

# Yorkshire Building Society

## Product & Distribution Governance Policy Overview

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## 1. Purpose

### The Purpose of the Policy

This policy sets out the Society's approach to design, deliver and distribute products and services in line with the Society's risk appetite and to ensure compliance with relevant industry regulations.

The policy applies to all individuals involved in the design, development and distribution of Society products.

### Regulatory Requirements

**Conduct Risk** is the risk that firms do not deliver fair customer outcomes. The Financial Conduct Authority (FCA) has built on the principles of '*Treating Customers Fairly*' to form their approach to Conduct Risk and fundamentally wants to see firms delivering 'fair outcomes' when they deal with customers. This means that firms must not only adhere to the rules set out by the FCA but critically, understand and carry out the spirit and principles of what those rules are trying to achieve. The FCA also expects firms to have appropriate cultures and business models designed to deliver fair customer outcomes.

There are numerous regulatory requirements that are incorporated into Product Governance oversight activity, including:

- **Principles for Businesses** (specifically including the six TCF Customer Outcomes)
- **Mortgage Conduct Of Business Sourcebook (MCOBS)**
- **Banking Conduct Of Business Sourcebook (BCOBS)**
- **Conduct Of Business Sourcebook (COBS)**
- **Consumer Credit Sourcebook (CONC)**
- **Client Assets Sourcebook (CASS)**
- **Responsibility of Product Providers and Distributors for the Fair Treatment of Customers (RPPD)**
- **Senior Management Arrangements, Systems and Controls Sourcebook (SYSC)**
- **Insurance Conduct of Business Sourcebook (ICOBS)**
- **Product Intervention and Product Governance Sourcebook (PROD)**

**Product Governance** is strategically important to the Society. Product Governance activities are designed to provide assurance that products that are manufactured or distributed by the Society provide fair customer outcomes and do not give rise to customer detriment. Product Governance is a Level 2 Risk under Level 1 Compliance & Conduct Risk. Product Governance manages product risk through oversight of product design and assurance activities.

Allied to Product Governance, the Society offers its products to customers through a number of distribution channels, utilising a variety of distribution methods. Product and Distribution Governance provides a framework for the formal approval of new distribution channels. Distribution governance and oversight is provided via the Regulated Sales and Distribution Risk framework.

## Risk Appetite

Society expectations are outlined in the risk appetite statements in respect of the approach to Conduct Risk:

*We will only offer products and services which meet customer needs, and where we can manage any conduct risks which arise including consideration of customer vulnerability. If failures occur we proactively identify, establish root cause and remedy via our own actions. Qualitative High Level Statement, Conduct Risk Appetite 2020 (effective December 2020)*

Within the Society's Risk & Control Library the following Product Governance related risks that have been identified.

- PGR001 Product Governance - There is a risk that the governance of products and product services is inadequate.

## Key Policy Objectives

The key objective of this Policy is to outline the Society's approach to Product & Distribution Governance. The primary function of this policy and underlying frameworks is to ensure that the products offered to Society customers are designed, distributed and delivered in order to provide good and fair customer outcomes. The policy and underlying frameworks also outline how products are regularly tested to provide assurance that the potential for customer detriment is considered and where possible prevented.

## 2. Scope

The Product Governance Policy should be read in conjunction with:

- The Product & Distribution Governance Approval Framework
- Conduct & Operational Risk Assurance Framework

### Product & Distribution Governance Approval Framework

- Oversight and Governance of Product & Distribution Approvals, including:
  - New Developments (including Post Implementation Reviews (PIR's))
  - Changes to an existing product/ distribution method
  - Withdrawals and Closures of products or distribution methods

### Conduct & Operational Risk Assurance Framework

The Conduct & Operational Risk Assurance Framework encompasses the Society's approach to testing all Society products across all brands.

Product Assurance is provided in the following ways:

#### Product Risk Assessments

Risk assessment is the process by which a range of data and insight is analysed to understand whether there are any potential conduct and/or operational risks in relation to the product that should be investigated further. The frequency with which the specific product risk assessment is completed is determined by the inherent risks associated with the product and the risk category that has been allocated i.e. High/Medium/Low

- **Product Reviews**

Product reviews seek to provide assurance that the products either manufactured or distributed by the Society's (including 3<sup>rd</sup> party products) do not give rise to customer detriment and produce fair customer outcomes.

