

**Recommendation No 14/2025 (XII.9.) of the Magyar Nemzeti Bank
on the application of product oversight and governance measures for insurers and
insurance distributors**

I. Purpose and effect of the Recommendation

The priority task of the Magyar Nemzeti Bank (hereinafter referred to as “MNB”) is to ensure a high level of protection for consumers and to enforce consumer protection rules effectively. The MNB sets out in this Recommendation its expectations for insurance undertakings and insurance distributors that manufacture insurance products, as well as for insurance distributors that advise on, or propose, insurance products that they do not manufacture. The MNB expects institutions to operate appropriate and proportionate product oversight and governance systems that are capable of ensuring that consumer interests are protected. The MNB expects that only products that offer appropriate value for money are sold to customers. A customer-centric approach to product oversight and governance processes aims to ensure that the interests of the customer are at least as important as the profitability of the manufacturer in the manufacture of the product. Product design should seek to balance these two aspects by developing products that offer value for money.

The main expectations set out in the Recommendation are:

- a) The target market for products needs to be defined in sufficient detail, taking into account typical customer profiles.
- b) Product testing as part of the product oversight and governance process is expected to measure the return and usefulness of the product from the customer’s perspective for typical customer profiles.
- c) During product testing or review, customer-related indicators (“indicators”) and associated thresholds are expected to be defined. It is necessary to continuously monitor the evolution of the value of the indicators developed.
- d) If the assessment of the indicators shows that the product is not delivering sufficient value to customers on a sustained basis, action is needed (e.g. by changing the cost or commission structure).
- e) In selling a product, it is necessary to offer products that are tailored to the real needs of customers, which also requires proper management of conflicts of interest.

The above expectations are in line with the MNB’s supervisory strategy for the 2020–2025 cycle, in which consumer protection has been identified as a key strategic focus. One of the main objectives of the MNB in developing strong consumer protection is to ensure that distribution is conducted in line with customer interests, including addressing anomalies in incentive schemes and eliminating conflicts of interest. The key to long-term sustainable growth based on consumer trust is for insurance market players to offer products that meet the real needs of their customers, and therefore manufacturers and distributors of insurance products must act with increased responsibility throughout the life cycle of the products they offer to consumers, in particular with regard to the development and marketing of products.

The recommendations issued by the MNB set out the principles to be followed in applying the

relevant legal provisions. The purpose of this Recommendation is to set out the measures and good practices that the MNB expects from all institutions active in the insurance market and insurance intermediaries involved in the sale of insurance products and services when developing and selling them to customers, in accordance with Commission Delegated Regulation (EU) 2017/2358 of 21 September 2017 supplementing Directive (EU) 2016/97 of the European Parliament and of the Council with regard to product oversight and governance requirements for insurance undertakings and insurance distributors. This Recommendation also promotes the uniform application of relevant national and EU legislation.

The addressees of the Recommendation – with the exception of Annex 2 to the Recommendation – are the organisations and persons referred to in Section 39(1)(i) of Act CXXXIX of 2013 on the Magyar Nemzeti Bank (hereinafter referred to as “MNB Act”) and organisations and persons falling within the scope of Act LXXXVIII of 2014 on the Business of Insurance (hereinafter referred to as “Bit.”), regardless of the form of operation in which they intend to provide services in Hungary, for example in the context of cross-border activities, excluding small insurance companies operating in the form of mutual insurance associations falling within the scope of Chapter XIX of Part Six of Bit. (hereinafter collectively referred to as “institution”).

The addressees of Annex 2 to the Recommendation, which sets out the requirements for procedures applicable to credit protection insurance, are insurers and entities which may be considered credit protection insurance manufacturers, as well as partners involved in the sale of credit protection insurance, including in particular credit institutions and financial enterprises.

This Recommendation does not refer comprehensively to the legislative provisions when formulating principles and requirements, but the addressees of the Recommendation remain obliged to comply with the relevant legislative requirements. The Recommendation shall apply subject to the transitional provisions set out in Section 452/J of Bit.

This Recommendation does not provide guidance on data management and data protection issues, does not contain any expectations with regard to the processing of personal data, and the requirements contained herein should not be interpreted in any way as an authorisation to process personal data. Data processing in the context of the supervisory requirements set out in the Recommendation may only be carried out in compliance with the data protection legislation in force at the time.

II. Interpreting provisions

1. For the purposes of this Recommendation:
 - 1.1. target market: the group or groups of customers or consumers with common characteristics to whom the manufacturer intends to sell the product;
 - 1.2. manufacturer: an insurance or insurance intermediary institution that designs, creates, develops, assembles a product to be offered to customers or significantly modifies an

- existing product, and other institutions (in particular insurance intermediaries) that have a “decision-making” role in the design and development of the institution’s insurance products for the market;
- 1.3. distribution strategy: a strategy that addresses the issue of how insurance products are sold to customers, in particular whether the product can only be sold with advice;
 - 1.4. distributor: multiple agents and independent insurance intermediaries (hereinafter collectively referred to as “intermediaries”) who act as insurance intermediaries for insurance products not manufactured by themselves, agents of the insurance undertaking which manufactured the product and the department of the manufacturer of the product which is responsible for marketing the product, is responsible for selling the product and does not participate in its design;
 - 1.5. consumer: shall mean any natural person who is acting for purposes which are outside his trade, business or profession;
 - 1.6. credit protection insurance: insurance linked to a credit or loan agreement, where the insured party or parties are the subject of the loan agreement and the repayment of the amount of money made available, in whole or in part, is made from the sum insured specified in the insurance contract in the event of the occurrence of an insured event;
 - 1.7. contractual option: options set out in the terms and conditions of the insurance product, which the customer can choose to exercise, such as surrendering, partial surrendering, paid-up option, switching between asset funds, switching to annuities;
 - 1.8. product: a product or service offered, developed, distributed to consumers by a manufacturer or a distributor in the course of their insurance and insurance intermediary activities, or related to such products or services, in the non-life and life insurance classes listed in Annexes I and II to Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (hereinafter referred to as “Solvency II”);
 - 1.9. customer: the policyholder, the insured, the beneficiary, the injured party, any other person who has made a contractual offer to the insurer and is entitled to receive the insurer’s services and, in the case of an independent insurance intermediary, the person who has concluded an insurance brokerage contract with the independent insurance intermediary;
 - 1.10. customer detriment: where the manufacturer does not operate an adequate product oversight and governance system, there is a risk that it will sell insurance products to customers that are detrimental to the customer; in this Recommendation, customer detriment means this, the disadvantage or consumer harm resulting from the purchase of an insurance product;
 - 1.11. management body: the body with governance powers of the institution, which is empowered to set the institution’s strategy, objectives and overall direction and which supervises and monitors management decision-making.

III. General principles, provisions

2. The MNB expects that the product oversight and governance arrangements applied by the

institution will be closely linked to the governance system under the Solvency II framework. The organisational measures to ensure the proper design, development, control and monitoring of insurance products are part of the manufacturers' governance system, and thus the product oversight and governance system (processes and measures) should be in line with the requirements set out in MNB Recommendation No 17/2019 (IX. 20.) on the governance system of insurance and reinsurance undertakings [hereinafter referred to as "MNB Recommendation No 17/2019 (IX. 20.)"].

