MFSA MALTA FINANCIAL SERVICES AUTHORITY

Media Release

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MFSA Urges Investment Firms to Treat Vulnerable and Elderly Clients Fairly

In the context of local bond issues being heavily distributed to customers that are 60 years of age and over, the Malta Financial Services Authority (MFSA) is stressing the importance for investment firms to adequately consider the characteristics of such client when selling investment products. Care should also be taken to provide the necessary explanations to ensure that investors within this demographic are aware of the features and risks of the bond issue. Through its supervisory remit, the Authority aims to protect the interests of vulnerable clients.

The MFSA's expectations are being communicated in a "Dear CEO" letter which has been issued to investment firms, following a supervisory review carried out among a third of the sector's regulated entities operating in the local market.

The findings suggest that a number of investment firms did not undertake a sufficiently detailed assessment of how their processes can impact their vulnerable clients, whilst others did not outline how automated services with limited human interaction can impact this vulnerable cohort, who may wish to contact the investment firm for further information.

The supervisory review also noted that in some cases, investment firms' procedures failed to specify that selling the product to clients who are not within the target market should only be a rare occurrence. Investment firms are expected to establish the suitability of a particular financial product for their clients by considering a number of criteria, namely: whether they are retail or professional, their knowledge and experience, their risk tolerance and investment objectives. Firms are also expected to take into consideration the client's financial situation, with a focus on their ability to bear losses, as established within the Conduct of Business Rulebook.

When assessing their target market for the distribution of investment products, licensed firms should refer to the guidelines published by the European Securities and Markets Authority. The MFSA noted that certain entities have updated their policies and procedures, whilst others were in the process of updating them. In terms of advertising the product, the MFSA found that some entities were not conducting the proper assessment to establish which medium is the most suitable for their target market, and often resorting to mass communication to clients, as opposed to a more customised approach which reaches only those clients who fit the product's target market.

Chief Officer Supervision Christopher P. Buttigieg explains that “adequate selling practices and robust Product Oversight and Governance arrangements are two crucial elements which contribute to ensuring that during all stages of the investment products’ life cycle, investment firms act fairly and professionally in their clients’ best interest, making sure that products are not mis-sold.”

Commenting on the findings, Head of Conduct Supervision Sarah Pulis said: “As a regulator, the MFSA understands that the distribution of marketing material on local security bond issues is key to attracting investment. It is imperative that all licensed entities understand the needs of vulnerable clients and undertake the necessary changes to effectively respond to these investors’ needs, by enhancing their process and adopt more cautious practices with respect to such clients.” Dr Pulis also stresses the importance of regular training for investment advisors, to ensure that these understand the firm’s policies and procedures and the right products and distributed to the right clients.

The MFSA emphasises that investment firms are always obliged to act honestly, fairly and professionally, placing the interests of their clients before all other considerations. It is the responsibility of the compliance officer to carry out random checks and ensure there are proper internal controls to reduce the risk of mis-selling.

The observations and findings of the supervisory review are available on the MFSA website and are intended to be analysed by licensed investment firms to adopt good practices for the benefit of the financial market and the retail consumer.

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.

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