

# Design and Distribution Obligations (DDO)

ASIC Compliance from 5 October 2021



## Overview

### Purpose and rebalance

DDO will create a fundamental shift in how products are distributed to retail consumers. It requires issuers to design products that are consistent with the likely objectives, financial situation and needs of the consumer for whom they are intended.

Issuers will not be able to offer a product if an appropriate target market has not been identified for the product, and they must take reasonable steps to issue in accordance with the target market.

The obligations rebalance responsibility for consumer outcomes – responsibility will be shared by both consumers and the industry.

Issuers and distributors must comply with DDO from 5 October 2021. Australia will join other jurisdictions with established product design and distribution regimes.

### Product governance

Product governance is central to DDO.

The obligations require issuers and distributors to develop and maintain effective product governance processes across the lifecycle of financial products, with the ultimate aim of improving consumer outcomes.

DDO imposes requirements on:

- Product design
- Product distribution
- Information sharing
- Outcomes monitoring

There is an opportunity to derive value from DDO beyond compliance, such as delivery of customer strategy and product simplification.

### Coverage

Financial products, including:

- Life insurance products
- Superannuation products (excluding MySuper)
- Credit facilities and Consumer leases
- Investment management products (including ETFs)
- Other products prescribed by the Corporations Regulations

Excluded financial products include:

- MySuper products
- Margin lending facilities
- Most ordinary shares
- Securities issued under an employee share scheme
- Other products prescribed by the Corps Regulations



## Scope: The new obligations

### Four Design Obligations (for Issuers)

- 1 Make a target market determination (TMD) and make it publicly available
- 2 Review the TMD for appropriateness
- 3 Retain records about the TMD
- 4 Notify ASIC about significant dealings in respect of the TMD

### Five Distribution Obligations (for Distributors)

- 1 Not engage in retail product distribution without a TMD
- 2 Not engage in retail product distribution when the TMD may no longer be appropriate
- 3 Take reasonable steps so that distribution is aligned with the TMD
- 4 Collect, retain and provide distribution information
- 5 Notify the issuer of any significant dealings inconsistent with the TMD

- **“Reasonable steps”** – There is a “reasonable steps” obligation on both issuers and distributors. Evidencing reasonable steps in decision-making is a critical component of demonstrating compliance with these obligations.
- **Stakeholder alignment** – Setting clear expectations and alignment between stakeholders regarding information exchange is important to consider early. The scale and complexity may differ depending on issuers/distributor arrangements.



## Obligations – Headlines

### Supporting better customer outcomes

- The Obligations intend a customer-centric and future-facing approach to compliance.
- Establishing a robust Product Governance Framework should ensure the financial products are critically evaluated throughout their lifecycle, meeting the significant requirements relating to review and data collection.

### Target market determinations

- ASIC acknowledges that the target market determinations will differ across organisation types, however customer outcomes should be the key focus.
- The amount of information required to build a target market is substantial and relies on information exchange between issuers and distributors.

### Fundamentals

There are a number of components articulated which support the obligations. This includes:

- The role and importance of *distribution controls* for both issuers and distributors
- The role of *choice architecture* in sales and product design (how do we influence consumers) and
- The role of data and *fact-based results* and *testing* is fundamental to successful implementation.

# Impact of DDO Legislation



## Key transitions

Through customer, product, and distribution transformations businesses will achieve better internal harmonisation that will act as a foundational value for working towards successful DDO compliance. This is a chance to innovate, and not just comply.

Our PwC framework considers this maturity curve and is a consumer-led and holistic approach, which can be tailored to organisational appetite.

