# The Financial Conduct Authority (FCA) and the focus on Product Governance

## How to effectively manage product governance and the product lifecycle

*Autumn 2013*

During the journey to the FCA, the shift in focus has been from a reactive to a proactive approach. The regulator is now seeking to stop customer detriment before it occurs where possible.

A key element of the regulator's interest is on product and we have seen a marked increase in focus on product governance and product lifecycle management.

A key question firms will need to answer is how they ensure they are putting the consumer at the heart of their businesses and the FCA will expect firms to be able to demonstrate this in the context of product and related activities. We have also noted a significant number of Risk Mitigation Plan requirements concerning product governance, and the robustness of governance and approval arrangements.

We therefore believe this is a key area for Boards and senior management.

There have been a number of regulatory developments in this area in the recent past and the 2013 FCA Risk Outlook confirms that a priority to the regulator is that firms design products and services that respond to real consumer needs and are in their long term interest. There have already been various thematic reviews touching on product, such as the recent publication on mobile phone insurance, which underline the importance of product to the FCA and that this is a firm-wide matter.

Whilst we do not expect to see a wide application of product bans, we are seeing a far greater programme of product governance reviews being initiated by the FCA. It is also clear that if action is taken in respect of product intervention by FCA, there will be reputational and commercial impacts to firms if such actions are invoked. In practice, such powers will allow the FCA to:

- Restrict the use of certain product features;
- Require that a product not be promoted to some or all types of customers; and
- In the most serious cases – require that a product not be sold altogether.

These developments and requirements pose some real challenges for firms establishing and managing their product governance and lifecycle approaches.

Some of the key questions and challenges include:

- Product and customer strategies
  - Do you have appropriately senior and experienced individuals involved in the setting of product strategy, with a customer-centric approach?
  - Have you appropriately considered the suitability of any distributors for your products and understand their activities in respect of the customer journey?
- Committees to manage the product approval, review and governance process.
  - Is there an appropriate balance of committee membership, with a clear and identified "voice of the customer"?
  - Is there documented evidence of customer-focused review and challenge?
- Suitable product development and approval criteria
  - Do your processes and procedures lead to a clear identification of target market and customer needs for each of your products?
  - Are customer risks considered at an appropriate stage and early enough in the product development process, including appropriate customer involvement in the product design process?
  - How do you demonstrate evaluation of product-related risks to your customers such as distribution strategies, use of third-parties, product complexity and customer value?
- Product review processes
  - How do you know that your products remain suitable over time for the target market and current environment in which they are sold?
- Product governance
  - Does your Board receive the right MI to effectively monitor the product process to enable it to take action where needed?

We are well placed to support clients establish or validate the appropriateness of new/existing product governance systems and processes.

We have regulatory and subject matter experts, good relationships with the FCA, and have extensive practical experience in the marketplace; supporting clients by undertaking:

- Reviews of product governance frameworks
- Evaluation of product policies, procedures and processes for product design, approval and review
- Review of MI and reporting – for management and Boards
- Assisting firms with product governance as a part of their overall conduct risk management frameworks.

Creating and maintaining effective product governance systems is key to both good customer outcomes and regulatory adherence; helping to deliver sustainable and "good" profits, customer retention and satisfaction.

| Name | E Mail | Telephone |
|------|--------|-----------|
| David Morey | david.morey@uk.pwc.com | 020 7804 2684 |
| John Coley | john.k.coley @uk.pwc.com | 020 7213 8075 |
| Amanda Rowland | amanda.rowland@uk.pwc.com | 020 7212 8860 |
| Dominic Fielding | dominic.j.fielding@uk.pwc.com | 020 7804 0574 |