- **Thematic Reviews**

A bespoke series of thematic reviews that may cover processes/activities that cut across a number of product areas, known issues, regulatory/legislative requirements and/or changes, or other product related activities. Examples include Mortgage & Savings Maturity processes, and the Help-to-Buy ISA Attestation.

- **Action Tracking**

Product and Thematic reviews remedial action tracking. This involves the ongoing management of the action tracking database via interaction with designated stakeholders to ensure actions are completed to the required standard and within agreed deadlines.

- **ESIS & Fee Assurance Reviews**

Assurance activity that seeks to ensure the following:

- ESIS' provided to customers are tested to ensure they are clear, fair, not misleading and do not create the potential for customer detriment or poor customer outcomes
- Customers are charged the correct fee(s) and also that the customer's preference for payment of the fee has been actioned appropriately, preventing customer detriment or poor customer outcomes
- The Society is compliant with the relevant regulatory requirements

The full content of these reviews is outlined within the ESIS & Fee Assurance Framework.

- **Product Governance MI and reporting**

Including producing quarterly MI submitted to CCRC and ERC.

## Formal Exceptions

**Product Exceptions** - Products offered as staff benefits which the Society is not responsible for developing or servicing e.g. private health insurance

## Pricing Oversight

### Pricing

Pricing is essentially an operational/commercial decision and is the responsibility of the relevant Director. All pricing decisions (including fees that represent a core term of the product) are approved through Asset & Liability Committee (ALCO) and outside of the remit of this policy. However, pricing will be considered from a conduct perspective as part of CCRC governance and oversight to include customer focused deliberation, such as value for money considerations when approving new products.

## Fees & Charges

Fees and Charges are reviewed annually by the product teams and will be presented to CCRC for approval on an annual basis.

## 3. Policy Statements

The following statements apply in all cases:

- All products are designed and distributed in a way that meets customer needs and will not cause customer detriment.

### Product & Distribution Approval Process

- All new product or Distribution/ changes/ withdrawals/ closures must follow the requirements set out in the current Product & Distribution Governance Approval Framework.

### Conduct & Operational Risk Assurance Framework

- This focuses upon the 'delivery' of products - post-launch and post-sale. The Society undertakes different product assurance monitoring activities which are undertaken on a regular basis. These activities continually reassess whether or not products are performing to the expectations of the Society and of its customers and delivering fair outcomes.

### Escalation of Risks/Issues

- CCRC represents the primary forum for reviewing Product Governance matters.
- Issues must be escalated to the Executive Risk Committee (ERC) or Board where the issue is:
  - Outside of risk appetite
  - Outside of a ERC or Board approved policy
  - CCRC or the accountable Director feels the issue is material enough to require escalation to ERC or Board for oversight and/or approval

## 4. Implementation and Monitoring

### Implementation

Individual Directors are responsible for ensuring the colleagues in their function are aware of and adhere to the policy, however periodic training will be supplied to the business by the Conduct & Operational Risk team to ensure understanding of the policy and core processes.

### Monitoring

The Society operates a Three Lines of Defence (LoD) approach towards risk management. Each LoD has different responsibilities for managing the risk and therefore carries different actions.

The first LoD is directly responsible for the day to day management and control of risk throughout the business, generally within business functions. They monitor the implementation of this policy through:

- Ongoing reviews carried out by the Conduct and Operational Risk Team
- Reporting of assurance activities to appropriate governance forums, via the Conduct Risk MI Book and Conduct Risk Appetite

- Annual review of policy and supporting frameworks ensuring they remain aligned to regulation (and the latest interpretation of that regulation)
- Evaluation of Product & Distribution change activity
- Levels of oversight activity are defined and approved annually within a QA framework

The second line is accountable for competent risk management across the society and overseeing the effectiveness and integrity of the Enterprise Risk Management Framework. They monitor the implementation of this policy through various activities defined in the annual Compliance Monitoring Plan.

The final LoD is providing independent assurance across the first and second LoD through our internal Audit function. They monitor the implementation of this policy through various activities defined in the annual Audit Plan.

## **5. Approval**

The Policy is reviewed at least annually by the Head of Customer & Commercial Risk and approved annually on behalf of the Board by the Customer & Commercial Risk Committee (CCRC).