-based investment products distributed within the local market are generally intended for distribution to retail customers. In this context, undertakings are expected to ensure that target market assessments are carried at an appropriate granular level to ensure that the target market is aligned to the complexity of the product.

The insurance undertakings are also expected to assess whether the selection of different product options could result in a modification of the target market profile. Appropriate consideration should be given to such variations to ensure that distribution outside the identified target market is minimised. This approach is essential to mitigate the risk of consumer detriment and to promote sound product oversight and governance arrangements.

5.2 KEY INFORMATION DOCUMENTS (“KIDs”) AND KEY FEATURES DOCUMENTS (“KFDs”)

A Key information document (“KID”) is a pre-contractual disclosure document setting out the principal characteristics of a given investment product. The KID is required to be clear, fair, accurate and not misleading, thereby enabling the intended retail investor to understand the nature, features and risks of the product. Such documentation is governed by Regulation (EU) No 1286/2014 on PRIIPS Commission Delegated Regulation (EU) 1286/2014 and KID Commission Delegated Regulation (EU) 2017/653. The provision of clear and comprehensible information is fundamental to supporting consumers in making informed decisions aligned with their needs, objectives and risk tolerance.

Following a review of the KIDs submitted by the entities, it was observed that not all insurance undertakings had included a biometric risk scenario, namely the death scenario illustrating the benefit payable to beneficiaries, net of costs. Chapter 1, article 3(4) of [Commission Delegated Regulation \(EU\) 2017/653 supplementing Regulation \(EU\) No 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products \(PRIIPs\) \(hereinafter referred to as the “PRIIPS” Commission Delegated Regulation\)](#) by laying down regulatory technical standards with regard to the presentation, content, review and revision of key information documents and the conditions for fulfilling the requirement to provide such documents, requires PRIIPs manufacturers to include performance scenarios relating to the insurance benefit in addition to the investment performance scenarios. The omission of such information may impair the completeness of the disclosure provided to retail investors.

The review further indicated that, in the case of one product, the Reduction in Yield (“RIY”) had remained unchanged over a number of years. This raises concerns as to whether the KID provides an accurate and up-to-date representation of the product’s cost structure. Chapter 3, Article 15 (1) of the Commission Delegated Regulation (PRIIPs RTS), states that manufacturers are to review the information within the KID each time there are any changes which significantly affect the information contained in the KID and reviewing this documentation shall at least take place every 12 months from the data of initial publication.

It was observed that certain products’ Key Features Documents (KFDs) included multiple layers of charges including policy fees, bid-offer spreads, annual management fees and allocation charges, and other ancillary costs. In some instances, these charges were presented across different sections of the document or described using technical terminology, which may hinder a retail investor’s ability to form a holistic understanding of the aggregate cost impact over the lifetime of the product.

The existence of numerous cost components, particularly where both explicit and implicit charges apply, may reduce the overall transparency and comparability of the product’s cost structure. This is especially relevant in the context of insurance-based investment products, where the cumulative effect of charges over the long term can materially erode returns. Where cost disclosures are fragmented or overly complex, there is an increased risk that retail investors may underestimate the total cost burden or be unable to meaningfully compare products on a like-for-like basis.

A simple, comprehensive and transparent disclosure of costs together with an illustration of their cumulative impact on returns, is essential to enable the intended retail investor to properly assess the financial implications of entering into the contract. Transparent cost disclosure supports the effective functioning of the POG framework by facilitating an assessment of whether the product offers value for money. Enhanced clarity and standardisation in the presentation of costs contribute to improved consumer understanding, more informed decision-making and, ultimately, better consumer outcomes.

MFSA EXPECTATIONS

The Authority expects insurance undertakings to ensure that pre-contractual documentation presents material and relevant information in a manner that is clear, balanced and comprehensible by the identified target market. The PRIIPs commission delegated regulation (EU)2017/653 establishes a standardised framework for such disclosures. Insurance undertakings are therefore expected to ensure full alignment with the requirements set out therein in a manner which is clear and comprehensible to clients.