3. In the case of a manufacturer, product oversight and governance measures, and in the case of a distributor, product distribution arrangements, are expected to be proportionate to the nature and complexity of the product sold, the risk of customer detriment associated with the product, the extent of publicly available information, taking into account the nature, scale and complexity of the relevant business activities of the manufacturer or distributor.
4. Pursuant to Section 375/A of Bit., it is necessary to consider an insurance intermediary as the manufacturer of an insurance product if, on the basis of an analysis of the intermediary's activities, it can be established that the intermediary decides independently – i.e. plays a decision-making role in the design and development process of the product – on the essential characteristics and main elements of the insurance product, including coverage, costs, risks, target market, and rights to indemnification and any guarantee.
5. If the manufacturer and the insurance intermediary jointly design and develop the product, the MNB expects them to define their cooperation and roles in a written agreement.
6. Modification and transformation of existing products is one of the priority product development processes of the manufacturer. The product may be modified in the event of product review, changes in legislation or other indications or problems that may arise. It is also necessary to take into account the needs of customers when revising products.
7. The manufacturer is expected to control the process of product modification and document such in a verifiable manner. In addition to the basic information, the documentation should include the reason for and extent of the change and a statement of whether the change has been classified as a significant adaptation under their internal rules.
8. A significant adaptation is a substantial change to the essential characteristics and main elements of the insurance product, including the cover, limits applied, exclusions, cost structure, risks, target market or rights to compensation, service and any guarantee. The MNB expects the manufacturer to define in its internal rules what it considers to be essential characteristics and elements of the product, as well as significant adaptations.
9. In the case of a significant adaptation, the manufacturer is expected to carry out product testing for the product concerned and to record the process and results.
10. In the interest of effective customer protection, product oversight and governance rules should apply in a coherent manner to all newly developed insurance products and to significant adaptations of existing insurance products, irrespective of the type of product

and of the requirements applicable at the point of sale. The MNB expects a full product oversight and governance process to be carried out in the event of a significant product adaptation. Regular product reviews (at least annually) are required for all products distributed, whether newly launched or existing products placed on the market before 23 February 2018.

11. The manufacturer's administrative, management or supervisory body, or equivalent, responsible for the design of the insurance product shall bear the ultimate responsibility for the establishment, implementation, subsequent review and ongoing internal compliance with the product oversight and governance measures in accordance with Article 4(4) of Commission Delegated Regulation (EU) 2017/2358 and Section 77(1) of Bit.
12. The provisions of this Recommendation apply to the internal procedures, tasks and strategies for the design, manufacture, approval, marketing and modification of products, as well as for the control and review of products throughout their life cycle. The MNB expects that the primary objective of the provisions applied should be to ensure that the interests of the customer are properly taken into account and that a consumer-centred approach is taken throughout the life cycle of the product distributed.
13. Where the manufacturer outsources all or part of the design of the product to a third party, the manufacturer retains full responsibility for compliance with product oversight and governance measures.
14. It is expected that all measures taken by the manufacturer in relation to product oversight and governance provisions and by the distributor in relation to product distribution arrangements be properly documented, kept for audit purposes and made available to the competent authorities upon request.
15. The MNB expects that the process should not only document the fact of the decisions and actions taken, but also the underlying reasons for the decisions, the methods used in the analyses and investigations carried out, the results of these analyses and the conclusions drawn from them, in all cases, in a traceable manner and in sufficient detail.

IV. Establishing and operating a product oversight and governance system

16. The MNB expects the manufacturer to establish and operate a product oversight and governance system and a product approval process that establishes appropriate measures and procedures for the design, monitoring, review, distribution and, where necessary, correction of products intended for customers. The measures and procedures should aim to:
 - a) prevent or reduce damage to the interests of customers;
 - b) minimise conflicts of interest and support the proper management of conflicts of interest;
 - c) take into account the objectives, interests and characteristics of customers, with a customer-centric approach throughout the product lifecycle.

17. The legal requirements for a product oversight and governance system emphasise the need for more detailed procedures and more stringent measures for more complex products with a higher risk of customer detriment. In light of this, it is necessary to develop a set of criteria and a methodology for manufacturers to properly define complexity. The criteria and aspects to be considered for the assessment of complexity should also be defined in the product oversight and governance policy. When assessing the complexity of an insurance product, the MNB expects the following aspects to be assessed – in a documented manner:
- a) the complexity and comprehensibility of the coverage offered by the product [in particular, the simplicity or complexity of the primary (main) coverage and additional coverage, and the degree of fragmentation];
 - b) the innovative nature of the product and its special features;
 - c) grouping of policyholders according to different characteristics within a product (e.g. age, health, employment status, etc.);
 - d) the conditions, exclusions, limitations, limits or clauses (and their number) contained in the contract;
 - e) the rules on termination of the contract during its term, in particular if there is a limited or significant disadvantage (e.g. cost or other loss) in terminating the product early;
 - f) conditions linked to time limits (in particular guaranteed maturity value, bonus, etc.);
 - g) the complexity resulting from the particularities or specific requirements arising from the law of a country other than the country of residence of the contracting party and applicable to the contract;
 - h) the complexity of the structure of charges and costs associated with the product, in particular the conditions under which costs may vary over the duration of the contract and the system of contractual options and costs associated with conditions and their transparency;
 - i) the complexity of the determination of the amount of insurance and the complexity of the assessment of the damage, the service and the amount of the payment, the time limits and other conditions relating to the payment of the claim;
 - j) the national legal specificities of the product (in particular tax and pension laws) and their complexity;
 - k) in the case of an insurance-based investment product, the assessment under Article 16 of Commission Delegated Regulation (EU) 2017/2359 of 21 September 2017 supplementing Directive (EU) 2016/97 of the European Parliament and of the Council with regard to information requirements and conduct of business rules applicable to the distribution of insurance-based investment products, and the risks related to the liquidity of the product, as well as the risks related to returns and the value of the service, and the complexity of the investment strategy.

If the product is complex in any respect, that particular product characteristic shall be examined with special attention during product testing and product review. The MNB considers it good practice to determine the responsible persons as early as the product design stage.

18. The MNB considers it good practice to develop a system of product complexity where individual products are placed on a broader complexity scale according to their internal

assessment. Thus, not only is the product assessed as complex or not complex, but a more detailed scale is defined (e.g. minimum, low, medium or high level of complexity).

