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## Product Governance

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## Overview

1. Product Governance
2. Value For Money (VFM)
3. What happens when Product Governance goes wrong?



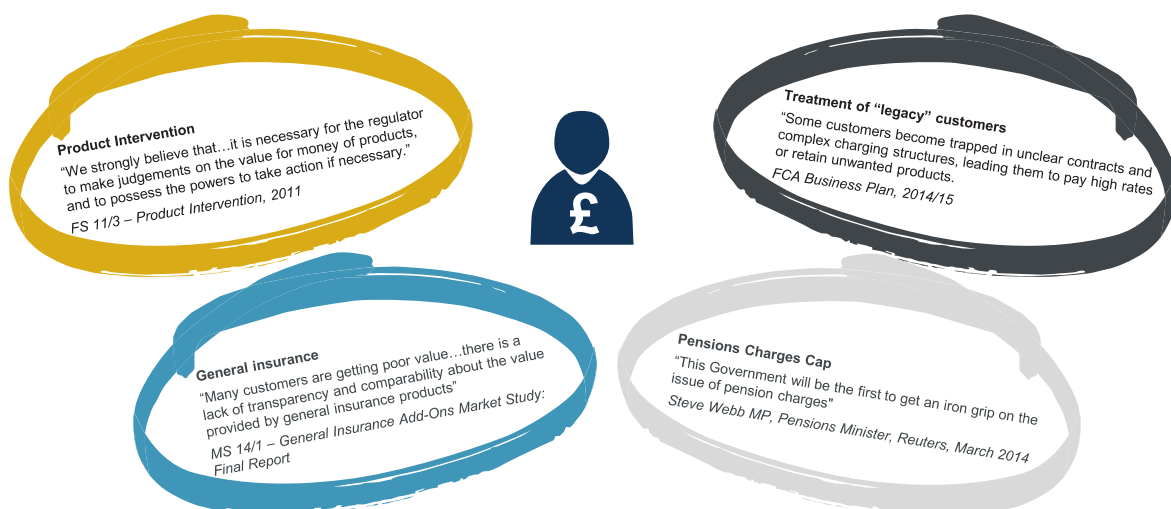
## What is Product Governance?



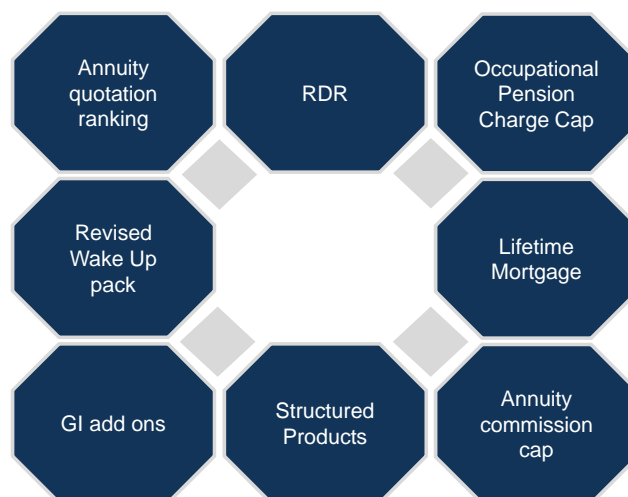
## FCA expectations



## Regulatory context



## Regulatory Intervention



## FCA's legacy review

The FCA's review into the treatment of long standing customer (the "legacy review") is due for publication later in 2015

Early indications suggest that the findings are likely to focus on four interrelated areas:



As firms consider their approaches to value for money, they will need to take account of the related issues identified as part of the review and undertake appropriate remediation activity





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## VALUE FOR MONEY



### What is value for money?

- 01 A measure of the cost of a product or service relative to the benefit derived by a customer
- 02 A type of "cost benefit analysis" - in practice involves subjective judgements that depend on context
- 03 Dependent on the type of product/service offered and customer group targeted
- 04 FCA recognise the inherent complexity/ambiguity – it's hard to define
- 05 This hasn't stopped the regulator taking a number of major interventions (as noted earlier)

## What the FCA rules require

- 01** | Whether default investment strategies:
  - i. Are designed and executed in the interests of relevant policyholders;
  - ii. Have clear statements of aims and objectives;
- 02** | Whether the characteristics and net performance of investment strategies are regularly reviewed to ensure alignment with the interests of relevant policyholders and that action is taken as necessary;
- 03** | Whether core scheme financial transactions are processed promptly and accurately;
- 04** | The levels of charges borne by relevant policyholders; and
- 05** | The direct and indirect costs incurred as a result of managing and investing, and activities in connection with the managing and investing of, the pension savings of relevant policyholders, including transaction costs.