5.3 PERFORMANCE OF THE UNDERLYING FUNDS

Insurance undertakings acting as manufacturers of unit-linked products are required to establish and maintain effective processes for the regular review and monitoring of their products, with a view to ensuring continued alignment with the needs, objectives and characteristics of the identified target market.

This obligation to monitor the product is derived from Article 7 (1) Commission Delegated Regulation (EU) 2017/2358 on Product Oversight and Governance (“POG”), and R.2.70 of the COBR, which requires manufacturers to test and review their products to assess whether, over their lifetime, they continue to meet the needs, objectives and characteristics of the identified target market.

For the purposes of this thematic review, the products within scope were assessed on the basis of the returns generated over the most recent five-year period with conclusive data (2019 – 2023) as reported to the Authority in the context of this Thematic Review. Undertakings were requested to provide data in respect of all funds linked to the relevant product and, in addition, to submit detailed information concerning the five largest funds by net asset value (“NAV”) associated with the product under review. NAV data was collected through a dedicated section of the questionnaire. The percentage returns were subsequently calculated and benchmarked against the returns reported in the [2023 Cost and Past Performance Report published by EIOPA](#).

These returns were then populated into a table as shown below:

	Range of values observed across the selected insurance undertakings	EEA Cost and Past Performance Report 2023
Average yearly return of the last 5 years of the 5 largest funds	0.3% - 12.3%	1.3% (SRI: 1-3) 4.0% (SRI: 4-7)
Average return for 2023	0.9% - 37.1%	6.4% (SRI: 1-3) 14.3% (SRI: 4-7)

A comparative analysis of the data indicated that, in general, the average returns for 2023 were broadly aligned with the ranges reported in EIOPA's [2023 Cost and Past Performance Report](#). In certain instances, however, the average returns reported in the questionnaire exceeded the benchmarks outlined in that report. It was further noted that, across the years under review, the available fund options generated positive returns overall.

Where appropriate, scenario analysis is also required, as per Article 6 (1) of the Commission Delegated Regulation (EU) 2017/2358 on Product Oversight and Governance ("POG") and R.2.66 of the COBR. In this context, the performance of underlying investments must be assessed in conjunction with the applicable costs and charges, in order to determine whether the product continues to provide value for money. Returns should therefore be evaluated net of costs, taking into account their cumulative impact on policyholder outcomes.

The review indicated that certain undertakings rely primarily on third-party ratings for monitoring and active management purposes and do not have a sufficiently formalised internal process in place for the systematic review of underlying funds. It was also observed that, in some cases, policyholders are expected to monitor fund performance independently through publicly available information. It is expected that insurance undertakings maintain a structured and documented monitoring framework in line with the requirements set out in Commission Delegated Regulation (EU) 2017/2358 and Chapter 2 of the COBR. Insurance undertakings shall therefore have a structured and documented monitoring framework consistent with the requirements set out.

MFSA EXPECTATIONS

As outlined above, the Authority expects that that insurance undertakings incorporate the monitoring of the underlying investments into the product review process to ensure that the products they manufacture and distribute remain in line with the demands and needs of the target market. Insurance entities shall ensure that remedial action is taken if any investments are consistently performing below any of the set thresholds and thus negatively affecting the returns of the policyholders.

Going forward, in their efforts of monitoring underlying fund performance in terms of value for money, undertakings are expected to take into consideration, as a minimum, those data points and data sets as requested by the Authority through its Questionnaire, and to ensure that such analysis forms part of their ongoing product governance and oversight framework.

5.4 SUMMARY RISK INDICATOR (“SRI”) OF THE UNDERLYING FUNDS

The questionnaire collected data relating to the underlying funds, as described above. Analysis of the data obtained from the underlying funds available for the policyholders revealed information about the classification of the funds according to their Summary Risk Indicator. The information was compiled into the table below indicating the range of SRIs of all the underlying investments of the products in scope, together with the most common SRI range of the underlying investments on a per product basis.

	Entity A	Entity B	Entity C	Entity D
Summary Risk Indicator (SRI) Range	1-5	3-5	1-7	5-7
Most common SRI of the underlying funds	2-4	2-4	2-4	5-7

As can be noted, the underlying investment options of the products in scope fall between the SRI of 2 to 4. The SRI is a good indicator to determine whether the product fits within the risk appetite of the consumer. This indicator helps the consumers and advisors to make better investment decisions aligned with the risk profile.