19. The manufacturer is responsible for developing processes and taking actions commensurate with the complexity of the product in designing insurance products, defining the target market, monitoring sales and the customer value provided by the product, reviewing the product, and developing the distribution strategy. In the case of non-complex products that are easy for customers to understand (e.g. so-called mass products such as compulsory motor third-party liability insurance), the manufacturer may use simpler procedures for target market definition, product testing and product review compared to the requirements for complex products detailed in the Recommendation. The appropriate and proportionate design of these processes is the responsibility of the manufacturer.
20. It is expected that the manufacturer include the product approval process in a written document (“product oversight and governance policy”), which should be made available to the relevant personnel. In addition to the processes, the MNB expects the product oversight and governance policy to identify the areas, functions and persons responsible for the management of the processes and sub-processes for each product type, product group or distribution channel, assigning those responsible to the processes and sub-processes and indicating the time limits. It is also of paramount importance that processes and individual approval points be transparent and traceable.
21. The MNB expects the product oversight and governance measures to be integrated into the institution’s governance system as defined in MNB Recommendation No 17/2019 (IX. 20.). The MNB considers it good practice for the manufacturer’s management body to approve product oversight and governance measures and procedures and their subsequent review, and for the high-priority functions to be involved and to exercise sufficient control during the product approval process.
22. The MNB considers it good practice for the risk management system to include the assessment and evaluation of product-related risks to consumers, and to set limits and applicable risk mitigation techniques.
23. The MNB considers it good practice for manufacturers to establish a document template or system process that transparently tracks and records the entire product development, product introduction, product testing, product monitoring and review processes for each product throughout its lifecycle in a clearly identifiable manner, and the deadlines to be applied throughout the process and their fulfilment, the indicators and thresholds applied during product testing and review, the decisions and the actions taken during the process, and is capable of guiding the personnel involved throughout the process, facilitating full traceability of these processes, ensuring that what is documented is adequately supported.
24. It is justified that the manufacturer regularly, but at least annually, as required by Section 77(4) of Bit., review and, if necessary, modify its product oversight and governance system, measures and procedures to ensure that they are continuously valid and up-to-date.

25. The MNB expects the manufacturer to ensure that the personnel involved in product design and development have the necessary skills, knowledge and expertise to understand the main features and characteristics of the product and the needs, objectives and characteristics of the target market for the product, in addition to the technical expertise required to design the product.

V. Target market definition

26. The MNB expects the product manufacturer to design its product oversight and governance system and product approval process for it to be able to identify the relevant target market for the product as accurately as possible. In this context, the MNB expects the manufacturer to include in its product oversight and governance policy the steps and procedures to be followed in order to identify the relevant target market for the product and to update such as necessary. The MNB also expects the manufacturer to set out in its product oversight and governance policy the methodology used to determine the consumer needs and wants of the target market.

27. It is expected that the manufacturer define the target market as a description that allows clear identification of the customers belonging to the target market, and allows the manufacturer to adapt the product's features to the needs, characteristics and objectives of a specific group of customers, and to subsequently test and review the product for that group of customers with specific features.

28. The MNB expects the target market identified by the manufacturer to be sufficiently detailed and granular according to the characteristics of the product. The criteria used to define the target market and decide on the appropriate marketing strategy must be relevant to the product. For simpler, more widespread products, fewer details are sufficient to identify the target market, while for more complex or less widespread products, the target market needs to be defined in more detail, given the higher risk of consumer harm associated with such products.

29. The target market is expected to be defined in line with the complexity of the product. The manufacturer will have adequately documented the definition of the target market if all analyses, conclusions and related decisions in the product approval and review processes can be retraced or reconstructed by date.

30. When defining the target market, the manufacturer is expected to take into account, where relevant, the level of knowledge and financial literacy of the target customer base, their product-related goals and needs, their level of financial and insurance knowledge, their risk tolerance, their financial situation and the level of information available to customers. In all cases, the processes and procedures for defining the target market are expected to include an assessment of customers' sustainability objectives, if any, and a demonstration that the product will not have an adverse impact on customers.

31. The MNB expects the manufacturer to take into account the currency of the product (or the

currency of the related asset fund) when defining the target market in order to reduce the foreign exchange risk for customers.

32. The MNB considers it good practice for manufacturers to offer different products, additional coverages or model investment portfolios for customers in different life situations (e.g. young single person, breadwinner, pensioner), tailored to the customer's specific needs and objectives, in line with a life-cycle approach.
33. The MNB expects the manufacturer to develop a list of criteria and characteristics of customers that should be examined as a minimum to determine the target market for the products. The level of detail in the list of criteria and characteristics shall be proportionate to the level of complexity of the products placed on the market by the manufacturer.
34. For a given target market, the manufacturer may only design products with characteristics, coverages and risks and market such through distribution channels that are consistent with the interests, objectives and characteristics of the target market and that benefit the target market.
35. The MNB expects the process of identifying the target market, the decisions taken in the process and the reasoning behind the decisions to always be documented in a traceable, appropriate and sufficiently detailed manner.
36. For insurance-based investment products, the MNB also expects the manufacturer to identify customers or customer groups whose interests, objectives and characteristics are typically not met by the insurance product (negative target market). The MNB considers it good practice for the manufacturer to clearly define for distributors, also for other products, the groups of customers for whose characteristics, needs and objectives the product is not compatible.
37. In the case of unit-linked life insurance, where customers can choose from a wide range of asset funds, the MNB considers it good practice to segment the target market in detail and to develop customer profiles that take into account the risk tolerance of the customers and other characteristics relevant to the investment, such as the recommended holding period of the investment.
38. The MNB expects the manufacturer to pay particular attention to the exclusions and exemptions in the product terms and conditions when defining the target market or negative target market.
39. The MNB considers it good practice for the manufacturer to set out the roles and responsibilities of the personnel involved in the target market definition process in the documentation, and for the personnel involved in the target market definition process to have business, consumer protection, marketing and legal expertise, as well as consumer behaviour skills.
40. The MNB expects that educational material on the target market, including all of the

characteristics of the defined target market, will be provided to those distributing the product, with appropriate content, and will also describe the negative target market (if defined), taking into account the exclusions and exemptions applied to the product. The MNB considers it good practice for the distributor to prove knowledge of the educational material by completing a test or a declaration made by the manufacturer as a condition of the distribution of the product.

VI. Product testing

41. The MNB expects the manufacturer to carry out appropriate product testing before placing a new product on the market, significantly changing the target market for an existing product or significantly adapting an existing product.
42. Product testing should be carried out in accordance with the definition and specification of the target market. In all cases, it is expected to include an assessment of the product's compatibility with the identified needs, objectives and characteristics of the target market throughout the product's life cycle. In the case of a complex product, product testing should also be carried out on the typical customer profiles identified in the target market definition.
43. Product testing includes a customer-specific assessment of the product's expected performance and risk/reward profile. Within this framework, the MNB considers it good practice to extend product testing:
 - a) to identify product characteristics that have a significant impact on customer value and to define methods, indicators and thresholds to measure their impact on customer value;
 - b) to measure the usefulness and ethicality of the product for customers;
 - c) to assess the usefulness of the product in relation to the costs deducted from the customer;
 - d) to assess whether the target market's customers need all the non-optional coverage for the product.
44. The MNB expects the manufacturer to assess whether the provisions in the terms and conditions are appropriate for the objectives, interests and characteristics of the target market, in particular with regard to the exclusions applied. If the assessment indicates that the product is unlikely to meet the needs of the target market or does not represent sufficient value for money, the manufacturer is expected to take action, including either deciding not to launch the product or to adjust the costs deducted from the customer and the commission structure or the contract terms and conditions.
45. Product testing can be carried out using qualitative or quantitative methods, depending on the complexity, type and nature of the product and the extent of the risk of potential harm to the customer. Quantitative testing can be carried out, for example, by scenario analysis, where the manufacturer examines how the situation of the customer choosing the product would change under different scenarios, including stress scenarios. Where the customer value is highly dependent on external circumstances (e.g. economic assumptions), scenario analysis is particularly appropriate.

