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Product governance

Establishing and maintaining effective, end-to-end product risk management capabilities

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Executive summary

Banking Organisations (Organisations) are actively evaluating their governance models, processes, and technology to enhance their product governance framework. In addition, the supervisory expectations for product governance are being heightened globally.

Organisations are facing a growing need to modernise the way product strategies are defined, how products are brought to market, and ongoing product management. Organisations are struggling to strike the appropriate balance between commercial outcomes, delivering for clients, and risk management.

- Legacy new product approval processes tend to be rigid, slow, and inefficient.

- Fragmented product inventories leave Organisations struggling to assess their portfolio of products and make data-driven product strategy decisions.

- Inconsistent risk assessment processes and multilayered, complex governance models add unnecessary bureaucracy and burden on stakeholders.

Supervisory expectations continue to increase across the end-to-end product governance, inclusive of product initiation, product risk assessments across financial risks (e.g., credit, market) and non-financial risks (e.g., operational, compliance, conduct), product launch, and ongoing monitoring and change management. The topic of effective product governance is becoming more relevant given the current landscape, where regulators are developing a better understanding and evaluating the risks of introducing novel products such as digital assets as well as regulating the mis-selling of "green" products.

Things to consider

Managing the growing product governance supervisory expectations and modernising the associated end-to-end processes is not an easy undertaking. Organisations are realising, in addition to satisfying supervisory expectations, effective product governance elevates an organisation' competitive edge and improves its ability to serve customers and markets.

- **A rationalised and simplified process** will go a long way. Enough time and thought should be given to design the target-state product governance process. In addition, consideration should be given to aligning and integrating the product governance processes with operational resilience.

- **Investments in technology capabilities** supporting end-to-end product governance are designed to enable a healthy return on investment (ROI). A user-friendly workflow software, integrated with other governance and risk management tools, builds product governance into the DNA of the organisation—with stakeholders wanting to use the workflow software and the associated processes instead of trying to circumvent the product governance processes.

Benefits of doing it right

Beyond satisfying supervisory expectations, an effective product governance framework elevates an organisation' competitive edge and improves its ability to serve clients. When done effectively, customers, businesses, risk management (financial and non-financial), and control functions benefit together.

Primary benefits of strengthened product governance

Efficient and standardised process
- Move from product ideation to market faster
- Ability to execute a consistent and easy-to-navigate approval process
- Reduce duplicative effort and unnecessary bureaucracy

Informed product strategy
- Ability to make data-driven decisions (e.g., products prioritisation including investment and capital allocation, market and client selection)
- Ability to manage return on Investment (ROI) at product and portfolio levels

Improved risk management
- Capability to continuously measure and mitigate risk through product life cycle
- "Know your products" toolkits facilitate risk monitoring
- Ability to demonstrate compliance with regulatory obligations with enhanced reporting and metrics

Benefits by functions and stakeholders

First line of defense (1LOD) product owners/business owners (front office, product managers)

- Risk-differentiated approval pathways in place of a one-size-fits-all approach to improve commercial outcomes

- Streamlining new product approval (NPA) committee structure to prevent the need for multiple approvals across lines of business (LOBs) and regions

- Portfolio, product, and product family key performance indicators (KPIs) enabling better product strategy decisions

- Effective and real-time product performance and risk monitoring metrics and reporting

- Alignment between organisation and product strategy

Risk management (1LOD in-business risk and control, second line of defense (2LOD) control functions)

- Product lens to risk assessment with a consistent risk and product language across the organisation

- Ability to conduct standardised, repeatable product risk management processes and risk assessments

- Know the risk sensitivities between products i.e., target those with higher risks

- Alignment between organisation and product risks

- Assessment of product delivery against regulatory expectations

Regulatory environment

Supervisory expectations continue to increase as regulators seek to adapt to the evolving landscape (e.g., the introduction of novel products such as digital assets and "green" products) and seek to reinforce good product governance practices by Organisations.

