

Product governance: funeral plans

Chapter 7

Product governance: funeral plans

7.3 Distribution of funeral plans

Distribution arrangements: general requirements

7.3.1

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A *distributor* must have in place product distribution arrangements containing appropriate measures and procedures to:

- aim to prevent and mitigate *customer* detriment;
- be consistent with the aim of providing fair value to the *customer*;
- support a proper management of conflicts of interest; and
- ensure that the objectives, interests and characteristics of *customers* are duly taken into account.

Distribution arrangements: obtaining and understanding information

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- (1) A *distributor* must ensure the product distribution arrangements contain effective measures and procedures to:
 - (a) obtain from the *manufacturer* all appropriate information sufficient, adequate and reliable about the *funeral plan products* they intend to offer to their *customers* to ensure that they will be distributed in accordance with the characteristics, objectives and needs of the target market; and
 - (b) fully comprehend those *funeral plan products*, taking into account the level of complexity and the risks related to the products as well as the nature, scale and complexity of the relevant business of the *distributor*.
- (2) The information in (1) must be sufficient to understand:
 - (a) the characteristics of each *funeral plan product*;
 - (b) the outcome of the value assessment required by ■ PROD 7.2.14R, including:
 - (i) the value that the *funeral plan product* is intended to provide to the *customer*; and
 - (ii) the impact that the distribution arrangements (including any remuneration it, or another *person* in the distribution chain to which it belongs, receives) has on the overall value of the *funeral plan product* to the *customer*; and

(c) the identified target market of each *funeral plan product*, including any identified group of *customers* for whom the *funeral plan product* is not expected to provide fair value.

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For the purposes of ■ PROD 7.3.2R, a *distributor* must consider at least the following:

- (1) the benefits the product is intended to provide to the *customer*;
- (2) the characteristics, objectives, interests and needs of the target market;
- (3) the interaction between the price paid by the *customer* and the extent and quality of any services the *distributor* (or any *person* connected to it) provides; and
- (4) whether any remuneration it receives in relation to the *funeral plan product* would result in the product ceasing to provide fair value to the *customer*.

Distribution arrangements: events indicating contravention of fair value

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The following *evidential provision* provides examples of what the *FCA* considers will breach ■ PROD 7.3.1R.

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- (1) A *firm's* distribution arrangements, including any distribution strategy it sets up, should not result in:
 - (a) the *firm* receiving a level of remuneration which does not bear a reasonable relationship to the *firm's* actual costs, or their contribution, level of involvement or the benefit added by them, to the arrangements for the distribution of the product, including where the *firm* provides little or no benefit beyond that which the *customer* would receive if they obtained the *funeral plan product* through another distribution channel;
 - (b) the *firm* having remuneration arrangements which give an incentive to propose or recommend a *funeral plan product* which either does not meet the *customer's* needs (or not as well as another product would) or is not in accordance with the *customer's best interests rule*; and
 - (c) the level of any remuneration (for which the *firm* is responsible for setting) not being reasonably reflective of the costs actually incurred.
- (2) Contravention of any of (1) may be relied upon as tending to establish contravention of ■ PROD 7.3.1R.

Distribution arrangements: disclosing information to manufacturers

- 7.3.6 **R** A *distributor* must, upon request, provide *manufacturers* with:
- (1) information on the *distributor's* remuneration in connection with the distribution of the *funeral plan product*;
 - (12) information on any additional product or service that the *distributor* provides to the *customer*, which may affect the *manufacturer's* intended value of the product;
 - (3) relevant sales information, including, where appropriate, information on the regular reviews of the product distribution arrangements; and
 - (4) confirmation that the distribution arrangements are consistent with the obligations of the *firm* under the *FCA Handbook*, including in particular in ■ SYSC 10.1 (Conflicts of interest) and ■ SYSC 19F.3 (Funeral plan remuneration incentives).

Distribution arrangements: record keeping

- 7.3.7 **R** A *distributor* must set out the product distribution arrangements in a written document and make it available to their relevant staff.

- 7.3.8 **R** A *distributor* must ensure that all relevant actions taken by it or any other party in relation to their product distribution arrangements are:
- (1) duly documented;
 - (2) kept for audit purposes; and
 - (3) made available to the *FCA* upon request.

Distribution arrangements: senior management responsibility

- 7.3.9 **R** A *distributor's governing body* must:
- (1) endorse and be ultimately responsible for establishing, implementing and reviewing the product distribution arrangements; and
 - (2) verify internal compliance with those arrangements on an ongoing basis.

Distribution arrangements: consistency with target market

- 7.3.10 **R** A *distributor* must ensure that any specific distribution strategy that it sets up or applies is consistent with:
- (1) the distribution arrangements set up by the *manufacturer*; and
 - (2) the target market identified in ■ PROD 7.2 (Manufacture of funeral plans), including any *customers* to whom the product should not be distributed.

Distribution arrangements: review of distribution arrangements

- 7.3.11 **R** (1) A *distributor* must regularly review, at least every 12 months, its product distribution arrangements to ensure that those arrangements are still valid and up to date.
- (2) When determining the appropriate intervals for the regular review of their product distribution arrangements, a *distributor* must take into account the size, scale and complexity of the *funeral plan product* involved.

- 7.3.12 **R** When reviewing the product distribution arrangements, a *distributor* must verify that the *funeral plan products* are distributed to the identified target market.

Distribution arrangements: amending distribution arrangements after review

- 7.3.13 **R** A *distributor* must amend the product distribution arrangements, where appropriate, in view of the outcome of the review of the product distribution arrangements.

- 7.3.14 **R** When a *distributor* becomes aware:
- (1) that a *funeral plan product* is not in line with the interests, objectives and characteristics of its identified target market; or
- (2) of other product-related circumstances that may adversely affect the *customer*,
- it must promptly:
- (3) inform the *manufacturer*; and
- (4) where appropriate, amend the distribution arrangements for that *funeral plan product*.

- 7.3.15 **R** (1) A *distributor* must take appropriate remedial and mitigating action, including to amend its product distribution arrangements, where it identifies:
- (a) a product is not providing fair value for *customers*;
- (b) any aspects of a product that may mean it does not offer fair value; or
- (c) the distribution arrangements, including remuneration structures, may mean the *customer* is not being provided with fair value.
- (2) The actions which the *distributor* takes for (1) must:
- (a) aim to mitigate the situation and prevent further occurrences of any possible harm to *customers*, including, where appropriate, amending the distribution strategy for that product; and

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For the purposes of ■ PROD 7.3.15R, the steps a *distributor* may need to take include (but are not limited to):

- (b) include informing any relevant *manufacturers* promptly about any concerns they have and any action the *distributor* is taking.
- (1) amending its remuneration structures;
- (2) amending the distribution arrangements;
- (3) improving the quality of, or ceasing, any service or benefits it provides;
- (4) where the failure to provide fair value is due to the costs or quality of additional products, renegotiating the terms of the current arrangements relating to the additional products, or selecting alternative providers or *distributors* of them, in order to provide for a fair outcome;
- (5) ceasing to distribute certain products, or ceasing to use certain distribution channels;
- (6) contacting existing *customers* to inform them of the issues and of the measures being taken to rectify them; and
- (7) providing redress to *customers*.