Annex 1

Indications on safeguarding on product oversight and governance applicable to the manufacturers who create insurance products to sell to customers.

1. **Elaboration of the safeguarding on product oversight and governance**

1. Taking into account the principle of proportionality enshrined in the IDD Directive and EIOPA guidelines,the insurance undertakings and insurance intermediaries (so-called "*manufacturer de facto"*) which create insurance products to sell to customers, should prepare and adopt safeguards on product oversight and governance that provide appropriate measures and procedures finalised at the design, monitoring, review and distribution of the products.

2. In particular, the safeguarding on product oversight and governance should:
   - be focused on the interests, objectives and characteristics of the customers, for the protection of which appropriate measures must be provided in the phases of design, control, review and distribution of the products;
   - provide for adequate measures in the case of products which are liable to be detrimental to customers;
   - identify the procedures to properly manage conflicts of interest that may arise in the *design* phase or which may occur during the entire life of the product.

3. The safeguarding on product and oversight governance shall be proportionate to the level of complexity and risk of the products as well as to the nature, dimension and complexity of the activity carried out by the manufacturers. The same should also be formalised in a document made available to all the competent staff, including the direct manufacturers registered in section C of the Single Register of Intermediaries.

4. In the case in which the insurance intermediary operates as a *manufacturer de facto*, the intermediary and the insurance undertaking that issues the product shall define their cooperation and their respective roles in an agreement so as to avoid inconsistencies and overlapping. It is understood that the undertaking remains fully liable toward the customer with regard to the cover provided.

5. The undertaking that directly distributes products that it has created refers exclusively to the safeguarding on product oversight and governance applicable to the manufacturers.

2. Role of the management bodies; skills of the personnel involved in the process of product design; externalisation of the process

6. The safeguarding on product oversight and governance and the relative changes should be approved by the administrative body or by an equivalent structure of the manufacturer that remains accountable for their development, implementation, subsequent revision and continuous compliance.

7. manufacturers should ensure that the personnel responsible for the design of the products possesses the competence, knowledge and experience necessary to properly understand the main characteristics of the products themselves, as well as the interests, objectives and characteristics of the *target market*.

8. The manufacturer remains the sole person accountable for *compliance* with the measures on product oversight and governance, even when the task of designing the products on his/her behalf is conferred to third parties.

3. Revision of the measures on product oversight and governance

9. The manufacturers should establish, in the context of the safeguarding on product oversight and governance, a minimum frequency within which to subject and possibly review the same, in order to ensure that they are always valid and up to date, taking into account the type and complexity of the products.

10. Manufacturers should also identify the main circumstances whose occurrence may require *ad hoc* revision of the safeguards on product oversight and governance, such as the occurrence of external factors of change (e.g. changes in legislation in the sector and/or significant developments of the *target market*), which may have an impact on the products and be detrimental to the interests of the customers for which the products themselves have been designed.

4. Reference market and distribution channels

11. The IDD Directive provides that the approval process of each product identifies the reference customers (*target market*), ensuring that all risks specifically related to this market have been previously analysed and that the deployment strategy is consistent with the same. The Directive also provides that manufacturers should take reasonable steps to ensure that the insurance product is distributed to the identified reference market and make available to the Distributors all the necessary information on the insurance product, including the identified reference market, and on its approval process.

12. Manufacturers should define, within the scope of the safeguarding measures adopted on product oversight and governance:
    - the suitable procedures and criteria for identifying the reference market of each product with an adequate level of granularity that takes account of the insurance needs of the type of customers and - if it is made necessary by the characteristics, complexity and the nature of the product - of the relative level of knowledge and experience in the field of investments and financial capacity;
    - the procedures with which the information must be made available to the distributors;
    - the initiatives to implement in order to check that the distributors they avail of operate in accordance with the relevant POG provisions and that they place the products correctly in the identified reference market, as well as the corrective measures to be adopted, should they consider that the distribution channel does not comply with the provisions on product oversight and governance. The verification procedures and any corrective measures shall take account of the nature of the relationship between the manufacturer and the distributor.

13. Manufacturers should design and commercialise only products that are calibrated on the interests, objectives and characteristics of the identified reference market. Manufacturers should also identify groups of customers for whom the product is generally not compatible, wherever relevant, for consumer protection.

14. For each product, moreover, the manufacturers should:
    - identify the adequate distribution channels, taking into account the characteristics of both the reference market and the product itself;

- provide the distributors with all relevant information on the product - in particular, on the main characteristics of the product, the risks and costs, including implicit costs - on the process of approval of the product, on the reference market and on the distribution strategy, including any circumstances that might cause a conflict of interest to the detriment of the customer. The information must be clear, precise and updated, in such a way as to allow distributors to understand and correctly place the product in the identified target market, to identify groups of customers for which the same product is generally not compatible, as well as to carry out the activity of distribution in the best interest of the customer.

5. Product testing before marketing

15. Before the product is placed on the market, manufacturers should carry out adequate testing of the product, by performing, where significant, scenario analyses. The tests are designed to assess whether the product continues to respond, for its entire duration, to the interests, objectives and the characteristics of the identified target market. The tests should be carried out even if there are substantial changes to a product on the market, such as to affect the guarantees offered as well as the target of customers, as a result of regulatory changes or changes in the economic conditions of the market.
16. Manufacturers should perform the tests according to a qualitative method and, if appropriate, a quantitative one, depending on the type and nature of the product as well as on the level of risk of detriment to the customer.
17. Manufacturers should not place a product on the market if, following the outcome of the tests, it is shown that the same does not respond to the interests, objectives and characteristics of the *target market*.

6. Product monitoring and corrective measures

18. The IDD Directive provides that the insurance undertaking understands and regularly reviews the insurance products that it offers and sells, taking account of any event which might significantly affect the potential risks for the identified reference market, in order to evaluate if the product remains consistent with the needs of the reference market and if the planned distribution strategy continues to be adequate.
19. Therefore, the manufacturers identify the main circumstances or events that, affecting the marketed products, could be detrimental to customers as well as the appropriate measures to be taken should these events occur, including the interruption of the placing on the market of the product in order to reduce the adverse consequences and avoid perpetuating the risk of detriment to the customers themselves.
20. Manufacturers should further verify, according to a predetermined frequency which takes account of the type, contractual duration and complexity of the products, that products placed on the market from the transposition of the IDD Directive and those substantially modified after the same date, still on the market, continue to respond to the insurance needs of the customers and, where relevant to the complexity of the product, to the knowledge and experience of the customers in the field of investment, to the relative financial situation and to the investment objectives.

21. These controls should also be carried out on products placed on the market before the date of transposition of the Directive (both those still in the market and those no longer marketed by that date), whose contracts are still in the portfolio, should there occur events of an exceptional nature distorting the market that are likely to be detrimental to the customer (purely by way of example: default of the issuers of underlying assets of the life products). The same treatment should be applied in the future to new products, once their marketing has terminated.
22. In such cases, manufacturers should take all the measures that they consider appropriate to reduce the adverse consequences for the customers involved and to avoid that the detriment may occur again for the same or for other customers who are in the same conditions; manufacturers should also, where necessary, immediately notify the distributors and customers concerned of the corrective measures established.

7. Documentation of the safeguarding on product oversight and governance

23. The manufacturers should document all the safeguarding measures adopted on product oversight and governance.
24. The documentation should be kept as long as contracts relating to the products subject to safeguarding on oversight and governance remain in force in the manufacturer's portfolio.