46. When testing the products, the MNB expects that, where relevant, the manufacturer also test the products against sustainability criteria to ensure that the products remain consistent with the sustainability objectives of the identified target market throughout their lifecycle, subject to Article 6(1) of Commission Delegated Regulation (EU) 2017/2358.
47. It is expected that, depending on the characteristics of the product, the qualitative product characteristics should be given less weight than the quantitative analysis results, if possible. The final result of the product testing integrates the results of the quantitative and qualitative tests accordingly.
48. The MNB expects that customer-centric product testing should be carried out separately from, but consistently with, profitability testing from the perspective of the product manufacturer. The results of two tests carried out for different purposes should be treated equally by the manufacturer and taken into account in their product introduction and product approval decision. The MNB considers it good practice to compare results, such as the expected profitability for the manufacturer and the expected utility for the customer, to be presented to decision-makers during the product launch process.
49. The MNB expects indicators and metrics based on quantifiable, measurable data to be defined in product testing and thresholds to be assigned to these indicators, thus providing the basis for monitoring customer-centric assessment in an objective manner. In the case of non-compliance with the thresholds set by the manufacturer, whether persistent or not likely to cease without action by the manufacturer, appropriate and reasonable corrective measures must be taken before the product is placed on the market and during the compliance monitoring of the product. The MNB expects that the defined indicators and thresholds and the measures to be taken in the event of non-compliance with such will be set out in the product oversight and governance policy.
50. If the product testing indicates negative results for the target market, the MNB expects the manufacturer to adapt the product to address the problem identified. The manufacturer is expected not to place on the market a product where the results of product testing show that the product is not in line with the interests, objectives or characteristics of the target market and does not provide value to the customers of the target market.
51. The MNB expects the process of product testing, the methods used in the testing, the results of the product testing and the conclusions drawn from the results to always be documented in a traceable manner and in sufficient detail.
52. Specific requirements for unit-linked life insurance products are set out in Annex 1.

VII. Product monitoring and review

53. Once the product is sold, the manufacturer is expected to monitor and regularly review the insurance products brought to the market and distributed. In the framework of the review, the manufacturer must in particular examine – pursuant to Section 131/A(3) of Bit. at least annually – whether the product is still compatible with the interests, objectives and

characteristics of the target market and whether the marketing strategy is still appropriate, whether the product is being sold to the target market. It is also required to take into account events and circumstances that may adversely affect customers in the target market of the product or materially affect the characteristics of the product (for example, significantly changing yield environments or inflation).

54. It is expected that the product review be based on the product testing methodology and be carried out in a consistent manner, taking into account the proportionality criteria indicated in Section 3. It aims to clearly demonstrate that the product remains consistent with the interests, objectives and characteristics of the target market. Accordingly, the requirements set out in Sections 41–52 for product testing also apply to product review.
55. The MNB expects the manufacturer to consider product performance primarily from the customer's perspective when conducting product monitoring and review as part of the product oversight and governance process. This should primarily include an assessment of the value for money, cost-effectiveness, consumer utility, riskiness and understandability of the product. In the case of insurance-based investment products, the performance of the product from a customer perspective can be measured, for example, by the return on investment, while for non-life insurance products it can be measured, for example, by the loss ratio or the claims rejection rate.
56. The institution is expected to identify and monitor product characteristics that are relevant to the customer and have a significant impact on customer value. The criteria in Section 17 should be used to assess the complexity of the product and the product characteristics that make the product complex should be further assessed.
57. When monitoring and reviewing the product, the MNB expects the manufacturer to take into account the complaints received about the product, customer feedback, the results of customer surveys, the number of claims and the underlying reasons for rejected claims, as well as relevant information and feedback collected by the distributor, in particular distribution outside the target market. It is necessary to examine whether the product is cost-effective for customers and whether it has added value. Product comprehensibility is also important; therefore, it is necessary to assess that the product and its features (e.g. cost structure) are not unnecessarily complicated for the target market.
58. The manufacturer is also expected to take into account external factors such as changes in applicable legislation, technological developments or changes in the market situation, or other factors relevant to the product. The manufacturer is expected to monitor the evolution of the number of policies compared to the planned one, in particular with regard to cancellations and other contractual options. The analysis of feedback and data from the market and customers, the identification of potential and actual adverse effects connected to the feedback and the actions taken in response to them should be evaluated during the product review and the manufacturer is expected to take this information into account in order to provide a realistic assessment from the customer's perspective.

59. The MNB expects the manufacturer to define events or indicators that, if they occur or if certain thresholds are exceeded, the manufacturer will conduct an unscheduled review of the product and take corrective action if necessary. Examples include the claims ratio, with regard to which a low value may indicate that the risks covered by the product are not in line with the actual risks, or the rejected claims ratio, with regard to which a high value may indicate mis-selling or that customers have not understood the risks covered by the product.
60. The MNB expects the manufacturer to review and assess the evolution over time of the indicators (e.g. expected return, expected loss ratio, expense ratio) set at the time of product launch against the values planned at launch and, if they are likely to be unfavourable for the customer – expectedly for a sustained period – to take appropriate action to increase the customer value of the product (e.g. by reducing the costs charged or increasing the services provided, where relevant and possible under the terms and conditions).
61. The MNB expects the manufacturer to determine the appropriate intervals for the regular review of insurance products, taking into account the size, volume, contractual duration and complexity of the insurance product portfolio, the distribution channels of each product and any relevant external factors, while at the same time the review must be carried out at least annually, as required by Section 131/A(3) of Bit. The MNB considers it good practice to report to the management body at least once annually on the review carried out.
62. If, during the lifetime of the product, the manufacturer identifies circumstances, which are within the manufacturer's control, that raise a risk of customer detriment in respect of the product, for example if the manufacturer's customer value metrics exceed a certain threshold, the manufacturer is expected to carry out an unscheduled review of the product. Where the review indicates that the risk of harm to customers is persistent or significant, the manufacturer is expected to develop a plan of action and take appropriate corrective measures to mitigate the situation and reduce the risk of harm to customers and prevent recurrence. In addition, the MNB expects the manufacturer to promptly inform the affected insurance distributors and customers of the corrective measures taken.

VIII. Distribution of products

63. The manufacturer is expected to choose the marketing strategy and the distribution channels used, and to entrust the relevant tasks to the distributors, with due care, taking into account the specific characteristics of the product and the target market. The MNB expects the manufacturer to appoint distributors who have the knowledge, expertise and competences to properly market each product and provide the right information to inform customers about the product's features and risks.
64. The MNB expects the manufacturer to provide distributors with adequate and sufficiently detailed information on the characteristics, risks and costs (including implicit costs) of the product, the identified target market, the proposed distribution strategy and any circumstances that may give rise to a conflict of interest to the detriment of the customer, before distribution is started. The information provided to the distributor must be clear,

complete, up-to-date and documented. On the basis of the information provided, distributors should be able to understand the product, identify the target market and, where appropriate, the negative target market.

