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Product governance

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

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Executive summary

Banking organizations (organizations) 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.

Organizations are facing a growing need to modernize the way product strategies are defined, how products are brought to market, and ongoing product management. Organizations 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 organizations 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 modernizing the associated end-to-end processes is not an easy undertaking. Organizations are realizing, in addition to satisfying supervisory expectations, effective product governance elevates an organization's competitive edge and improves its ability to serve customers and markets.

- **A rationalized and simplified process** will go a long way. Enough time and thought should be given to designing 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 organization—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 organization's 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 standardized 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 prioritization 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 organization 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 organization
- Ability to conduct standardized, repeatable product risk management processes and risk assessments
- Know the risk sensitivities between products i.e., target those with higher risks
- Alignment between organization 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 organizations.

Organizations are facing increasing pressure from regulators to modernize 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 organizations "know your products" as well as associated risks and can readily demonstrate this.

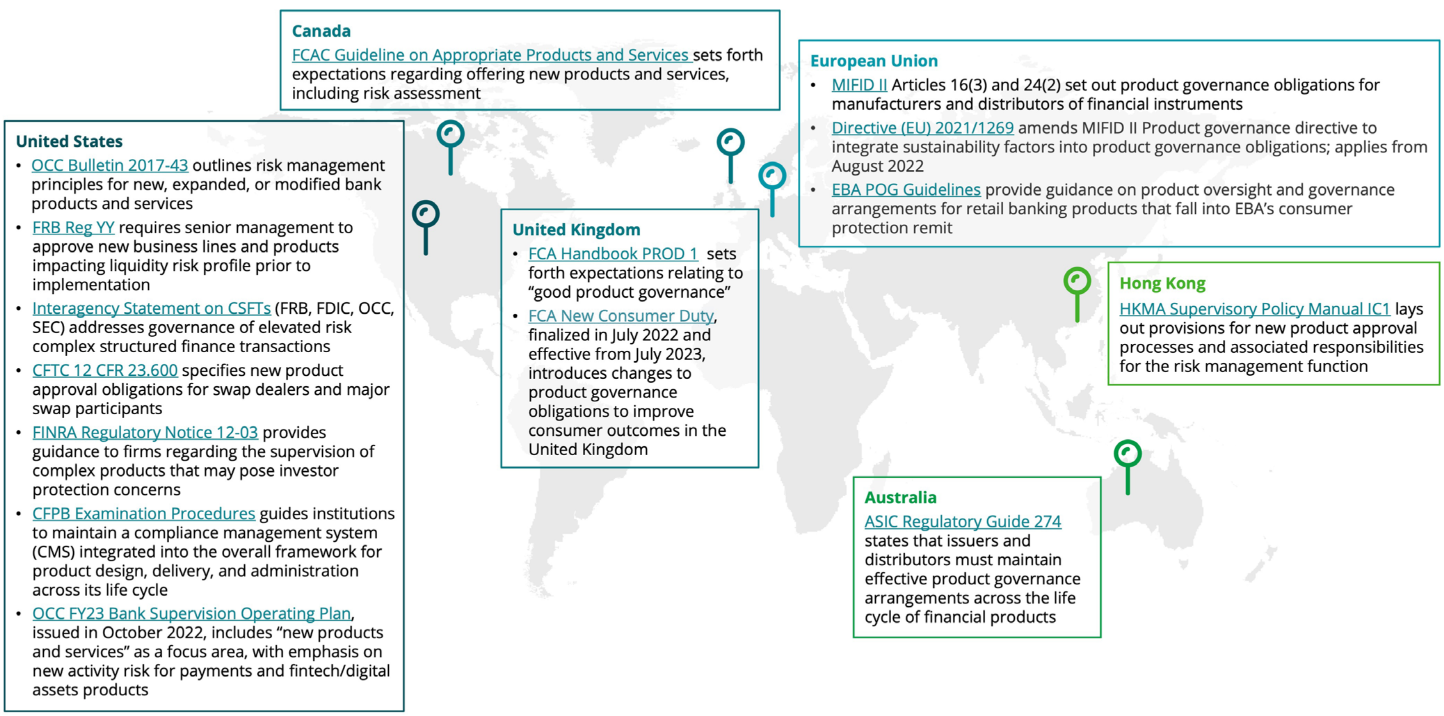
Some of the regulatory focus areas include:

- Management and the Board's 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

Organizations 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.

