

Skilled Person Learnings for Consumer Investments Firms #5

Product Governance - Embedding Good Conduct

Skilled Person (FSMA s166) reports continue to drive up costs for firms, increase regulatory scrutiny, and cause reputational damage. There is no sign that they are reducing in number. Although a lack of proactive engagement with the FCA often contributes to a Skilled Person report being mandated, we often find weaknesses in critical, embedded controls.

This is the fifth in a series of articles which share practical 'lessons learned' insights from our Skilled Person and advisory work covering:

1. CASS
2. Financial crime
3. Advisory and sales practices
4. Portfolio and fund management
5. Product governance

We aim to provide actionable takeaways for firms. If you would like a healthcheck or simply a discussion about the application of these areas to your business, please let us know.

Top Ten Actionable Learnings from our Work

1. **Formulaic review processes** - with reviews timebound, rather than responding to changes in product risk characteristics, customer utilisation, customer behaviour or organisational change.
2. **Data is process, not risk focussed** - considering reactive data only such as issues and complaints, rather than considering broader risk-based data including product usage, vulnerability, performance and value. Data is not considered holistically, but used to measure processes in isolation.
3. **Entire customer journey not considered** - with a lack of information covering the end to end product lifecycle and/or a lack of data from third parties who manufacture/distribute the product or perform key front or back office services.
4. **Insufficient depth to product review** - with reviews only considering peripheral or specific components of the product's use, rather than the breadth of the product's take-up, distribution and performance.
5. **Reviews do not consider customer and staff feedback** - focussing on operational components without assessing how customers 'feel' about the product and where they have queries, concerns or clarifications that may point to a lack of understanding.
6. **Unclear standards set against which to measure** - with product governance arbitrary in its assessment of 'good outcome' delivery and not always being able to determine, on a risk and customer outcome perspective, the value of the product to its target market.
7. **Lack of relationship between product governance and commercial strategy** - with product governance not taking into account current and future expected changes/enhancements to strategy, such that the assessment of the product is not in line with organisational expectations on its use and likely volume of sales.
8. **Lack of relationship between product governance and organisational governance** - with outputs from governance, particularly where products have been identified as having potentially harmful consequences for customers, not shared with and/or discussed by appropriately senior fora and relevant Senior Managers.
9. **Decisions to launch/alter products based upon commercial requirements only** - with limited assessment of consumer risk, specific target markets or measures to test the implementation of the product launch/alteration for consumer outcomes.



10. Products are distributed through inappropriate channels - such as complex products distributed online to the mass market, third parties distributing products that they do not fully understand and/or the target market and distribution channels not aligned in a manner that ensures that customers are able to make informed decisions.