65. The manufacturer, when determining remuneration, the commissions or indirect remuneration paid to distributors and the design of the incentive scheme, must ensure that it does not lead to a conflict of interest between customers and distributors. The MNB considers it good practice to give greater weight to the role of the maintenance commission over the acquisition commission in the design of the remuneration system for insurance-based investment products, in order to encourage long-term self-provision.
66. The manufacturer needs to monitor and verify on a regular basis that the insurance product is being sold by the distributors in accordance with the objectives of its product oversight and governance measures. The MNB expects the manufacturer to monitor the regularity of distribution and to check regularly that the product is distributed to the defined target market, in particular through online distribution channels. In addition, the manufacturer needs to check that the distributor only sells the product outside the target market if the specific assessment at the point of sale supports the conclusion that the product meets the needs and requirements of the customer.
67. The manufacturer is expected to regularly assess whether distribution is appropriate and compliant, for example whether the distributor is following the distribution strategy and whether distribution is in line with product oversight and governance measures. If the manufacturer identifies any anomalies or unusual trends with a distributor (e.g. a high rate of cancellations and short-term renewals), the MNB expects the manufacturer to immediately investigate the distributor's distribution practices and take corrective action if any behaviour detrimental to customers is identified.
68. The MNB expects the manufacturer to document the actions taken or planned in connection with the results of the inspection provided for in Sections 66–67, indicating the person responsible for the performance of the action, the deadline for performance and any follow-up.
69. If the manufacturer becomes aware that, based on an individual assessment at the point of sale, the distributor is not distributing the product to customers in the target market identified by the manufacturer, the MNB considers it good practice for the manufacturer to carry out an ex-post review of the identified target market for the product based on the information received, document the results and, if necessary, take corrective action.
70. The MNB expects the distribution strategy to include how the manufacturer ensures that advertising, publicity and other marketing communications are appropriate for the target market. In particular, for products sold online, it is necessary to determine and document whether the marketing technique used ensures that the products are sold within the target market.

71. In the case of distance selling, the MNB expects manufacturers to regularly audit distributors for unfair or misleading selling practices. The manufacturer is expected to document the audit process, its results and the actions planned or taken in relation to the results.
72. If the manufacturer considers that a particular distribution channel does not meet the objectives of its product oversight and governance measures, the MNB expects the manufacturer to take corrective action against the distribution channel, for example, to stop using the distribution channel for the product.
73. The distributor's administrative, management or supervisory body, or equivalent, which is responsible for the distribution of the insurance product shall bear ultimate responsibility for the establishment, implementation, subsequent review and ongoing internal compliance with the product distribution arrangements, in accordance with Article 10(5) of Commission Delegated Regulation (EU) 2017/2358.
74. The MNB expects distributors to have appropriate product distribution arrangements and procedures in place to obtain from the manufacturer all necessary information on the insurance products they intend to offer to customers and to fully understand such insurance products, taking into account the level of complexity of the products and the risks associated with the products, as well as the nature, scale and complexity of the distributor's relevant business.
75. The institution is required to formulate the provisions on the distribution of the product in a written document and to make such available to the natural person performing the distribution activity. These provisions are expected to include specific measures for the appropriate management of conflicts of interest and the prevention of damage to potential customers, taking into account the provisions of MNB Recommendation No 11/2024 (IX. 24.) on the identification and management of conflicts of interest in the distribution of insurance-based investment products.
76. The institution's provisions on product distribution should be primarily aimed at ensuring that the objectives, interests and characteristics of customers are taken into account, as well as preventing harm to customers and supporting the appropriate management of conflicts of interest.
77. The distribution strategy used by the distributor is expected to be in line with the distribution strategy and target market defined by the insurance product manufacturer.
78. The distributor may sell the product to a customer who is not part of the target market only in justified cases, on the basis of an individual assessment at the point of sale. The MNB expects the distributor to always substantiate and document why the product was offered to a customer who is not part of the target market identified by the manufacturer. The MNB expects the distributor to provide the necessary information to the manufacturer in order to carry out the audit under Section 66.

79. The institution is expected to regularly review and, where necessary, amend its product distribution arrangements and measures to ensure that they remain valid and up-to-date, in particular as regards the marketing strategy. The MNB expects the institution to take into account the size, scale and complexity of the different insurance products when determining the appropriate intervals for the review, by requiring that the review take place at least once annually.
80. The MNB expects distributors to regularly inform manufacturers (at least once annually) regarding their experiences (positive or negative) with insurance products. In all cases, the information should be provided in a documented form. The distributor is expected to provide the manufacturer with the data necessary to review the insurance product and verify that the products concerned are still in line with the needs, characteristics and objectives of the target market identified by the manufacturer.
81. The MNB considers it good practice to establish communication channels and reporting systems between the manufacturer and the distributor of the product that allow for the regular, unhindered and rapid transfer of information in a traceable manner on the products distributed and customer feedback, taking into account the proportionality criteria indicated in Section 3.
82. The distributor is required to inform the manufacturer without undue delay and in any case in a documented form if it becomes aware of any information that would indicate that the product is not in line with the interests, aims and characteristics of the target market or of any other circumstances relating to the product that would increase the risk of harm to the customer.

IX. Closing provisions

83. The Recommendation is a non-binding regulatory instrument issued pursuant to Section 13(2)(i) of the MNB Act, which is not binding on supervised financial institutions. The content of the Recommendation issued by the MNB expresses the principles and methods proposed to be applied on the basis of the MNB's enforcement practice, market standards and conventions.
84. Compliance with the Recommendation is monitored and assessed by the MNB among the financial institutions under its supervision during its inspection and monitoring activities, in line with general European supervisory practice.
85. The MNB draws attention to the fact that financial institutions may incorporate the content of the Recommendation into their policies. In this case, the financial institution is entitled to indicate that the provisions of its relevant policies comply with the Recommendation issued by the MNB under the relevant number. If the financial institution only wants to include parts of the Recommendation in its policies, it should avoid referring to the Recommendation or only use it for the parts taken from the Recommendation.
86. The MNB expects the relevant financial institutions to apply this Recommendation from 1

January 2026, except as set out in Sections 87 and 88.

87. If the review of the asset funds under distribution related to unit-linked life insurance products, carried out in accordance with Section 86 of MNB Recommendation No 12/2024 (XII. 10.) on the application of product oversight and governance measures, finds that the asset fund has not provided adequate value to customers, the manufacturer is expected to take appropriate corrective action (e.g. reducing the costs charged to customers, in severe cases closing the asset fund) by 1 July 2025 at the latest.

The MNB expects the manufacturer to also review the performance of asset funds that were under distribution on 23 February 2018 or introduced thereafter, but are currently no longer sold at the time of the issuance of this Recommendation, but still have outstanding policies, on the basis of the principles referenced in the first paragraph, and, if necessary, to take appropriate corrective action by 1 January 2026.

88. With regard to insurance products distributed for credit protection purposes, the MNB expects financial institutions to apply the requirements set out in Annex 2 to newly introduced credit protection insurance products from 1 January 2026. In respect of credit protection insurance products currently being sold, the MNB expects the review and, where necessary, the correction of such products to ensure compliance with the requirements to occur by 1 January 2027, insofar as these products continue to be distributed after 1 January 2027.

