MFSA MALTA FINANCIAL SERVICES AUTHORITY

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MFSA Review Highlights Areas to Strengthen Reinsurance Risk Management

Review finds good practices across the sector but calls for stronger oversight of third-country reinsurers, counterparty risks and board-level scrutiny

The Malta Financial Services Authority (MFSA) has completed an outcomes-based review of how insurance undertakings use reinsurance as a risk mitigation technique, identifying good practices alongside areas requiring further improvement.

The review, conducted as part of the MFSA's 2025 Supervisory Priorities, assessed governance, oversight and risk management, including the use of third-country reinsurers. The findings and the Authority's expectations are set out in a Dear CEO Letter issued to insurance undertakings.

Key Findings on Reinsurance Arrangements

The MFSA observed good practices in establishing reinsurance strategies, integrating reinsurance into the Own Risk and Solvency Assessment (ORSA), and conducting onboarding due diligence. It also identified areas for improvement, including ongoing monitoring of third-country reinsurers, assessments that go beyond external credit ratings, and stronger board oversight and challenge of reinsurance decisions.

The review also highlighted the need for undertakings to assess legal and jurisdictional risks, counterparty concentration and the enforceability of reinsurance agreements, and to ensure that contractual terms support effective risk transfer. Reinsurance arrangements should remain effective under adverse but plausible stress scenarios.

MFSA Expectations for Insurance Undertakings

The MFSA expects undertakings to review the findings and expectations in the Dear CEO Letter, identify gaps in their existing arrangements and take proportionate action, having regard to the nature, scale and complexity of their business and risk profile. The practices outlined in the letter are not an exhaustive list of good practices or areas for improvement.

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"Reinsurance plays a vital role in supporting the resilience, financial soundness and long-term sustainability of insurance undertakings. While many firms have established robust frameworks and practices, there remain opportunities to further strengthen governance, oversight and risk assessment," said Ray Schembri, Head of Insurance and Pensions Supervision at the MFSA.

About MFSA

The Malta Financial Services Authority (MFSA) is the single regulator of financial services in Malta, covering banks, insurance companies, investment services, trusts and pensions. In 2018, the MFSA became the first European regulator to develop a framework to regulate virtual financial assets. The MFSA's mission, as enshrined in its Strategic Statement, is to enhance its position as an independent, proactive and trustworthy supervisory authority with the main purpose of safeguarding the integrity of markets and maintaining stability within the financial sector, for the benefit and protection of consumers. The MFSA licenses over 2,000 entities to operate in the financial services sector.