IGC will assess the ongoing value for money for relevant policyholders delivered by relevant schemes particularly, though not exclusively, through assessing these factors

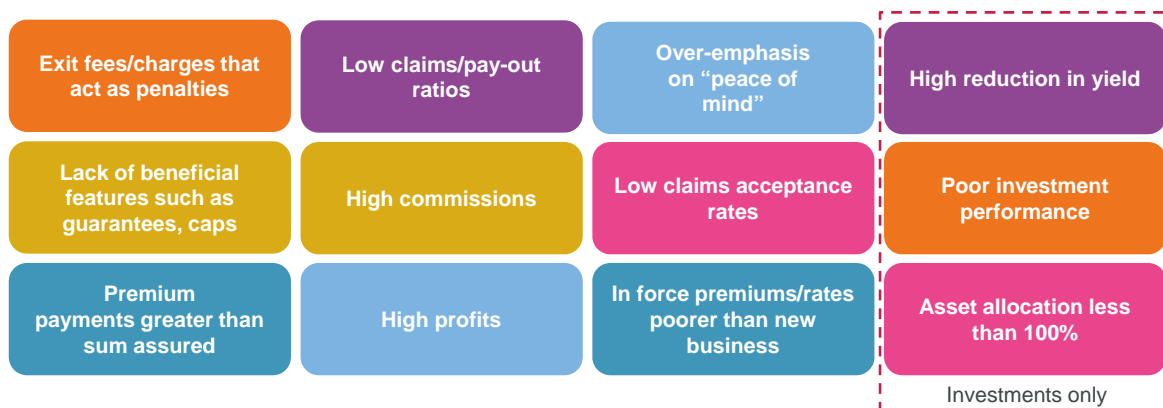
## A personal concept?



## What do customers expect from “Value for Money”?



## Poor value products – Potential features



## How to do Value for Money?

<b>Risk Appetite</b>	<ul style="list-style-type: none"> <li>Set risk appetite in relation to value for money and align to Enterprise Risk Management (ERM) Framework</li> </ul>
<b>Framework</b>	<ul style="list-style-type: none"> <li>Design value for money framework incorporating key product lifecycle management processes</li> <li>Identify business owner</li> </ul>
<b>Principles</b>	<ul style="list-style-type: none"> <li>Set out high level principles for establishing value for money of products</li> </ul>
<b>Indicators</b>	<ul style="list-style-type: none"> <li>Develop Value for Money indicators and appropriate tests/tolerances</li> <li>Iterate and pilot with the business</li> <li>Identify MI requirements to assess VfM of existing book and monitor products on an on-going basis</li> </ul>
<b>Governance and oversight</b>	<ul style="list-style-type: none"> <li>Embed Value for Money into wider governance and decision making processes</li> <li>Embed into product life cycle management processes</li> <li>Review and monitor products on an on-going basis to identify issues around Value for Money.</li> </ul>
<b>Action/remediation</b>	<ul style="list-style-type: none"> <li>Agree appropriate action to address issues for around Value for Money</li> <li>Communicate issues/actions to customers</li> </ul>

## High level principles in VFM



## Some factors to consider



## VfM – Case studies

Product	Description	Poor Value for Money Indicators
Funeral Plans	<ul style="list-style-type: none"> <li>• Policies that typically offer small amounts of cover in exchange for low monthly premiums</li> <li>• Serve an emotion need – “Covering the cost of funeral arrangements”</li> <li>• Policies can reach a “tipping point” where cumulative cost of premiums is greater than the sum assured</li> </ul>	<ul style="list-style-type: none"> <li>• Premiums greater than sum assured</li> <li>• Potential over-emphasis on “peace of mind”</li> </ul>
Policy Loans	<ul style="list-style-type: none"> <li>• Loans secured against the proceeds of customer's policy</li> <li>• May originally have offered good value for money</li> <li>• However, loans may have been in force for a number of years without adequate review and interest rates can be high when compared with current products</li> </ul>	<ul style="list-style-type: none"> <li>• In force rates/premiums poorer than for new product</li> </ul>
Paid-up policy charges	<ul style="list-style-type: none"> <li>• Charges that continue to be levied on pension when the policyholder stops contributing</li> <li>• Are intended to cover the cost of administering the policy on an on going basis</li> <li>• However, charges may be higher than for active members and some firms may be using them to recoup future profits</li> </ul>	<ul style="list-style-type: none"> <li>• In force rates/premiums poorer than for new product.</li> <li>• High reduction in yield</li> <li>• Exit fees/charges that act as penalties</li> </ul>