89. MNB Recommendation No 12/2024 (XII. 10.) on the application of product oversight and governance measures shall expire on 1 January 2026.

Mihály Varga sgd.
Governor of the Magyar Nemzeti Bank

Procedures applicable to unit-linked life insurance

I. Main requirements for unit-linked life insurance

1. The MNB's expectation is that only such insurance-based investment products and unit-linked life insurance products should be introduced and sold to the target market that offer appropriate value for money to policyholders. In the MNB's view, a product design in which the expected break-even period is later than the expected holding period is not appropriate.
2. Main requirements for unit-linked life insurance:
 - a) For low-risk asset funds, customers are expected to achieve at least zero nominal return over the recommended holding period under the moderate and favourable performance scenarios presented in the Key Information Document (KID)¹ on insurance-based investment products, while for medium- or high-risk asset funds, they should achieve at least real returns.
 - b) In particular, product testing and review is expected to examine when, under different customer profiles and scenarios, the product would be profitable for customers.
 - c) In the context of product testing, the MNB expects a quantitative assessment based on the cash flow model of the product.
 - d) Product testing and review includes testing and back-testing the adequacy of the cost structure of the product.
 - e) The customer aspect of the product testing should be carried out in accordance with the assumptions of the profit test, if one has been carried out.
 - f) When determining the recommended holding period, it is necessary to take into account the specific characteristics of the product (for example, the expected break-even period for the customers, or the typical duration of the contracts).

II. Detailed requirements for unit-linked life insurance

3. In accordance with Section 42 of the Recommendation, product testing and review should be carried out for the typical customer profiles identified in the target market definition. In the context of product testing or review, the MNB expects a quantitative assessment based on a cash flow model of the product for typical customer profiles. The evaluation of the customer-related performance of the product needs to be assessed through scenario analysis, taking into account various realistic assumptions. Testing and review of the product also requires the analysis of stress scenarios taking into account the impact of an adverse economic environment. It is good practice not to consider the parameters of the models as static, but to vary them according to the characteristics of the target market, the product and the economic environment during the analysis.

¹ Key Information Document (KID) pursuant to Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs).

4. The MNB expects product testing or review to identify product features that have a significant impact on the performance of the product from the customer aspect or could cause material customer detriment. These may include the cost structure of the product, the bonus scheme used (including the conditions under which bonuses are credited or forfeited), different contractual options and the consequences of exercising such, and the past performance and future expected returns of the investment asset funds. For the current customer base, it is necessary to examine how the evolution of these product characteristics affects customer value (the customer-related performance of the product), whether it causes customer detriment or increases the risk of customer detriment.
5. For unit-linked life insurance, product testing and product review is expected to examine when, for different customer profiles and scenarios, the product would break even for customers (i.e. when the surrender value exceeds the extent of premiums paid). It is expected that the analysis be realistic in terms of economic and customer behaviour assumptions and, if prepared, consistent with the methods and assumptions used in the profit tests carried out by the manufacturer.
6. In the case of insurance-based investment products with a risk element or unit-linked life insurance, where the risk premium element of the risk benefit included in the product or chosen by the policyholder is clearly separable from the savings premium element, the risk and investment elements of the insurance product may be valued separately for the purposes of customer value.
7. For the product testing and review of unit-linked life insurance, the MNB expects the calculation and assessment of the indicators contained in the document EIOPA-BOS-22/482 issued by the European Insurance and Occupational Pensions Authority (EIOPA) entitled “Methodology to assess value for money in the unit-linked market”² and in the document entitled “Consultation Paper on Methodology on Value for Money Benchmarks”³ for the different product-asset fund combinations, in accordance with the Key Information Document (KID) scenarios. The MNB attaches particular importance to the calculation and assessment of the following indicators:
 - a) Surrender value/premiums paid;
 - b) The annual internal rate of return of the product calculated from the customer’s perspective;
 - c) The minimum average yearly return required to reach break-even point;
 - d) Total costs paid/premiums paid;
 - e) Total costs paid/surrender value;
 - f) The average annual reduction in yield (RIY) suffered by the customer due to cost deductions;
 - g) Entry costs/total costs paid;
 - h) Biometric risk benefit/premiums paid;
 - i) Surrender penalty (including the surrender cost and lost bonuses)/Surrender value;

² https://www.eiopa.europa.eu/system/files/2022-10/methodology_to_assess_value_for_money_in_the_unit-linked_market.pdf

³ https://www.eiopa.europa.eu/document/download/2a609866-35ed-4159-96ed-3202b5673d18_en?filename=Consultation%20Paper%20on%20Methodology%20of%20Value%20for%20Money%20Benchmarks_0.pdf

- j) Year of break-even of the surrender value calculated with average yearly return equal to a given set of returns (e.g. assuming a benchmark return for the given asset or the return used to perform the moderate scenario of the PRIIPs KID).

The indicators in (a) to (h) are to be calculated for the recommended holding period, half of the recommended holding period and for the empirical retention (expected holding period). The indicator in point (i) is to be calculated for the year before the recommended holding period, for half of the recommended holding period and for the empirical retention (expected holding period).

8. The analysis required in Section 7 must be tailored to the product in question in terms of the essential product characteristics. In addition to the indicators provided for in Section 7, the manufacturer may define or take into account other indicators in the analysis of the customer value. For the analysis of the indicators, the value of the indicator in (c) is to be compared to the realistically expected return for the asset fund and to the past return. It is also expected to compare the value of the indicator in (j) to the expected customer holding period (empirical retention) for the product. The performance of the product is inadequate if, taking into account the average annual return under the moderate scenario presented in the KID, the product typically breaks even later than the expected retention of customers based on experience. The MNB's expectation of return is that at least the value of its contributions to date should be paid out to customers at the expected holding period.
9. In determining the recommended holding period (RHP) displayed in the KID, the manufacturer is expected to take into account the expected break-even period for the customers, the typical duration of the contracts, the length of time customers typically hold the product based on empirical data, and the investment horizon of the product, taking into account the needs of the target market. The MNB does not consider acceptable the practice of setting the recommended holding period value for all products in a uniform manner, as this does not take into account the specific characteristics of the product in the product design. The MNB also considers it good practice to develop and sell products with shorter recommended holding periods, which break even for customers in ten years or less.
10. The MNB expects the performance of asset funds to be continuously monitored, actual performance to be compared to previously forecasted expected returns, and the results to be incorporated into the product testing and review process.
11. With regard to unit-linked life insurance products, the MNB does not consider adequate from a customer value perspective the calculated performance of product-asset fund combinations for which, based on the performance scenarios presented in the KID, the customer would not receive at least the value of his/her contributions back at the end of the recommended holding period for low-risk (risk indicators 1–3) asset funds (except in the case of stress scenarios and unfavourable scenarios). For medium- to high-risk (risk indicators 4–7) asset funds, it is not acceptable for moderate and favourable scenarios if the customer's expected average annual return is persistently below the medium-term inflation target. For asset funds denominated in a currency other than the Hungarian forint (HUF),

the medium-term inflation target set for the given currency must be taken into account (e.g. the medium-term inflation target set by the European Central Bank (ECB) for EUR, and by the Federal Reserve System (Fed) for USD).

