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FCA product value findings – practical considerations

The UK Financial Conduct Authority (**FCA**) recently published its findings following a review regarding product value and coronavirus. While the review focussed on the general insurance sector, the FCA's findings will be relevant to other firms as they relate to certain FCA priority items such as the new consumer duty, governance, ensuring good customer outcomes and reducing consumer harms.

Below we provide some practical considerations for firms on some of the key points and how these elements can apply across a wider range of products and services. Equally, whilst the FCA focussed on how firms had reviewed product offerings in light of the FCA's Covid-19 product value guidance, the principle of ensuring that products continue to provide value to customers should underpin a wider set of ongoing circumstances.

Focus on customers, outcomes and product value

FCA finds lack of customer centricity in many firms, with an insufficient focus on product value and customer outcomes. As set out in its 2021/22 Business Plan, the FCA expect firms to deliver fair value by providing products and services of suitable quality and price.

Product value

Determining and demonstrating value can be a challenge for firms, considering the range of relevant qualitative and quantitative factors, including price and quality of the product or service, customer outcomes achieved, and costs to the firm (direct and indirect) of delivery, among others. While a one-size-fits-all approach is unlikely to be effective, a good starting point is for firms to ensure that customer focus is embedded into the product design process from the outset. This includes processes and controls to ensure that a variety of factors – beyond, for example, profitability and marketability – are considered, such as how the product provides value for money and meets customer needs, target market, vulnerable customers, customer communications, and the impact on a firm's risk profile. If a firm has a view as to how the design of a product addresses these factors, it can embed them in practice through product launch, and more effectively review against them on an ongoing basis.

Governance and oversight of product development and review

FCA findings include: an absence of robust and well-evidenced challenge or senior input into product decisions; issues of accountability for decision making; committees ratifying decisions rather than providing substantive input; and frontline business unit committees focussing on production or new opportunities, rather than considering the appropriateness of those products for use.

Governance framework design and operation

The FCA's findings highlight that effective governance requires appropriate design and operation in practice. A committee's terms of reference may be well drafted, but are ineffective if committee members do not execute on their responsibilities in practice, with insufficient engagement, debate and challenge. Conversely, committee members may engage appropriately, but this needs to be properly documented and evidenced through well drafted minutes.

Providing and evidencing 'challenge'

When considering proposals, relevant committees can and should provide challenge in a number of ways. For example, ensuring that any product proposal has considered the necessary range of factors (customer outcomes, value, risks, etc.); testing the validity of proposals and any underlying assumptions; and holding stakeholders to account as appropriate, e.g. in ensuring that any action points are addressed. It is important that members around the table engage in such discussion and debate, and that the minutes appropriately reflect this. The FCA recently made similar comments, regarding lack of challenge, in a review of authorised fund management firms – reinforcing its level of focus on the issue.

Frontline business staff – or first line of defence ("1LOD") – roles and responsibilities

1LOD should demonstrate ownership of broader risk issues associated with their products. 1LOD committee ToR, as well as 1LOD staff role descriptions, should embed responsibilities on risk matters, which can in turn ensure that business owners routinely consider such issues alongside business performance considerations.

Regulatory change

FCA finds that some firms are unable to evidence that they have properly considered and, as appropriate, implemented new regulatory requirements, communicated through the FCA's thematic review, formal guidance, and associated Dear CEO Letter. This includes not evidencing gap analysis reviews of current systems and controls against new requirements, senior management oversight, or implementation and project plans, and can lead to continued consumer harms as firms fail to implement necessary changes.

Regulatory horizon scanning

Firms' approaches to understanding the regulatory agenda and its potential impact to the firm should take account of evolving regulatory expectations, which can be communicated in a number of ways – e.g. speeches, final notices, Dear CEO letters. Taking a holistic approach to understanding the regulatory agenda can help inform a firm's approach to risk management and compliance.

Regulatory implementation

As the FCA's findings make clear, it expects firms to be "on top of" regulatory change. This requires firms to have in place effective processes and controls regarding regulatory change identification (which relates to horizon scanning) and impact analysis, as well as appropriate governance and oversight over implementation. Key considerations include ensuring major pieces of regulatory change implementation are "handed off" to appropriate owners within the business functions; coordination across business lines and functions, in particular if regulatory changes impact on different areas of the business. It is also vital that there is an appropriate level of senior sponsorship, which can help ensure implementation projects are appropriately resourced and prioritised.

Product review approach and methodology

FCA notes that not all firms had established what 'good' looked like or what metrics or indicators should be considered in carrying out product reviews, e.g. templates relied primarily on the views of staff rather than on management information around customer outcomes. Grouping of products, including in relation to the target markets, were often potentially too broad or high level for effective product reviews, creating a risk that firms were unable to identify pockets of harm or cohorts of customers that would have been disproportionately impacted.

Review post-launch

An effective product review process should incorporate a variety of factors and be sensitive to the specific nature of the product. In addition to monitoring of product performance, this includes monitoring whether a product is meeting target customer needs, how vulnerable customers are impacted and treated, and outcomes from customer communications. Firms should have governance in place to ensure oversight of reviews, including reporting to relevant committees, and high-risk products may be subject to heightened processes and controls. Reviews should consider the impact of a product on the firm's risk profile (e.g. whether it remains in line with risk appetite and strategy as expected), as well as conditions and thresholds for amending or ceasing a product based on relevant MI (including whether certain changes to a product constitute a 'new' product, and how this is approved and communicated to clients).

How we can help

We can assist firms with the **design**, **review** and **implementation** across all aspects of their approaches **product value** and **product governance**, including:

Governance framework effectiveness

Policies and procedures

Board and senior manager training

Product design and value for money frameworks

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