Key considerations when defining product governance arrangements

Financial firms should have adequate procedures and measures in place that ensure that the interests of consumers are taken into account in a balanced manner when manufacturing and / or distributing a financial product. The objective is to ensure that only products that are in the interests of customers are manufactured and that those are offered to a well-defined target market for whom the product is suitable (the target market). The eventual product must demonstrably be the result of this balancing of interests.

Key items in a product development process are listed below. A financial firm must ensure that these items are part of its product development process. This list of items is not exhaustive. The statutory requirements with respect to procedures and measures in a product development process vary according to the product and product group. The following items are relevant to all products and product groups.

1 - Clearly assigned responsibilities

The responsibilities within the product development processes (product manufacturing, product approval and product review) are clearly assigned and at a sufficiently high level.

2 - Encouraging self-critical capacity

The processes encourage and ensure that the financial firm looks at its own products with an open mind and a sufficiently critical eye. For the purpose of a careful weighing of interests, there is added value in bringing multiple perspectives to the product development process. Multi-disciplinary discussion sessions, open questions and a clear, dedicated standards framework can help in this respect.

3 - Well-defined target market

The processes ensure that the target market of products is well defined and is related to characteristics of the product. The definition of the target market should be accompanied by a description of the market for which the product is unsuitable. Where relevant, outcomes of scenario analyses are taken into consideration in the definition of the target market.

4. – The distribution strategy is adapted to and consistent with the target market

The processes ensure that, through the distribution strategy, products are distributed to the target market and not (on any structural basis) outside of it. It follows clearly from the distribution strategy what safeguards are necessary to ensure that the product reaches the defined target market.

5 - Product assessment in various scenarios

The processes ensure that relevant scenarios for the product (with all its characteristics) are properly analysed. Changing circumstances often affect the impact of a product in relation to the target market. Market conditions, such as the level of interest rates or an individual's personal situation, for example in case of a divorce, may change. It is important that firms have insight into relevant scenarios and that the impact of these scenarios is easy to explain and acceptable to the target market. Even in changing circumstances, there should be a realistic likelihood of the product satisfying the needs of the target market. It is therefore important that firms analyse which scenarios are relevant to the product in question and that they use the outcomes of these scenario analyses in shaping the characteristics or the definition of the target market of the product.

6 - Timely review of products

In order to ensure that a product continues to provide the target market with an appropriate solution, it is important that the product is reviewed on a regular basis and whenever there are grounds to do so. Processes should ensure that the products are reviewed in a timely manner. The regular reviews should be carried out at a frequency that is consistent with the complexity and impact of the product.

Performance of an occasional review may be triggered by the product itself (or the elements of the product) or by external circumstances. Possible indicators for conducting a review include changes in the terms and conditions of a product that result in significant changes in the operation of the product, macroeconomic conditions (rising interest rates or falling house prices, for example), relevant changes in the law, signals from advisers or an increased number of complaints. Other indicators may include tax changes or changes in the pension system that have an impact on the financial situation of the target market. It is up to firms to identify these triggers.

In a review, a financial firm assesses its earlier considerations, for example with regard to the target market, and determines whether they are still applicable. It is not the intention to merely repeat previous findings from the product development process. Providers must critically reassess their product with each review. This does not mean that they need to repeat all the steps of the product development process all the time, however. For example, if it is concluded on good grounds that a particular event, such as a tax change, has no impact on the scenario analyses that were carried out, then it is not necessary to undertake a re-analysis of the scenarios. A review may lead to the provider redefining the target market of the product. The product itself, the distribution strategy and the information given to customers may also be modified.