Organisations are facing increasing pressure from regulators to modernise their product governance framework to better manage the heightened risks posed by an evolving product landscape. Regulatory actions are being imposed for the lack of product governance—regulatory expectations are that Organisations "know your products" as well as associated risks and can readily demonstrate this.
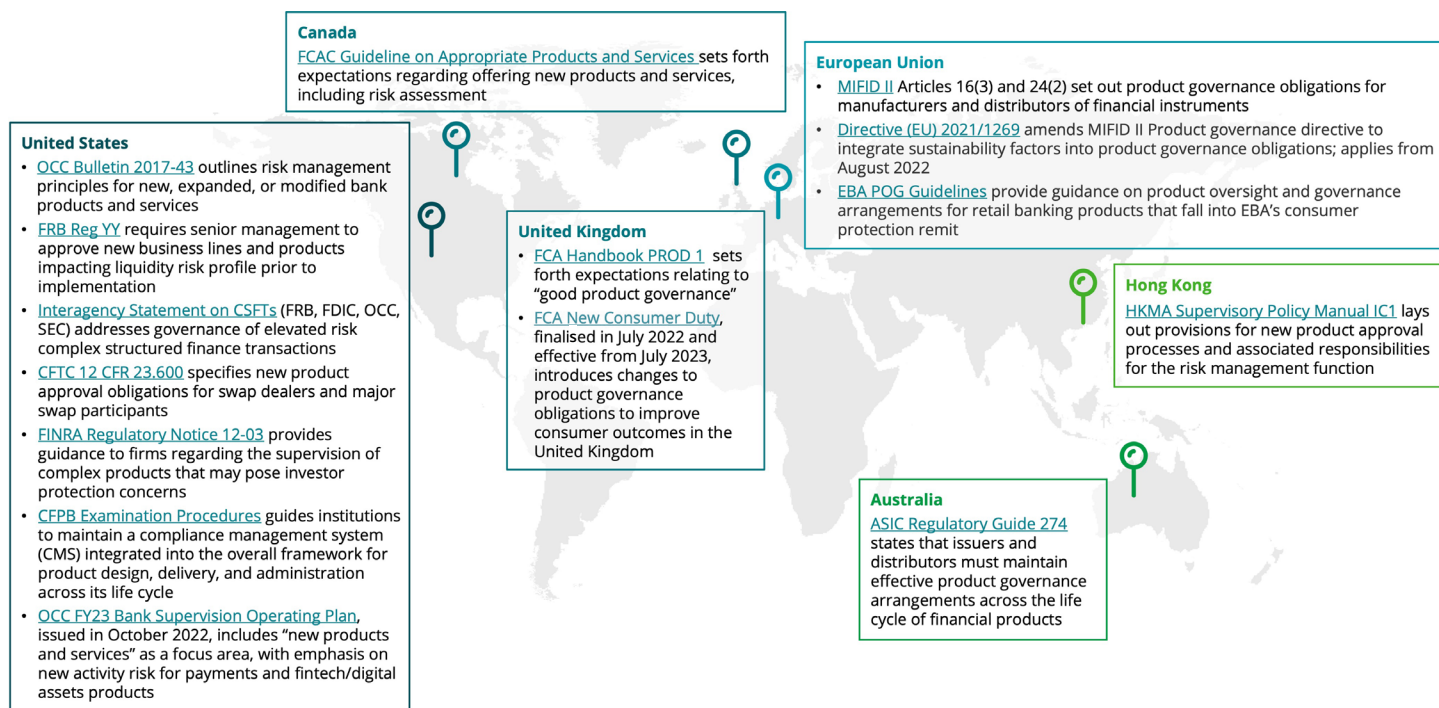
Some of the regulatory focus areas include:

- Management and the Board' clear understanding of the risks and benefits of new products

- Appropriate and consistent product risk management processes to effectively measure, monitor, assess, and control the risks associated with new and existing products

- Defined processes to manage changes to products through ongoing product risk and performance monitoring

Organisations should reevaluate and enhance their existing product governance processes and infrastructure to satisfy heightened supervisory expectations.