PwC framework	Component	Current position	Future position
<b>Customer and product</b> Products are designed to meet customer needs	<b>Customer characteristics</b>	<ul style="list-style-type: none"> <li>Customer understanding built on folk psychology and demographic personas</li> </ul>	<ul style="list-style-type: none"> <li>Deep understanding of customer needs, objectives, and financial situation based on behavioural economics, customer analytics, and enhanced segmentation</li> </ul>
	<b>Product design</b>	<ul style="list-style-type: none"> <li>Complex products designed for sale to demographic segments</li> </ul>	<ul style="list-style-type: none"> <li>Simple, modularised products designed for needs of target markets</li> </ul>
	<b>Customer value Proposition</b>	<ul style="list-style-type: none"> <li>Revealed preference through purchase taken to mean value offered</li> </ul>	<ul style="list-style-type: none"> <li>Customer value assessed against meeting of needs, experience and market prices</li> </ul>
<b>Distribution</b> Distribution is in line with design	<b>Marketing</b>	<ul style="list-style-type: none"> <li>Mass-marketing to build awareness and attract sales</li> </ul>	<ul style="list-style-type: none"> <li>Marketing developed as part of the larger distribution strategy, aligning the channel and content to the target market</li> </ul>
	<b>Sales and distribution</b>	<ul style="list-style-type: none"> <li>Transactional sales with disclosure involving offer of full portfolio of products</li> </ul>	<ul style="list-style-type: none"> <li>Choice architecture gives the right products to the right customers</li> </ul>
	<b>Usage and switching</b>	<ul style="list-style-type: none"> <li>Hard to switch to more suitable product; unused features not analysed</li> </ul>	<ul style="list-style-type: none"> <li>Ease of switching due to simplified product offering and publically available TMD</li> </ul>
<b>Continuously improved</b> Outcomes are analysed for continuous improvement	<b>Complaints</b>	<ul style="list-style-type: none"> <li>Complaints treated as problem to be solved</li> </ul>	<ul style="list-style-type: none"> <li>Customer complaint data regularly collected by distributor and reported to issuer</li> <li>Strategic value that informs ongoing review process and overall customer outcomes</li> </ul>
	<b>Closed feedback loop</b>	<ul style="list-style-type: none"> <li>Resolve complaints and respond to feedback</li> </ul>	<ul style="list-style-type: none"> <li>Feedback used to solve the root cause of problems across the full target market</li> </ul>
	<b>Continuous improvement</b>	<ul style="list-style-type: none"> <li>Project based prioritisation</li> </ul>	<ul style="list-style-type: none"> <li>Iterative and ongoing review</li> <li>Collected and analysed relevant and reliable consumer, product performance, value and transaction data</li> </ul>



## Step one – A focus on Target Market Determination

Determining target markets is only the first step in complying with DDO, however there is considerable effort required to get it right.

The Target Market Determination *impacts every DDO component*. Therefore, it is crucial not to mis-step given the domino effect on other core components.

Understanding product features and customer needs is essential and will allow for tailored TMD assessments.  
*A level of granularity* is required in mapping product features to customer characteristics.

*Investing in a robust TMD approach* in the short-term will reap rewards in the long-term.  
*Knowing your customers* is central to DDO and demonstrates value beyond compliance.

Planned implementation will enable technology/digital tools to be applied at scale, *embedding ongoing DDO monitoring, review triggers and reporting*.

Our experience in the UK and European Union suggests a strong need to start early and place effort into getting your target markets determined.

# What is needed?

## Calls to Action



### Move now, get ahead

Have you considered the impact of DDO for your organisation and your customers? Our global experience suggests effort should not be underestimated as DDO is broadreaching.



### Identify & Align Stakeholders

Aligning internal and external stakeholders on criteria for TMD will take time to achieve. Alignment around a sufficiently granular forward looking TMD requires early input from different stakeholders.



### Know Your Data

Gaps and/or data issues with existing product specifications will likely require IT, Products and Business support to remediate. This may open the door for simplification.



### GAP Analysis

Have you performed a readiness review to identify areas requiring uplift in your organisation?



### Link In & Do Once

Have you considered how other legislation may impact your DDO efforts? Is there duplication? Is one solution possible? For example, Member Outcomes, Responsible Lending, Financial Accountability Regime etc.



### Governance

Have you considered overarching governance, accountability and reporting requirements? Which stakeholders and capabilities will need representation in your product governance working group?



### Managing risk through controls

Have you considered who is giving assurance on the design and operating effectiveness of key controls, in particular distribution controls, that mitigate risks that you are responsible for?



### Scope

Start determining your in-scope products now, and sign this off with accountable stakeholders.

## Contact us to find out more

Please reach out to any of the below contacts should you wish to obtain further information on DDO implementation.



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