MFSA EXPECTATIONS

The SRI is a key metric indicator in assessing the risk profile of an insurance-based investment product. Insurance undertakings are expected to ensure that the risk profile of the identified target market is appropriately aligned with the SRI and the overall risk characteristics of the product.

Analytical assessments of the type outlined above may assist undertakings in the alignment of the product risk with the risk appetite of the target market. Product design, fund selection and distribution strategies should be aligned to the risk tolerance and objectives of the intended customer base.

5.5 PROFITABILITY OF THE PRODUCT

The questionnaire developed for the purposes of this thematic review included a dedicated section on product profitability. This section was designed to capture detailed information on sales, expenses, and profit generated by the products within scope.

It was observed that, for certain products, a breakdown of profit between underwriting, investment, and fee income was not available. This was primarily because profitability had not been calculated at the individual product or portfolio level but rather aggregated across products sharing similar risk characteristics. Additionally, profit data for two products was not provided, in one instance due to a differing financial year-end.

The questionnaire responses further highlighted that market conditions materially influenced both product profitability and sales. In particular, elevated interest rates and inflationary pressures in 2023 were reported to have shifted customer demand towards investment

options perceived as more secure. Accordingly, it is essential that such market dynamics are explicitly considered within product testing and ongoing product governance assessments.

MFSA EXPECTATIONS

Insurance undertakings are expected to implement robust processes to test and monitor the products they have put on the market including assessing the profitability of the products individually. Such analysis should provide a comprehensive view of the impact of costs, market conditions, and other relevant factors such as inflation, on the performance of the product from the consumer's perspective.

Product testing shall also serve to evaluate whether the investment strategy and the product design continue to meet their intended clients' objectives. As outlined above, market conditions are to be incorporated during product testing and ongoing product governance assessments to identify any shifts in the needs and objectives of the target market.

5.6 ASSESSING THE BREAK-EVEN POINT BASED ON THE 2023 PORTFOLIO DATA

Within this section of the questionnaire, insurance undertakings provided data relating to individual contracts, including the number of contracts issued for each year since the product's launch, the surrender values of contracts in force for each year of inception, terminations due to death, maturity or surrender, claims paid, and premiums received from policyholders. Based on this information, the surrender value and total premiums paid were calculated to determine the break-even point, defined as the point at which the surrender value equals the cumulative premiums paid.

The analysis of the products within scope revealed varied outcomes. For some products, the break-even point identified by the undertaking indicated that the surrender value of active policies exceeded the total premiums paid, representing a favourable outcome for policyholders.

	Range of values observed across the selected insurance undertakings
Break-even Point (years)	5 – 5.08
Percentage (%) of policies generating a positive return at break-even point	50% to 70%
Average retained period (years)	10 to 19.3
Percentage of policies generating a positive return at the average retained period	17% to >96%

Notably, two undertakings did not provide data on the break-even point or the average retention period. This indicates that these key metrics are not consistently calculated across all four entities under review. Metrics such as the break-even return constitute as indicators of value for money, and further quantitative indicators are set out EIOPA's *Methodology on Value for Money Benchmarks*. Absence of certain metrics may impede the effective assessment of product performance and consumer outcomes.

MFSA EXPECTATIONS

The Authority expects insurance undertakings to utilise metrics that enable a comprehensive assessment of a product's value for money. Such analysis should determine whether the costs associated with the product are proportionate to the benefits delivered over its lifetime. Ongoing monitoring and review of these metrics is essential to identify potential value for money concerns and to support timely remedial action where necessary, ensuring that products continue to meet the needs and objectives of the target market.

5.7 EARLY TERMINATIONS: BREAK-EVEN OF SURRENDERED POLICIES

A deeper assessment was carried out focusing on surrenders based on the data provided from the Questionnaire. An overview of the surrender rates is provided in the table below:

	Range of values observed across the selected insurance undertakings
Surrender Rate	4.6% - 9.3%
Average age of surrendered policies (years)	6.2 – 7.3
Break-even Point (years)	5 – 5.08
Percentage of surrendered contracts which generated a positive return at average age	4% - 87%

Surrender rates reflect the proportion of contracts terminated prior to the maturity of the product. It should be noted that, for certain products such as whole-of-life contracts, termination may occur either upon death or through voluntary surrender; accordingly, surrender rates for such products are not expected to be low.