Regulatory landscape and recent developments

Illustrated below is a select, non-exhaustive list of product governance regulations applicable to various jurisdictions.

Canada
FCAC Guideline on Appropriate Products and Services sets forth expectations regarding offering new products and services, including risk assessment

European Union
- MIFID II Articles 16(3) and 24(2) set out product governance obligations for manufacturers and distributors of financial instruments
- Directive (EU) 2021/1269 amends MIFID II Product governance directive to integrate sustainability factors into product governance obligations; applies from August 2022
- EBA POG Guidelines provide guidance on product oversight and governance arrangements for retail banking products that fall into EBA's consumer protection remit

United States
- OCC Bulletin 2017-43 outlines risk management principles for new, expanded, or modified bank products and services
- FRB Reg YY requires senior management to approve new business lines and products impacting liquidity risk profile prior to implementation
- Interagency Statement on CSFTs (FRB, FDIC, OCC, SEC) addresses governance of elevated risk complex structured finance transactions
- CFTC 12 CFR 23.600 specifies new product approval obligations for swap dealers and major swap participants
- FINRA Regulatory Notice 12-03 provides guidance to firms regarding the supervision of complex products that may pose investor protection concerns
- CFPB Examination Procedures guides institutions to maintain a compliance management system (CMS) integrated into the overall framework for product design, delivery, and administration across its life cycle
- OCC FY23 Bank Supervision Operating Plan, issued in October 2022, includes "new products and services" as a focus area, with emphasis on new activity risk for payments and fintech/digital assets products

United Kingdom
- FCA Handbook PROD 1 sets forth expectations relating to "good product governance"
- FCA New Consumer Duty, finalised in July 2022 and effective from July 2023, introduces changes to product governance obligations to improve consumer outcomes in the United Kingdom

Hong Kong
HKMA Supervisory Policy Manual IC1 lays out provisions for new product approval processes and associated responsibilities for the risk management function

Australia
ASIC Regulatory Guide 274 states that issuers and distributors must maintain effective product governance arrangements across the life cycle of financial products
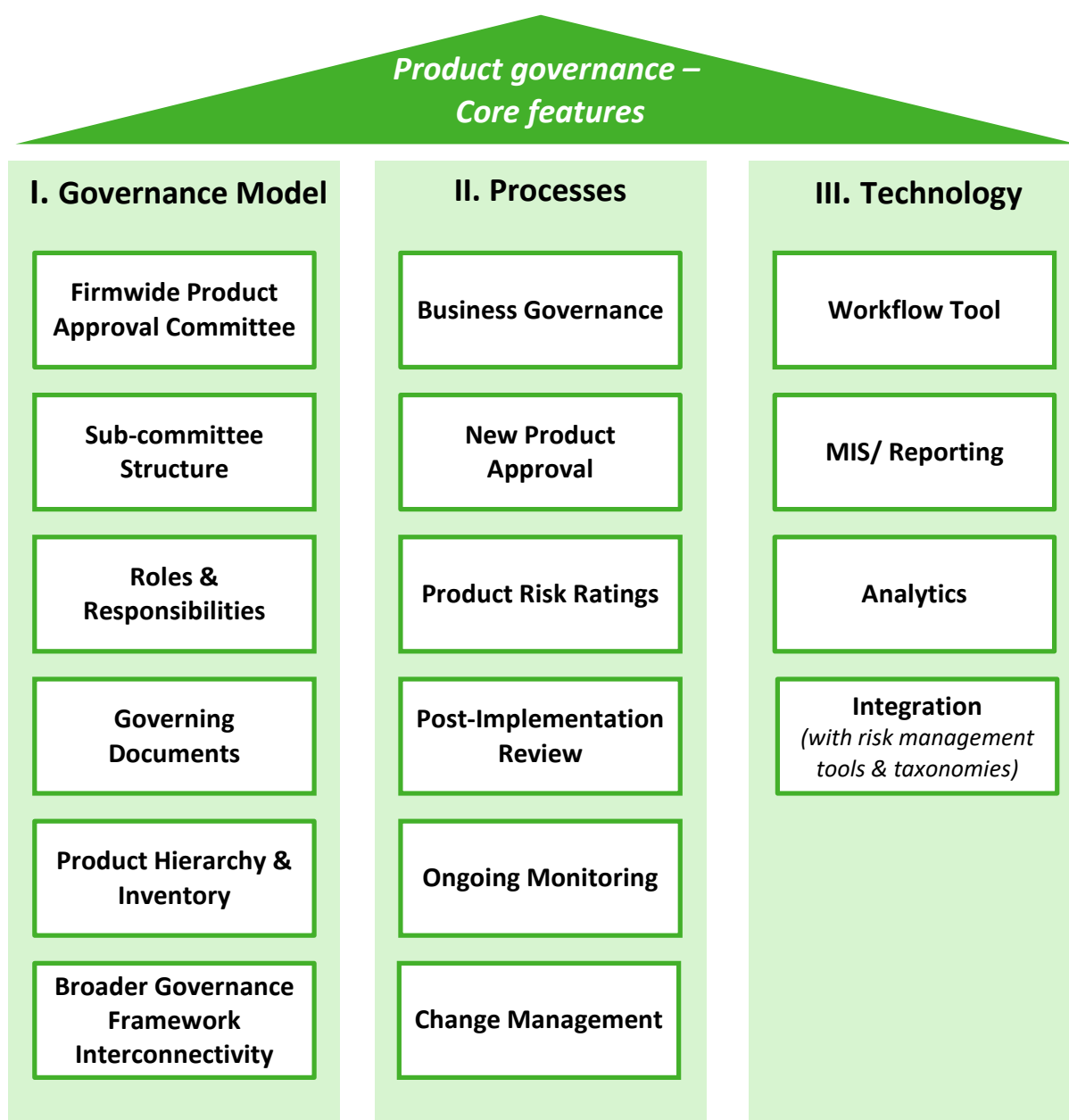
Features of effective product governance

