

Yorkshire Building Society

Product & Distribution Governance Policy Overview

Updated June 2023

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1. Purpose

The Purpose of the Policy

This policy sets out the Society's approach to the design, delivery, distribution, and ongoing assurance of products and services in line with the Society's risk appetite and regulatory standards, and ensure we act to provide good customer outcomes.

The policy applies to all individuals involved in the design, development, distribution, and ongoing monitoring/assurance of the Society's products and services.

Regulatory Requirements

Conduct Risk is the risk that firms do not deliver good customer outcomes. The Financial Conduct Authority (FCA) has built on the principles of '*Treating Customers Fairly*' and have implemented final rules and guidance for a new Consumer Duty principle that sets higher and clearer standards of consumer protection across financial services. It requires firms to put their customers' needs first and act to deliver good outcomes to retail customers. Firms must not only adhere to the rules set out by the FCA but carry out the spirit and principles of what those rules are trying to achieve.

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

- Consumer Duty
- **Principles for Businesses** (specifically including the six Consumer 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)**

Consumer Duty - There are three cross-cutting rules: act in good faith, avoid causing foreseeable harm to retail customers, and enable and support them to pursue their financial objectives, which are supported through the delivery of four specific consumer outcomes:

- Products and Services,
- Price and Value,
- Consumer Understanding and,
- Consumer Support

Risk Appetite

Society expectations on its approach to Compliance & Conduct Risk are outlined in the risk appetite statements. :

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 and impacts on and of climate change. If failures occur, we proactively identify, establish root cause and remedy via our own actions.

Qualitative High-Level Statement, Compliance & Conduct Risk Appetite 2023 (effective December 2022)

Product Governance Risk is defined as the following:

- We will offer products and services where our design, distribution, and delivery are regularly tested and monitored, to prevent the potential for customer detriment.

Product Governance is strategically important to the Society. Product Governance activities are designed to ensure the products that are manufactured and/or distributed by the Society provide good customer outcomes and do not give rise to customer harm. 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.

The Society offers its products and services to customers utilising a variety of distribution channels. Product and Distribution Governance provides a framework for the formal approval of new distribution channels. Distribution governance and oversight is provided via the YBS Sales Policy and Regulated Sales and Distribution Risk Framework.

Key Policy Objectives

The key objective of this Policy is to outline the Society's approach to Product & Distribution Governance, and ensure compliance with the Products and Services and Price and Fair Value Consumer Duty outcomes.

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 customer outcomes, and that the Society:

- acts in good faith towards retail customers,
- avoids unforeseeable harm to retail customers and,
- enables and supports them to pursue their financial objectives.

In line with the Consumer Duty's cross-cutting rules.

The policy and underlying frameworks also outline how products are regularly tested to provide assurance that the products and services the Society provides continue to deliver good outcomes throughout the product lifecycle, and that the potential for customer harm is considered and where possible prevented, or treated if materialised.

2. Scope

The Policy applies to all brands and subsidiaries within the Society, and where elements are not applicable these are explicitly called out.

The scope of this policy includes product and services that are currently available for sale/renewal (open) or have previously been offered to Society customers which are now off-sale (closed) (including legacy products offered under the Society's separate brands). At present, this includes:

- Mortgages (Retail Residential, Retail Buy-to-Let including Consumer Buy to Let, Commercial)
- Savings
- Insurance
- Share Plans
- Employee Propositions

Certain products within the Society's portfolio (including ISAs) are governed by specific product rules laid down by HMRC. However, the Society remains responsible for all aspects of how those products are delivered to customers, including distribution, sales process, information provision, training, and servicing.

The Product & Distribution Governance Policy should be read in conjunction with the:

- 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 Propositions or distribution channels (including new propositions being introduced on a pilot basis)
 - Changes to an existing product/distribution channel (including changes being introduced on a pilot basis)
 - Withdrawals and Closures of products or distribution channels
 - Post Implementation Reviews (PIR's) for new propositions and changes that are considered medium/high risk, and pilots

Conduct & Operational Risk Assurance Framework

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

Product Assurance is provided in the following ways:

Product & ESIS 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 or service that should be investigated further. The frequency with which the specific risk assessment is completed is determined by the inherent risks associated with the product group 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 (including 3rd party products) do not have the potential risk of causing customer harm, and produce good customer outcomes, whilst enabling and supporting customers to pursue their financial objectives.

- **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.

- **Action Tracking**

When actual or potential customer harm is identified, appropriate actions are agreed with the relevant business areas to address or mitigate the risk. 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 timescales .

- **Product Governance MI and reporting**

Through the monitoring of customer outcomes, we identify and manage risks by producing MI submitted to Commercial Division Risk Committee (CDRC) quarterly, and Executive Risk Committee (ERC) bi-annually to ensure appropriate visibility of all Product Governance activity, including key risks and trends.

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

Fair Value

As part of designing a new, or making changes to, a product or service, the Society needs to ensure that it provides fair value to customers in line with the Price and Fair Value outcome of Consumer Duty and the YBS Fair Value Framework.

Fair Value Assessments (FVA's) will be undertaken by the Trading teams before the launch of a new retail product, or when making a change to a retail product, if the change could have an impact on value. This is to ensure the cost (financial and non-financial) paid by customers is comparable to the features and benefits they receive.

The outputs of the FVA's will be evidenced as part of the product approval process and reported to CDRC and Asset & Liability Committee (ALCO) to ensure appropriate oversight and governance.

FVA's will be considered when undertaking product risk assessments as part of the Conduct & Operational Risk Assurance Framework to ensure products continue to provide fair value to customers throughout their lifecycle.

Pricing

Pricing is 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 and fair value perspective as part of the product approval process and CDRC governance and oversight when approving new products, or making changes to existing products that could impact on fair value (see above).

This is also considered when undertaking product risk assessments as part of the Product Assurance Framework to ensure products continue to provide fair value to customers throughout their lifecycle.

Fees & Charges

Fees and Charges are reviewed annually by the product teams and will be presented to CDRC 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 harm.

Product & Distribution Approval Process

- All new product or distribution channels/changes/withdrawals/closures must follow the requirements set out in the current Product & Distribution Governance Approval Framework including the use of pilot propositions.

Conduct & Operational Risk Assurance Framework

- This focuses upon the 'delivery' of products, both 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 good outcomes.

Escalation of Risks/Issues

- CDRC represents the primary forum for reviewing Product Governance matters.
- Issues must be escalated to the ERC or Board where the issue is:
 - Outside of risk appetite
 - Outside of an ERC or Board approved policy
 - CDRC 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 within the Conduct & Credit Risk function 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 & Operational Risk Team
- Reporting of assurance activities to appropriate governance forums, via the CDRC, ERC and Conduct Risk MI Book and Conduct Risk appetite reporting

- Annual review of policy and supporting frameworks ensuring they remain aligned to regulation (and the latest interpretation of that regulation)
- Conduct & Operational Risk also have oversight of new/changes to Product & Distribution activity, including the P&DG Approval Framework Levels of assurance activity are defined and approved quarterly, with all other C&OR activity defined and approved annually within a QA plan.

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 Director of Conduct & Credit Risk and approved annually on behalf of the Board by the Commercial Division Risk Committee (CDRC).