## Challenges

### Appetite for remediation

Firms may be aware of issues around value for money but lack the appetite to tackle them due to the potential costs/difficulty

### Different Products

Variation in product features and/or benefits necessitates a tailored approach to the assessment of value for money and the setting of tolerances. There is no "one size fits all" approach

### Availability of MI/data

Firms may not have the MI/data in order to be able to undertake assessments or carry out regular monitoring. In particular non-financial aspects of VfM harder to find

### Benchmark to norm

Assessing and 'scoring' VfM naturally compares what exists today. Is the norm or what's viewed as value today good enough.



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## WHAT HAPPENS WHEN PRODUCT GOVERNANCE GOES WRONG?



## If a letter arrives from the FCA tomorrow...

...how might we respond?

There are two key areas to consider:

1. The initial response to the FCA letter and what this might look like
  2. The planning, operation and impacts of a longer term remediation programme
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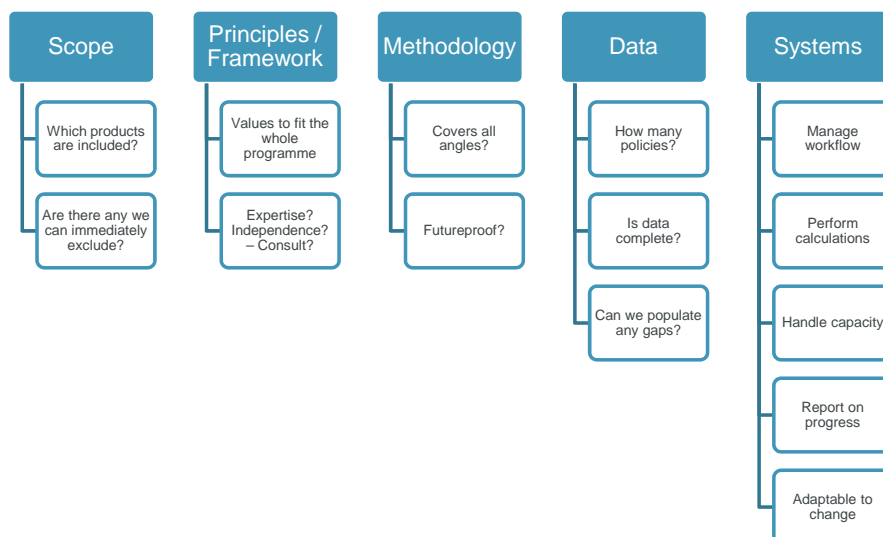
## The initial reaction and response



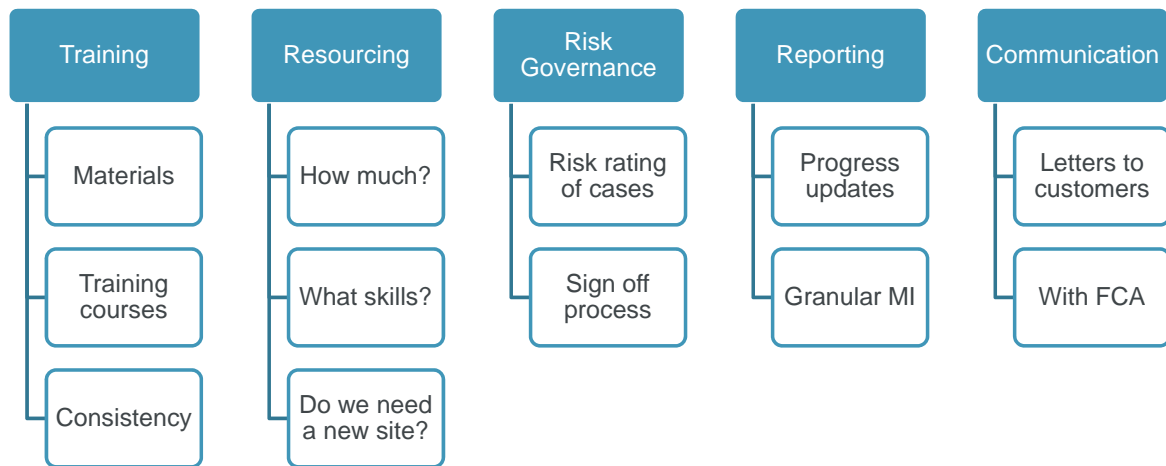
## What do we need for a remediation programme?



