MFSA MALTA FINANCIAL SERVICES AUTHORITY

09 September 2025

FinTech Supervision

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Dear Board of Directors,

Re: Thematic Review on Business Resilience in relation to Financial Institutions

You are receiving this letter as a member of the Board of Directors of a Financial Institution ('FI') supervised by the Malta Financial Services Authority (referred to herein as the "MFSA")

Background

In light of the evolving operational and regulatory landscape, the importance of robust business resilience frameworks has never been more critical. FIs should be well-prepared to anticipate, respond to and recover from potential disruptions, thereby safeguarding their operations, reputation, and stakeholders' interests.

Business resilience encompasses comprehensive risk management strategies, including crisis preparedness, operational continuity planning, cyber security readiness, and effective communication protocols. It is essential that these frameworks are regularly reviewed, tested, and updated to address emerging risks and challenges specific to the sector.

To this effect, the FinTech Supervision Function ('FS') within the MFSA has conducted a Thematic Exercise on Business Resilience (the 'Thematic Exercise'), whereby Financial Institutions licensed under the Financial Institutions Act were requested to complete a questionnaire structured into three sections: (i) Business Strategy, (ii) Financial, and (iii) Operational.

This Dear CEO Letter aims to inform the industry on the general findings, and to communicate the MFSA's recommendations on this subject matter.

General Findings

Strategy

The majority of FIs reported having a business strategy in place, which is reviewed on a cyclical basis ranging from one to three years. A common observation was that when FIs were requested to identify the top three external threats, a significant proportion of respondents cited only IT-related risks without mentioning other potential threats. It is important that FIs maintain comprehensive awareness of and actively monitor all external threats and risk factors to which they may be exposed. Additionally, several respondents indicated that threat monitoring is conducted solely at the group level. This approach is deemed insufficient, as it is essential that such threats are monitored and managed at the local institutional level, irrespective of the size or support of the group.

When asked to identify their differentiating factor which motivates clients to make use of their service, it was observed that the majority of the FIs provided generic responses. Although each FI believes it possesses distinguishing characteristic, FS recognises that many Institutions offer similar products and services. Consequently, the differentiating factors cited often lacked distinctiveness. This observation also relates to the area of competition: whilst most respondents indicated that they monitor their competitive environment, the MFSA is of the view that a more thorough and rigorous analysis of both internal strengths and competitive dynamics is necessary to effectively differentiate and position the institution in the market. In the rapidly evolving payments landscape, FIs are urged to evaluate how product enhancement initiatives and other variables can support their efforts to remain competitive.

The Business Strategy section of the Thematic Exercise also delved into the regulatory aspect. As per Chapter 3 of the Financial Institutions Rulebook ('FIR/03'), FIs licenced under Activity 4 and 10 of the Act are required to '...establish business continuity arrangements which shall include a clear identification of the critical operations, effective and well-documented contingency, business continuity and recovery plans and a procedure to regularly review the adequacy of such plans'. Moreover, as per R3-2.7.44, the business continuity management shall consist of:

(i) Business Impact Analysis
(ii) Business Continuity Plan ('BCP')
(iii) Disaster Recovery Plan

FIR/03 provides further detailed guidance regarding the content requirements of the aforementioned documents. Although FIR/03 specifically applies to Financial Institutions licensed under the First Schedule of the Act, particularly those operating under Activity 4 or Activity 10 (i.e., Payment Institutions and/or E-money Institutions), it is considered best practice that Financial Institutions licensed under the Act but excluding Activity 4 or Activity 10 (i.e. traditional institutions that are neither Payment nor E-money Institutions) also adopt and implement these documents.

The majority of respondents indicated that all three documents are in place and that these define the criteria required and set out in FIR/03; however, not all institutions conduct annual testing of their Business Continuity Plan and Disaster Recovery Plan, as required under R3-2.7.48.

FS found it inconsistent that, although FIs would have reported in the Thematic Exercise that they have tested their Business Continuity Plan and Disaster Recovery Plan in 2024, they did not identify any lessons learned from such testing. Typically, the testing process yields observations and insights that would require improvements.

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Therefore, FS regards these contradictory responses with concern and considers them potentially indicative of incomplete or inaccurate reporting.

Financial

A critical component of building and sustaining business resilience is robust financial forecasting. By integrating financial forecasting into the broader resilience framework, institutions can better anticipate economic fluctuations, operational disruptions or regulatory changes that may affect their financial health. Moreover, timely and accurate forecasts support informed decision-making, ensuring that contingency plans such as business continuity and disaster recovery strategies, are financially viable and actionable.

In summary, effective financial forecasting strengthens business resilience by enhancing an organisation's preparedness and agility, enabling it to withstand shocks and sustain value creation in both stable and challenging environments. To this end, the Thematic Exercise focused as well on this aspect.

