

Product governance: additional provisions for pathway investments

Chapter 6

Product governance:
additional provisions for
pathway investments and
default options

6.4 Manufacture of default options

6.4.1 **R** When designing a *default option*, a manufacturer should take into account, among other considerations, the fact that ■ COBS 19.12 requires operators to offer the *default option* to *non-advised clients* for inclusion in their *non-workplace pensions*. As a result, the *default option* must be designed to be compatible with the needs, characteristics and objectives of a typical *non-advised client* in the *default option's* target market.

6.4.2 **R** A manufacturer must also ensure that:

when specifying the investment strategy of the *default option*, and its costs and charging structure, it takes into account what the manufacturer considers, on reasonable grounds, to be the likely needs, objectives and characteristics of a typical *non-advised client* in the target market;

the investment strategy of the *default option*:

- (a) takes into account the target retirement age of a typical *non-advised client* in the target market, and their likely strategy for accessing their pension;
- (b) includes *lifestyling*, unless *lifestyling* is not appropriate for the needs, objectives and characteristics of the typical *non-advised client* in the target market or the *default option* is based on *target date funds*; and
- (c) seeks growth, while managing risks, through an appropriate and diversified asset allocation; and

the *default option* has appropriate and competitive price and charges, which bear a reasonable relationship with the services being provided.

6.4.3 **G** Manufacturers are expected to take reasonable steps to understand the likely needs, objectives and characteristics of a typical *non-advised client* in the *default option's* target market. This could include carrying out sufficient research and consumer testing in support of its conclusions. What amounts to a typical *non-advised client* may be based on the needs, objectives or characteristics that are most commonly seen among *non-advised clients* within the target market.

6.4.4

R

Manufacturers must review their *default options* at least once every 3 years to ensure that they:

- (1) remain consistent with the needs, characteristics and objectives of a typical *non-advised client* in the target markets; and
- (2) are being *distributed* to their target markets.