Within the scope of this review, certain products exhibited higher surrender rates relative to others. Where surrender rates are monitored by the undertaking, elevated levels should trigger further analysis to identify underlying causes and assess any potential implications for value for money. Notably, the review found no evidence that, in instances of elevated surrender rates, these issues were formally discussed at the POG committee level.

An assessment of surrender value relative to premiums paid was also undertaken. The analysis indicated that, for a particular product, positive returns were observed prior to the recommended holding period ("RHP"). When evaluating the proportion of surrendered policies achieving a positive return, it was noted that 87% of surrendered policies generated a positive return at the average retention period. As can be noted in the table, another product indicated that in 2023, 4% of the surrendered policies generated a positive return at average age.

Information provided in the questionnaire regarding consumer returns highlighted that negative outcomes were primarily attributable to a short investment horizon, prevailing market conditions during the investment period, and partial surrenders. Monitoring these factors is critical to ensure that products continue to deliver value for money over the intended holding period.

Conversely, certain products generated negative returns both when comparing the surrender value to the total premiums paid and when evaluating the returns of surrendered policies at various contract durations. This outcome may be influenced by factors such as the uptake of

additional benefits and the proportion of premiums allocated to investment. Particular products had a longer RHP (i.e. of 20 years) indicating a longer investment horizon. Given the relatively longer RHP, the surrender charge would be applicable for the first 10 years.

In light of these findings, early surrenders of such products may result in policyholders not achieving positive returns. This suggests that policyholders may not fully understand the characteristics and long-term nature of the product, potentially limiting the value derived from surrendering the policy in its early years. It is therefore important that undertakings consider whether product information, communication, and guidance provided to policyholders adequately convey the implications of early surrender relative to the RHP and associated costs.

Further to this, it was observed that a number of insurance undertakings were unable to compile and provide the Authority with a number requested data points. In such cases, the Authority was limited in its ability to draw conclusive findings and could only note that surrenders would be unlikely to generate a positive return during the initial years of the contract. This is primarily because, during the early phase, premiums are predominately allocated to death coverage, which applies for a specified period, and surrender charges are applicable during the first nine years of the contract. Moreover, the documentation submitted provided no evidence that the undertakings conducted formal reviews of surrender activity for these products.

MFSA EXPECTATIONS

These observations underscore the critical importance of establishing and maintaining structured processes for ongoing monitoring of surrender activity, particularly in relation to the value delivered to policyholders over time. Undertakings are expected to incorporate the RHP into their analyses and evaluate whether policyholders achieve a positive return upon surrender, taking into account the impact of early surrender charges, allocation of death coverage, and other product specific features. Such assessments should form part of a comprehensive product governance framework to ensure that the performance, costs, and benefits of products are consistently monitored, and that potential value-for-money concerns are identified and addressed in a timely manner.

In line with Article 7 (1) of Commission Delegated Regulation (EU) 2017/2358 on POG, product manufacturers are expected to continuously monitor and review their insurance products to identify any factors that could materially affect the main product features, including risk coverage, guarantees, or other elements critical to policyholder outcomes.

6.0 GENERAL GOOD MARKET PRACTICES

- Some Insurance undertakings have established and maintain a formalised process, documented within their POG policies and procedures, to assess the value for money of their products. This process ensures a demonstrable balance between the value delivered to customers and the benefits realised by the entity through its pricing mechanisms.
- Certain undertakings have implemented sales quality controls within their distribution monitoring procedures, which include mechanisms such as mystery shopping to verify adherence to prescribed sales processes by distributors. Additionally, some entities collect customer feedback via structured questionnaires regarding the service provided by distributors. The collection of such feedback, supported by a scoring system, facilitates ongoing monitoring and oversight of the distribution network.