Through its course of supervisory work, FS is aware of a number of FIs which have consistently been registering losses, a fact which was also reflected in their submitted responses. The MFSA considers it inconsistent for institutions to claim that they regularly review their financial forecasts and that these forecasts are positive, when in reality this is not supported by evidence and the institution has been reporting losses consistently over the past few years. This finding also ties with FIs that lack access to additional capital while concurrently operating at a loss. Access to supplementary capital is critical, as it underpins both regulatory compliance and the institution's ability to ensure business continuity.

FS observed several inadequate responses concerning stress testing, specifically Fis which limited their interpretation of stress testing exclusively to IT-related issues. However, stress testing encompasses not only IT but also liquidity, financial, and other pertinent factors. Furthermore, certain FIs did not perform stress testing during 2024. FS emphasises the importance of stress testing, and to this effect it recommends that the FIs duly carry this out in order to identify any weaknesses and vulnerabilities to severe but plausible shocks.

This section also addressed the potential impact if a financial institution were to lose its three largest clients. Some institutions acknowledged that they depend heavily on a few major clients. Such a situation would have a significant negative effect, and financial institutions are strongly encouraged to reduce their reliance on a small number of clients wherever possible. This issue is closely related to the differentiating factors and criteria outlined earlier in the initial part of this Dear CEO Letter.

Operational

Certain FIs which are known to FS that they are experiencing turnover challenges did not report an accurate turnover rate. Furthermore, although the majority of Institutions indicated that they have a succession plan in place for their human resources, FS is aware that this is not consistently the case. In practice, FIs often face difficulties in recruiting individuals for key function holder positions. One way to mitigate this risk is by investing in the development and training of junior staff to build internal capacity.

A high turnover rate continues to be a persistent challenge for several Financial Institutions. This concern is consistently observed by FS during its ongoing supervisory activities. As previously noted, the replacement of key function holders remains particularly difficult.

There were also a small number of FIs which replied they do not have any active correspondent relationships, which would in turn impair the extent of their growth opportunities. Furthermore, not all FIs have established contingency measures to address potential disruptions or terminations of agreements with correspondent banks. This indicates a lack of proactive efforts by these Institutions to safeguard themselves against such failures.

Concluding Remarks and Way Forward

Based on previous interactions with FIs through ongoing supervisory work, FS is of the opinion that a certain number of replies provided by FIs appeared to be inconsistent with the supervisory information held by the MFSA at the time of the survey.

Furthermore, in view of the fact that certain FIs have held their licence for over a decade, the Authority considers that these entities should demonstrate a commensurate level of maturity and preparedness, particularly in relation to business continuity planning, crisis management, and related operational resilience measures. In particular, long-standing licensees are expected to have developed robust frameworks and internal capabilities that reflect their experience in the sector and their understanding of the regulatory expectations that come with sustained market participation.

FS encourages FI's continued commitment to embedding resilience at all levels of the organisation, fostering a culture that prioritises agility and adaptability. In this regard, the MFSA wishes to emphasise the following points:

(i) A robust risk management framework is the foundation: In line with R3-2.7.27, FIs should identify, assess and mitigate risks specific to their business model including fraud, cyber threats, operational failures and third-party dependencies.
(ii) FIs should recognise their unique differentiating factors, which inherently contribute to enhanced competitiveness and financial performance;
(iii) Continued emphasis should be placed on ongoing training and awareness programmes to equip personnel with the requisite tools and knowledge to effectively manage unforeseen events, thereby mitigating human resource risks and ensuring effective succession planning;
(iv) Stress testing must be prioritised and conducted regularly, with the MFSA recommending that such exercises be performed at least annually;

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(v) The critical importance of establishing and maintaining comprehensive business continuity arrangements, including appropriate documentation as outlined in FIR/03. This also includes regularly testing and updating BCPs through simulations and drills and ensure disaster recovery plans for IT infrastructure are in place, covering data backups, system restorations, and failover mechanisms, financial and operational assessment including any risks associated with liquidity and credit, key people risk including resignations and identification of gaps and weaknesses in the BCP itself ;

(vi) Contingency plans should be established to address potential resignations from key people, terminations or failures linked to non-IT related third parties such as correspondent banking and banking relationship utilised for Safeguarding of Clients' Funds accounts and regulatory and legal disruptions, amongst others; and

(vii) Regularly review and update resilience strategies based on lessons learned from incidents, audits, and regulatory feedback.

FS shall be including the Thematic Exercise responses as a point of discussion through its ongoing supervisory interactions, such as during the supervisory meetings held with Institutions and onsite inspections.

The MFSA encourages senior management within FIs to lead Business Resilience efforts from the front, ensuring that this matter remains a strategic priority for its board and senior management. Adequate resources, continuous monitoring, and a forward-looking approach are essential to fortify the Financial Institution's ability to anticipate, respond to, and recover from potential disruptions.

Yours sincerely,

Malta Financial Services Authority

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