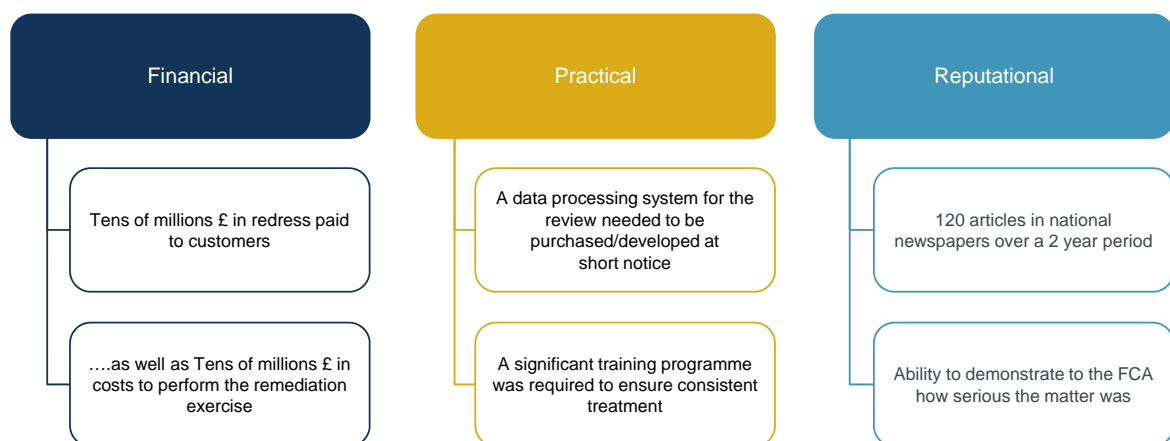
## Putting a remediation programme together



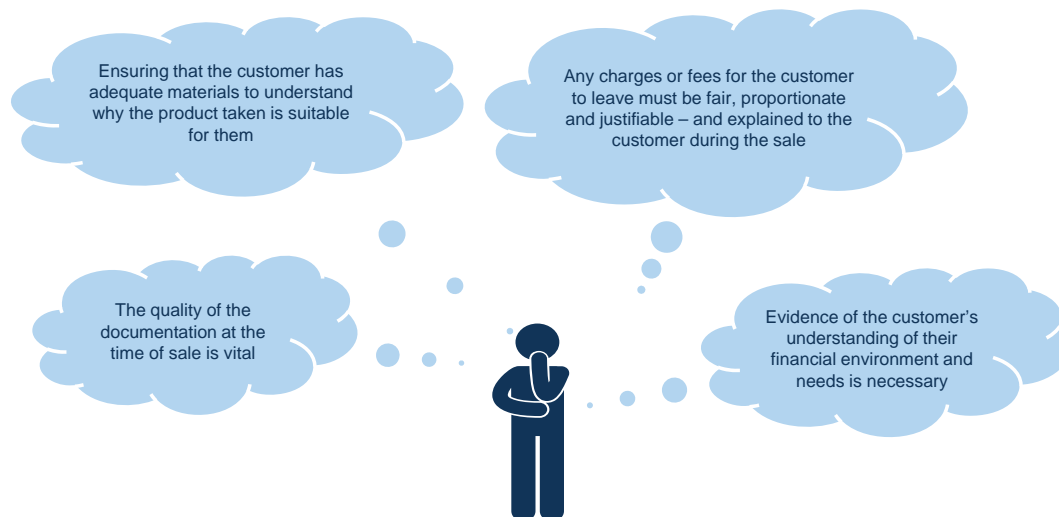
## Putting a remediation programme together



## Potential Impact of a Remediation Programme?



## What lessons can be learned?



Questions

Comments

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