12. The product testing and review should include a methodological assessment of the cost structure of the product from the customer's perspective, an examination of its suitability and its back-testing. Compliance with the total cost ratio (TCR) limits set out in Section 29 of MNB Recommendation No 13/2024 (XII. 10.) on the application of prudential and consumer protection principles to unit-linked life insurance (hereinafter referred to as "unit-linked recommendation") does not automatically mean that the cost structure of the product is appropriate from a customer value perspective.
13. In the course of the product testing or review, the manufacturer must examine whether the condition of a higher return potential in Section 32 of the unit-linked recommendation is met if the value of the TCR for the relevant asset fund exceeds the limits set out in Section 29 of the unit-linked recommendation by no more than 1.5 percentage points. During the regular review of the product, the manufacturer should assess whether the higher return potential is still achievable for the fund.
14. The MNB expects the cost structure of products to be designed in such a way that they comply with the model TCR limits set out in point 29 of the Unit-linked Recommendation, even in the event of changes in the market environment.
15. The MNB considers it to be good practice for the manufacturer to take into account the real value of the minimum premium at the end of the term, taking into account the expected indexation, when determining the minimum premium in line with the frequency of the payment.
16. The MNB expects manufacturers of insurance-based investment products to review the design, cost structure and return potential of their products on a regular basis, in the event of a significant change in the external economic environment (e.g. a significant change in the risk-free interest rate or inflation environment). If, based on the results of the product review, the product is not expected to provide sufficient customer value on a sustained basis, the manufacturer must take action to create or restore such where possible, including by introducing a new product if necessary.

Procedures applicable to credit protection insurance

The main objective of the expectations formulated by the MNB is to promote the wider spread of credit protection insurance and to provide adequate protection to a much larger number of customers. In addition to risk coverage, this can be achieved by developing pricing that aligns the interests of the insurer, the customer and the distributor. When reviewing products, it may be worth considering developing new products on a greenfield basis, in line with the objectives and expectations set out in this Annex, rather than revising existing products.

The expectations set out in this Annex apply to individual and group credit protection insurance products distributed after the application date. In the case of group insurance, the term “customer” refers to insured persons who are covered by the insurer and who are classified as consumers. The expectations set out in this Annex do not apply to life insurance policies with a subsequent credit protection clause or other insurance policies developed for purposes other than credit protection purposes (e.g. property insurance with a credit protection clause).

I. General expectations regarding credit protection insurance products

1. The MNB’s fundamental expectation with regard to credit protection insurance is that insurers should offer products that are capable of meeting customer needs, provide a high level of service and have a favourable cost structure, and which can provide effective assistance and adequate protection to customers facing difficulties in repaying their loans.
2. In order to ensure a high level of consumer protection, the MNB expects, in line with the warning issued by EIOPA on this subject,⁴ that credit protection insurance product manufacturers and intermediary distributors place consumer interests at the core of their business model. The most important principles to be followed in this regard are:
 - a) high customer value and benefit level;
 - b) risk-covering that is sufficiently broad to meet the needs of customers in the target market and the development of credit protection insurance product structures that are suitable for reducing the risks of the financial institution providing the credit or loan and the insured taking out the credit or loan;
 - c) competitive pricing that is attractive to a wide range of customers;
 - d) fair cost and commission levels;
 - e) broad coverage, more loans covered by insurance policies.
3. The MNB expects insurers to review the credit protection insurance products they offer, taking into account the provisions and recommended practices set out in this Annex, and, as a result of the review, if necessary, discontinue the sale of the existing product and introduce a new product in line with the Recommendation, or modify the product in accordance with the expectations set out in the Recommendation.

⁴ [EIOPA warning to insurers and banks on Credit Protection Insurance](#)

II. Expectations regarding the design of credit protection insurance products

II.1. Requirements for product design

4. One method that may contribute to the value for money of products is to broaden the scope of coverage. To this end, the MNB considers it good practice for credit protection insurance to cover the following risks:

- a) death from any cause,
- b) health impairment of 50 percent or more from any cause,
- c) incapacity to work,
- d) unemployment.

The MNB considers it good practice for the credit protection insurance intermediary to draw the borrower's attention to the fact that, above and beyond coverage of the outstanding loan debt and the assumption of repayment instalments in the case of an insured event, the borrower's personal circumstances may justify taking out risk insurance in addition to credit protection insurance, which provides additional supplementary services or a lump sum payment to the private beneficiaries concerned.

5. The MNB considers it good practice for the insurer, in cooperation with the credit institution distribution partner, to analyse the most common reasons for loan defaults and examine how it may increase the scope of existing insurance coverages and what additional insurance coverages relevant to the target group may be added to the product, in order to reduce the number of non-performing loans.
6. In respect of determining the terms and conditions of the contract, the MNB considers it good practice that, in the event of incapacity for work or unemployment risks, the maximum duration of the service provided by the insurer – covering the payment of monthly instalments – should be at least nine months after the start date of providing the service. In the case of unemployment risk, the insurer is expected to take into account the data of the Hungarian Central Statistical Office on the average duration of unemployment when determining the duration of providing the service.
7. In the case of credit protection insurance for unemployment risks, the MNB considers it important for the provision of an adequate level of service that the risk coverage extends not only to one-sided termination by the employer, but also to termination of the employment by mutual agreement initiated by the employer. Termination of employment by mutual agreement should only be excluded in cases where it can be clearly proven that the termination of the employment by mutual agreement was initiated by the insured person. The insurer should also provide the possibility of subsequent verification of termination by mutual agreement initiated by the employer.
8. In order to achieve an appropriate value-for-money ratio for the products, it is essential to maintain the number and scope of exclusions applied in credit protection insurance at a reasonable and justifiable level, while expanding the range of insured events and adapting them to the needs of the target market. In line with general POG expectations, it is necessary

to monitor the effects of exclusions, in particular the rate and reasons for rejecting claims, the number and subject matter of consumer complaints, and, based on this, to modify the product terms and conditions as necessary to reflect and satisfy the needs and requirements of the target market.

9. The MNB considers it good practice to apply more specific exclusions in credit protection insurance policies for dangerous activities, sports and hobbies than the narrower content and more general wording currently used in practice. For example, instead of excluding sailing as a dangerous sport, it is possible to exclude “open sea sailing” (even specifying ocean crossing or competitive sailing), in the case of diving-related risks, “diving below 20 metres”, and in the case of mountaineering, “mountaineering above 5000 metres” or, instead of excluding street motorcycling, formulating “motorcycle racing” as an exclusion. The MNB also considers it good practice for insurers to review the scope of covered risks with a view to expanding such.
10. The MNB considers it good practice to include a commonly used contractual clause stipulating that, in the case of the occurrence of an insured event in credit protection insurance, the insurer shall pay the outstanding loan balance or the monthly instalment due not to the customer but to the lender or creditor.
11. The MNB draws attention to the fact that, in accordance with legal requirements, the terms and conditions of insurance contracts must specify, for each individual coverage, what services – which may include the reimbursement of certain costs – the insurer will provide in the case of the occurrence of an insured event, and what documents must be presented in order for the insurer to perform its obligations. In doing so, the insurer may only make the performance of its services contingent upon the presentation of documents necessary to verify the occurrence of the insured event and to determine the extent of the services to be provided. In accordance with legal requirements, it is necessary to review the contractual terms and conditions of credit protection insurance and to determine the scope of documents required for the insurer to perform its services.
12. In the case of credit protection insurance, one common reason for refusal to provide insurance services is the insured’s pre-existing condition. In order to reduce the number of rejected claims, the MNB considers it good practice for the insurer to extend its risk coverage to insurance events resulting from pre-existing conditions or not to exclude pre-existing conditions after two years from the start of the risk coverage. When assessing needs and providing customer information, insurers should pay particular attention to the exclusions that may apply to a given customer and clearly inform the customer of these before concluding the contract.