Organisations are rethinking product governance by redesigning legacy processes and investing in technology capable of supporting an end-to-end product governance framework.

Having an established and well-understood product governance framework promotes an organisation wide approach to manage product risk and performance across the product life cycle.

Based on our industry experience and understanding of supervisory expectations, the following outlines an illustrative framework for effective product governance. The framework can be adapted to fit the size, complexity, maturity, and circumstances of an organisation.

Product governance – Core features

I. Governance Model	II. Processes	III. Technology
Firmwide Product Approval Committee	Business Governance	Workflow Tool
Sub-committee Structure	New Product Approval	MIS/ Reporting
Roles & Responsibilities	Product Risk Ratings	Analytics
Governing Documents	Post-Implementation Review	Integration *(with risk management tools & taxonomies)*
Product Hierarchy & Inventory	Ongoing Monitoring	
Broader Governance Framework Interconnectivity	Change Management	

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I. Governance model

A well-designed and documented governance model is the foundation of a sound end-to-end product governance framework. Organisation should guard against bureaucracy and work to develop an intentional and rationalised framework. When the model is built out properly, it becomes an enabler for efficient processes, informed product strategy, and sound risk management.

	Typical industry challenges	Core considerations
I. Governance Model Firmwide Product Approval Committee Sub-committee Structure Roles & Responsibilities Governing Documents Product Hierarchy & Inventory Broader Governance Framework Interconnectivity	• **Complex and multilayered governance structure** with lack of clear oversight by senior management	• Streamlined and simple committee/governance structure comprising an organisation wide **product approval committee** and business/region-aligned subcommittees where appropriate (e.g., to accommodate local regulatory requirements) • **Clear roles and responsibilities** embedded in policies across the first and second LODs
	• **Lack of overarching organisation wide governing documents** establishing a common framework applicable across the organisation	• **Formalised governing documents** such as an organisation wide product governance policy, new product approval, ongoing monitoring and change management procedures along with interconnection with other organisation wide policies such as risk and product taxonomy, risk appetite, and concentration risk
	• **Unclear and narrow "product" and "service" definition and scope for product governance**	• **Clear definitions of activities in-scope versus out-of-scope for product governance with examples** embedded in governing documents • **Expanded scope** beyond products and services to cover activities with a client impact, such as outsourcing/partnerships with third parties and large-scale organisation restructuring
	• **Fragmented product inventories and taxonomies** with no central ownership or formalised change management process	• **Centralised product inventory and taxonomies** with linkage to product family and clear ownership by business