- In evaluating product profitability, some entities incorporate metrics such as the RIY and the break-even point to quantify the value generated by a product. These metrics allow entities to determine break-even points and RIY across a range of premium levels, with assumptions applied regarding factors such as growth rates and early exit strategies. Higher premium levels typically correspond with lower break-even points. The application of these metrics is considered good practice for assessing the value for money of unit-linked products, as it provides an objective measure of the point at which premiums paid equate to surrender values.
- Product review and monitoring also include the monitoring of underlying investment funds. This should be duly documented in the Companies' POG records and where predefined thresholds are consistently exceeded, appropriate remedial action, including fund replacement, must be considered. Such monitoring ensures the product continues to deliver value for money throughout its lifecycle and remains aligned with the identified target market. Some entities have implemented a formal scoring methodology, evaluating fund performance against a set of predefined criteria. Scores exceeding predetermined limits are escalated to the POG committee for review and decision-making. These assessments are essential to identify underperforming funds and mitigate any adverse impact on the product's value proposition to policyholders.

7.0 MFSA EXPECTATIONS

The observations set out in this letter are intended to share market insights, highlight good practices, and provide guidance to support the ongoing enhancement of product quality for end customers.

Insurance undertakings are required to implement robust product governance arrangements to ensure that products are designed, distributed, and regularly reviewed in accordance with the needs and characteristics of the target market. Value for money assessments must be conducted in line with the entity's POG framework to ensure fair consumer outcomes. These assessments should encompass the product as a whole, including both insurance and investment components and data should be kept individually for each product manufactured and distributed by the Undertaking.

Undertakings must monitor product features in terms of take-up to confirm alignment with the target market's needs. In assessing optional benefits, the associated costs should be evaluated against the value delivered throughout the product's lifetime. Where relevant, scenario analyses should be incorporated within value for money assessments to strengthen the methodology, in accordance with Article 6 of Commission Delegated Regulation (EU) 2017/2358, where such analyses are conducted prior to product launch or in the event of significant product modifications.

Documentation of value for money assessments should be comprehensive, clearly outlining the methodology and capturing evidence of the assessment process.

It was observed that some entities conduct a single product review covering all unit-linked products. Conducting product-level reviews is encouraged, as this allows for more granular findings and facilitates the identification of potential shortcomings specific to each product.

While analysis of surrender patterns is informative, assessments would benefit from also examining product features of contracts that have not generated positive returns. This would help identify underlying factors affecting performance and improve product oversight.

Customer feedback collected on distributor service is noted as beneficial. Entities are also expected to gather feedback on the products themselves to evaluate whether they remain suitable for the target market and aligned with customer needs and objectives. Such feedback can help identify product features that may require adjustment or improvement.

Costs and charges are a critical element of value for money. Entities are expected to maintain a structured and transparent pricing framework that is readily understandable to policyholders. It was observed that certain entities maintain complex cost structures, which may be difficult for policyholders to interpret. Efforts should be made to simplify and clarify product costs to ensure transparency and support fair customer outcomes.

8.0 CONCLUSION

Insurance entities are expected to ensure that the principle of value for money is consistently reflected in their product review processes, which must be fully documented, maintained, and demonstrably applied.

These findings indicate that certain products demonstrate stronger performance in delivering value to customers than others. It is imperative that the ultimate value received by the policyholder remains positive. To achieve this, undertakings must conduct comprehensive assessments of both the insurance benefits and the underlying investments, taking into account prevailing market conditions. Ongoing product monitoring is essential to ensure timely identification of any necessary amendments, particularly with regard to the performance of underlying funds.

9.0 WAY FORWARD

The observations and findings set out above following this thematic review are highlighted in this letter with the aim to share experiences, lessons and good practices for the benefit of the insurance market and the end consumer.

To this end, insurance undertakings are expected to carry out a comprehensive gap analysis with respect to its processes and procedures and then take the appropriate remedial actions to address any identified shortcomings accordingly.

The Authority will continue to monitor the work being done on value for money in line with the Authority's supervisory priorities and may engage with the entities in the future through supervisory interactions with a view to ensure that insurance-based investment products provide value for money for policyholders.

Should you require any information in relation to the above please do not hesitate to contact csuinsurance@mfsa.mt.

Yours faithfully,

Malta Financial Services Authority

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