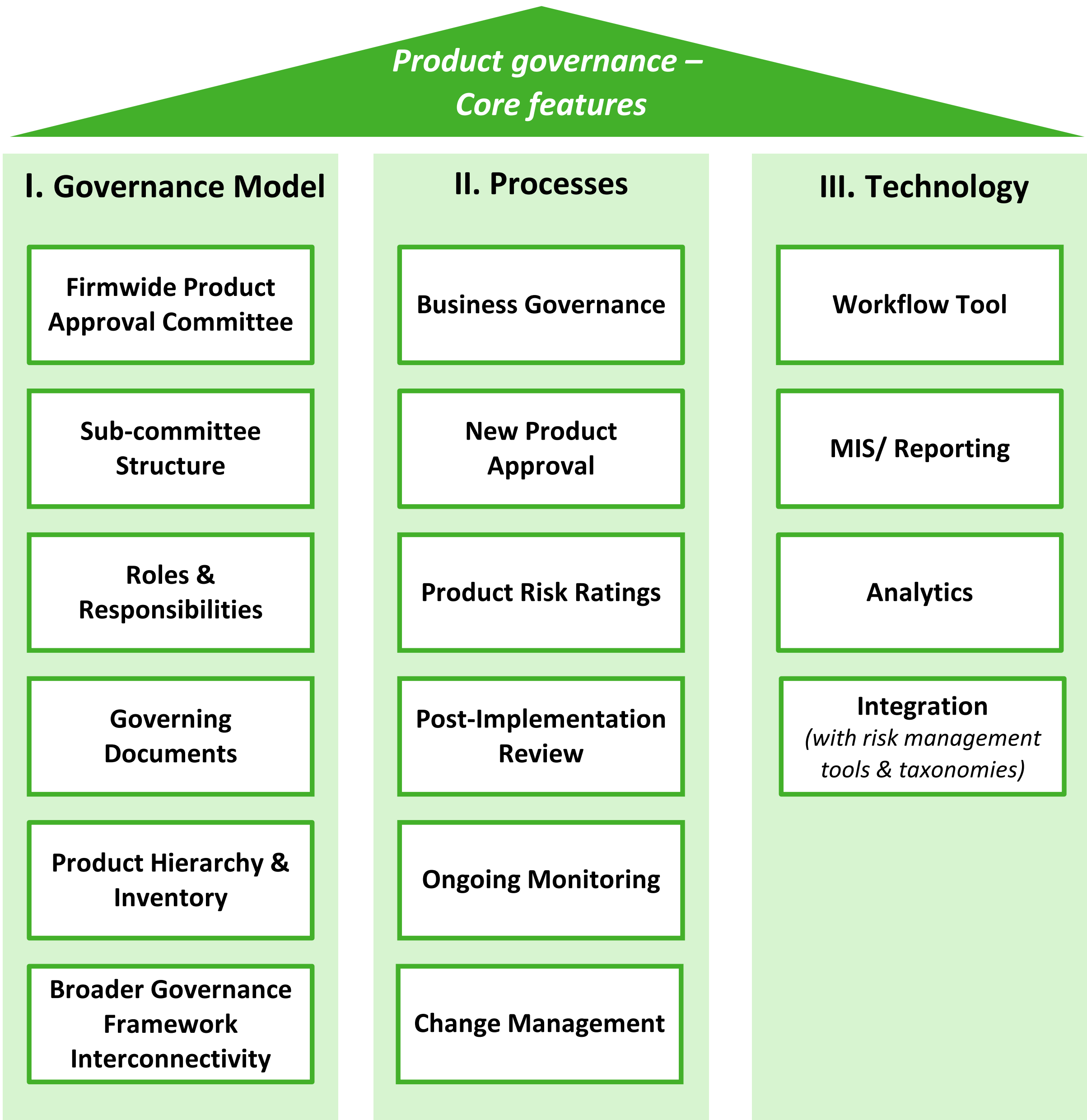


Features of effective product governance

Organizations 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 organizationwide 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 organization.



I. Governance model

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

I. Governance Model

- Firmwide Product Approval Committee
- Sub-committee Structure
- Roles & Responsibilities
- Governing Documents
- Product Hierarchy & Inventory
- Broader Governance Framework Interconnectivity

Typical industry challenges	Core considerations
• **Complex and multilayered governance structure** with lack of clear oversight by senior management	• Streamlined and simple committee/governance structure comprising an organizationwide **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 organizationwide governing documents** establishing a common framework applicable across the organization	• **Formalized governing documents** such as an organizationwide product governance policy, new product approval, ongoing monitoring and change management procedures along with interconnection with other organizationwide 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 organization restructuring
• **Fragmented product inventories and taxonomies** with no central ownership or formalized change management process	• **Centralized product inventory and taxonomies** with linkage to product family and clear ownership by business

II. Processes

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

II. Processes

- Business Governance
- New Product Approval
- Product Risk Ratings
- Post-Implementation Review
- Ongoing Monitoring
- Change Management

Typical industry challenges	Core considerations
• 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 formalized processes, including **preliminary** risk assessments, to **assess product viability and whether an initiative is aligned** to an organization's 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 formalized 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	• **Formalized 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 organization's technology becomes more sophisticated, the benefits of an integrated technology solution become more apparent.

III. Technology	Typical industry challenges	Core considerations
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	• **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 organization's 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
Analytics	• **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
Integration *(with risk management tools & taxonomies)*		

Getting started

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

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

- √ Does your organization 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 organization have an **inventory of products and services with up-to-date risk ratings** easily accessible?
- √ Does your organization have a **new product approval process** that enables the business to get products to market quickly without trading off effective risk assessment?
- √ Does your organization have **user-friendly and integrated technology capabilities** to support the end-to-end product governance life cycle?

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

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