II. Processes

Organisations should develop an interconnected product governance life cycle to elevate commercial outcomes, meet market demands, and enhance product risk management.

	Typical industry challenges	Core considerations
II. Processes Business Governance New Product Approval Product Risk Ratings Post-Implementation Review Ongoing Monitoring Change Management	• Inconsistent initiation and business due diligence for new initiatives leading to **unrealistic projections and potential blockers identified much later in the process, deep into product development**	• Standard criteria and formalised processes, including **preliminary** risk assessments, to **assess product viability and whether an initiative is aligned** to an organisation' strategic plan and risk appetite
	• **Cumbersome and rigid processes** limiting speed to market and introduction of new products, such as digital assets	• **An efficient and agile new product approval process** with risk-differentiated approval pathways (i.e., less rigorous approval for lower risk or pilot/experimental proposals versus committee approvals for higher risk proposals)
	• **Inconsistent product risk assessment methodology**	• Dynamic risk assessment questionnaires and templates **by risk category to consistently assess incremental risk**
	• **Lack of formalised processes** for managing product approval-related conditions (i.e., conditions to be satisfied for an approved initiative as prescribed by a product approval committee at the time of approval), product post-implementation reviews, ongoing monitoring, and change management	• **Formalised and sustainable post-implementation review and ongoing monitoring processes** to assess if product is performing within accepted parameters • **Defined change management** process to assess and implement product changes and product re-approval, or to decommission/scale back along with changes to product governance process based on regulatory feedback, or to reflect change in regulatory expectations

III. Technology

Technology capabilities can help streamline product governance efforts. As an organisation' technology becomes more sophisticated, the benefits of an integrated technology solution become more apparent.

	Typical industry challenges	Core considerations
III. Technology **Workflow Tool**	• **Product governance often lacks sufficient technology capabilities** throughout the process resulting in inefficient and inconsistent process	• **A single workflow tool** for end-to-end product governance, resulting in a streamlined and automated process with smooth handoffs
MIS/ Reporting **Analytics**	• **Siloed and legacy technology infrastructure** resulting in duplication of effort and data quality issues	• **An integrated technology infrastructure** supporting the end-to-end product governance process which is integrated with the organisation' other technology tools, such as risk management (e.g., risk and control self-assessment [RCSA], risk appetite), taxonomies (risk and product), and permissible product lists across banking and trading products
Integration *(with risk management tools & taxonomies)*	• **Lack of active portfolio monitoring** due to lack of available data and analytics capabilities	• **Enhanced MIS/reporting and analytics** capabilities to produce dashboards and reports to monitor and assess product and portfolio KPIs and key risk indicators (KRIs) and to inform product strategy and investment decisions

Getting started

Organisations at varying levels of product governance maturity are redesigning their frameworks and investing in their processes and technology.

To get started with your organisation' product governance transformation, consider your organisation' product governance framework with these questions:

√ Does your organisation have a **defined end-to-end product governance framework** including a governance/committee structure and policies and procedures for new product approval, product taxonomy, and ongoing monitoring?

√ Does your organisation have an **inventory of products and services with up-to-date risk ratings** easily accessible?

√ Does your organisation have a **new product approval process** that enables the business to get products to market quickly without trading off effective risk assessment?

√ Does your organisation have **user-friendly and integrated technology capabilities** to support the end-to-end product governance life cycle?

We have helped several Organisations tackle these questions while assisting with the design and implementation of industry-leading, agile product governance programmes. If you are interested in a discussion, please reach out.

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