II.2. Rules for the development and application of customer-centric indicators

13. In order to determine the customer value of credit protection insurance, in addition to assessing short- and long-term trends, it is necessary to define and continuously monitor at least the following indicators:

- a) loss ratio;
- b) the number of claims reported, taking into account the size of the portfolio and its development;
- c) the ratio of rejected claims;
- d) commission ratio;
- e) the number of complaints and the reasons for complaints at product level and by type of coverage.

Additional indicators of customer value may include the cost ratio, the ratio of the (net) risk premium to the gross premium, and the portion of the risk premium allocated to actual claim payments.

14. In order to ensure adequate customer value, the MNB expects that the combined ratio of the insurer's profit and cost coverage, as well as intermediary commissions and other incentives, calculated as a percentage of gross premiums excluding tax (hereinafter referred to as "loading limit") shall not exceed 70 percent. The loading limit must be complied with for all actively distributed products from the date of application specified in Section 88 of the Recommendation. The MNB expects insurers to comply with the loading limit when preparing product plans and premium calculations for newly introduced products. For products already actively sold at the start of the application date, the loading limit shall apply to newly concluded insurance contracts. The MNB also expects insurers to examine during product reviews the customer value provided to the total existing portfolio associated with products distributed after 1 January 2027, in order to comply with the loading limit. If the actual customer value deviates significantly or permanently from the specified target value, appropriate corrective measures must be taken [e.g. premium refunds, premium reductions, extension of profit sharing to customers, reduction in the number of exclusions, provision of additional coverage and services to customers].
15. In the case of credit protection insurance products linked to typically long-term, and to customers' life circumstances particularly sensitive, mortgage loans and childbirth incentive loans granted under Government Decree No 44/2019 (III. 12.), the loading limit is set at 60 percent. In view of the changing level of risks over the term, the MNB expects insurers to model the average holding period of the product based on statistical data, with the specified target values to be achieved at the latest halfway through the average holding period (but no later than after five years). It is expected that, during the interim period, the insurer will set specific targets for each year, assess during product reviews whether the indicators' values are developing as expected and set thresholds which, if exceeded, will require corrective measures to be taken.
16. Where possible, the insurer should draw the attention of existing customers to the availability of newly introduced credit protection insurance products that already comply with this Recommendation. If an existing customer switches to the new product, the insurer should waive the waiting period and should not consider illnesses acquired during the term of the existing contract as pre-existing conditions when switching to the new product.
17. It is expected that, when reviewing the product, the insurer will pay particular attention to

analysing the reasons for rejecting claims and taking appropriate measures to reduce the number of rejections if the rejection rate of claims exceeds 30 percent on a sustained basis.

18. When establishing and comprehensively assessing appropriate customer value, the MNB considers it good practice to develop indicators relating to the ease of filing claims, the simplicity and flexibility of the claims settlement process, and the reduction of claims settlement times.
19. The following is expected during product monitoring and review:
 - a) from an actuarial perspective, reviewing the adequacy of the risk premium at appropriate intervals (e.g. monitoring expected and actual loss ratios by risk);
 - b) monitoring, remeasuring, and evaluating the actuarial and cost assumptions used in pricing;
 - c) examining the level of costs and commissions built into the product and their suitability from the customer's point of view at appropriate intervals;
 - d) detailed analysis of portfolio development and sales from the point of view of customer value, and examination of the possible adverse effects on customers of deviations from previous expectations.

III. Requirements for the distribution of credit protection insurance

20. The MNB considers the development of individually (rather than collectively) purchasable credit protection insurance and its independent distribution to be a measure that promotes free choice of service provider, better comparability of products and increased market competition.
21. In addition to the provisions of Section 20 of this Annex, the MNB considers it good practice for credit protection insurance to be available not only in connection with newly concluded loans, but also for existing loans.
22. The MNB expects insurers to review and, where possible, expand their sales channels and methods for credit protection insurance, in order to improve the availability of insurance products. The MNB considers it good practice to allow customers to select credit protection products online, in addition to loan and credit products available online.

IV. Expectations for managing conflicts of interest arising in the case of credit protection insurance

23. In line with the results of EIOPA's thematic review of credit protection insurance, the MNB's position is that profit-sharing agreements between insurers and distributors may increase conflicts of interest affecting customer interests by making the insurance intermediary interested in ensuring that claims payments are not too high, in addition to high sales volumes. Consequently, agreements of this type do not necessarily adequately support comprehensive product offerings tailored to customer needs, nor do they provide customers with a thorough explanation of the grounds for exemption, restrictions, exclusions and other conditions imposed by the insurer. Based on the above, the MNB

recommends reviewing profit-sharing type agreements.

V. Requirements for credit institutions and financial enterprises acting as insurance intermediaries

24. In order to increase awareness among consumers (the insured) of the benefits and availability of insurance contracts and related services, the MNB considers it good practice for the credit institution and financial enterprise concerned to supplement the information notice or reminder letter to be sent in the event of default on loan repayment with the following information, for the purposes of raising awareness:
- a) that the debtor has credit protection insurance;
 - b) a brief description of the cases covered by the insurance;
 - c) a brief description of the process of claiming insurance services;
 - d) the direct contact details of the insurer's customer service department, where the customer can request further information.
25. If a credit institution or financial enterprise acting as an insurance intermediary in the sale and distribution of credit protection insurance can also be considered the manufacturer of the product – i.e. if, based on a comprehensive analysis of the intermediary's activities on a case-by-case basis, it appears that the insurance intermediary independently decides on the essential characteristics and main elements of the insurance product, including the cover, costs, risks, target market, or rights related to the payment of claims –, the MNB expects that the mandatory co-manufacturer agreement specify
- a) how the credit institution or financial enterprise uses customer profiling data (credit profile, life situation);
 - b) a requirement that, as part of product monitoring, the credit institution or financial enterprise prepare a quarterly internal report and share it with the insurer, with particular regard to the key parameters of the insured, the method of sale (telephone/online/in person), the attachment rates and the number of cases in which the insurer's performance was successful in maintaining the credit and the number of cases in which it helped to prevent or reduce enforcement/collection costs;
 - c) the expectation that all complaints analyses carried out by the financial institution in connection with the credit protection insurance product or its sale will be forwarded to the insurer.