



**Product oversight  
and governance**

EBA publishes Guidelines  
for retail banking products



## Introduction

On 15 July 2015 the European Banking Authority (EBA) published its **Guidelines on product oversight and governance (POG) arrangements for retail banking products**.

Developments in the markets for financial services in recent years have shown that failures in the conduct of financial institutions towards their customers can cause significant consumer detriment and undermine market confidence, financial stability and the integrity of the financial system.

The Guidelines are the EBA's response to increasing risks arising from the misconduct of financial institutions in their interaction with consumers and are part of EBA's work to enhance consumer protection across the EU.

The Guidelines will apply from **3 January 2017**. Competent authorities and financial institutions must make every effort to comply with these guidelines.

## Scope

The Guidelines deal with the establishment of product oversight and governance arrangements for both, manufacturers and distributors as an integral part of the general organisational requirements linked to internal control systems of firms. They refer to internal processes, functions and strategies aimed at designing products, bringing them to the market, and reviewing them over their life cycle. They establish procedures for ensuring the interests, objectives and characteristics of the target market. The Guidelines, however, do not deal with the suitability of products for individual consumers.

The Guidelines apply to manufacturers and distributors of retail banking products offered and sold to consumers that fall within the EBA's regulatory limit, i.e. mortgages, personal loans, deposits, payment accounts, electronic money and payment services such as credit and debit cards. The Guidelines apply to all products brought to the market after the implementation date of the Guidelines as well as to all existing products on the market that are significantly changed after the implementation date of these Guidelines.

These Guidelines supplement other EBA guidelines that may be relevant to product oversight and governance, in particular, the EBA Guidelines on Internal Governance. In Cyprus, the guidelines are expected to supplement the Central Bank of Cyprus' "Directive to Credit Institutions on Governance and Management arrangements of 2014".

## Guidelines

Guidelines have been established for both manufacturers and distributors. The Guidelines can be summarized as follows:

### 1. Guidelines for manufacturers

#### Guideline 1: Establishment, proportionality, review and documentation

The manufacturer should establish, implement and review effective product oversight and governance arrangements. The arrangements should aim

- (i) to ensure that the interests, objectives and characteristics of consumers are taken into account,
- (ii) to avoid potential consumer detriment and
- (iii) to minimise conflicts of interest.

Moreover arrangements should be regularly reviewed and updated, considered in the new product approval policy (NPAP), duly documented and proportionate to the nature, scale and complexity of the business.

#### Guideline 2: Manufacturers' internal control functions

The manufacturer should ensure that the arrangements are an integral part of its governance, risk management and internal control framework (cf. EBA Guidelines on Internal governance, where applicable). To that end, the manufacturer's management body should endorse the establishment of the arrangements and subsequent reviews. Senior management, with support from representatives of the manufacturer's compliance and risk management functions, should be responsible for continued internal compliance with the product oversight and governance arrangements (to be integrated in their normal line of duties).

#### Guideline 3: Target market

Manufacturers should include steps and features that need to be followed to identify, and update when necessary, the relevant target market of a product. The manufacturer should ensure that the product is deemed appropriate for the interests, objectives and characteristics of the identified target markets.

#### **Guideline 4: Product testing**

Before a product is brought to the market, an existing product is sold to a new target market or significant change is made to an existing product, the manufacturer should conduct product testing, in order to be able to assess how the product would affect its consumers under a wide range of scenarios, including stressed scenarios. If necessary appropriate product changes should be foreseen.

#### **Guideline 5: Product monitoring**

Once the product is brought to market, the manufacturer should monitor the product on an ongoing basis to ensure that the interests, objectives and characteristics of consumers continue to be appropriately taken into account.

#### **Guideline 6: Remedial Action**

If the manufacturer identifies a problem related to the product in the market, or when monitoring the performance of the product as required in guideline 5 above, the manufacturer should take the necessary measures to mitigate the situation and prevent a reoccurrence of detriment.

#### **Guideline 7: Distribution channels**

The manufacturer should select distribution channels that are appropriate for the particular target market and monitor that the products are distributed to the identified target market.

#### **Guideline 8: information for distributors**

Where relevant, the manufacturer should provide the distributor with adequate, clear, precise and up to date information and details of the products (risks and limitations and total price).

## **2. Guidelines for distributors**

#### **Guideline 9: Establishment, proportionality, review and documentation**

The distributor should establish, implement and review effective product oversight and governance arrangements to ensure that the interests, objectives and characteristics of consumers are appropriately taken into account, potential consumer detriments are avoided and conflicts of interest are minimized. Arrangements should be reviewed and updated on a regular basis and all actions taken by the distributor should be duly documented.

#### **Guideline 10: Distributors' governance**

The distributor should ensure that product oversight and governance arrangements are an integral part of its general systems and controls (endorsed by the management body).

#### **Guideline 11: Knowledge of the target market**

Based on the information provided by the manufacturer, the distributor should have relevant knowledge and the ability to determine whether a consumer belongs to the target market.

#### **Guideline 12: Information and support for the manufacturer's arrangements**

The distributor should take into account the information provided by the manufacturer and disclose to the consumer a description of the main characteristics of the product, its risks and the total price of the product to be paid by the consumer. If the distributor identifies any problems regarding the product features, product information of the target market when offering and selling products, the distributor should promptly inform the manufacturer of the issue.

### **How Deloitte can help**

- Deloitte can help your organization design its product development lifecycle – from origination to distribution to retail customers and post distribution amendments' in line with European and local regulatory requirements and guidelines
- Deloitte can perform a review of your organisation's existing new and amended product development processes and to identify gaps against the regulatory requirements and guidance
- Perform benchmarking exercises against other EU financial institutions and provide recommendations to align with international best practices and EBA guidelines"
- Review and assessment of the adequacy of the governance, risk management and internal control frameworks.

# Contacts

If you require any further information on any of the issues mentioned above, and on how Deloitte can help you address the challenges ahead, please do not hesitate to contact

**Clea Evagorou**

Senior Manager | Strategy Consulting  
Email: [clevagorou@deloitte.com](mailto:clevagorou@deloitte.com)  
Direct line: +357 22 360600

**Panicos Papamichael**

Partner - Risk Advisory  
Email: [ppapamichael@deloitte.com](mailto:ppapamichael@deloitte.com)  
Direct line: +357 22 360805

**Alexis Agathocleous**

Financial Services Leader  
Email: [alagathocleous@deloitte.com](mailto:alagathocleous@deloitte.com)  
Direct line: +357 25 868710

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