

# **Product oversight for financial institutions**


**Balanced consideration of customer interests in product development**

**GSBE Marketing-Finance Symposium, October 8th, 2015**

# Agenda

1. Introduction
2. Why product oversight?
3. Introduction of legislation
4. AFM's supervision
5. Evolution since 2013
6. Questions

# Introduction

iedt inzicht in verzekeringsbranche in Europa  Bezitters woekerpolis nemen geen maatregelen

Branche > **Intermediair** > AFM waarschuwt voor woonlastenverzekeringen

## AFM waarschuwt voor woonlastenverzekeringen

Branchen, Financiële planning, Intermediair, Nederland, Nieuws 8 januari 2015 2765 keer bekeken [PRINT EMAIL](#) [A-](#) [A+](#)



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### AFM: natura-uitvaartverzekeringen op eerlijke manier afkopen

AFM heeft onlangs uitgesproken dat het in het belang van de klant kan zijn om een natura-uitvaartverzekering af te kopen. Vanaf 2009 hebben sommige verzekeraars ervoor gekozen om

De Telegraaf

**DFT** De Financiële Telegraaf

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### Belegger blij naar banenrapport VS

In de aanloop naar het Amerikaanse banenrapport later vanmiddag zat de stemming er op de Amsterdamse beurs vrijdagochtend...  
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wo 04 sep 2013, 10:20

### AFM waarschuwt voor risicovolle turbo's



**Wft Actueel** 

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**BASIS**

### AFM: producteigenschappen deposito's kunnen meer in klantbelang

Toegevoegd: woensdag 22 april 2015 09:00



**BEURS**

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### AFM noemt cfd's 'zeer risicovol en ongeschikt voor merendeel beleggers'

Vasco van der Boon, Roger Cohen

[♥](#) AFM

[♥](#) Beleggingsfond

[♥](#) Regelgeving

# Why product oversight?

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- 1. Consumers were confronted with defect or defunct products**
- 2. Loss of trust in the financial sector**
- 3. Financial stability became an issue due to product scandals**
- 4. Transparency and selling/ distribution rules inadequate**

# Legislation

## 1. On January 1st 2013 legislation was introduced:

*A financial enterprise that offers or structures a financial product and makes such product available shall have appropriate procedures and regulations in place **to ensure that balanced consideration has been given to the interests of consumers***

*The financial product is demonstrably the result of this consideration of interests.*

# Legislation

*The **target customer** in the financial product has been defined on the basis of an analysis of and description of the target customer's intended objective*

*Tests are conducted in order to establish how such financial product performs as a whole and how the separate elements of such financial product perform under various **scenarios**.*

*The product information and, to the extent that can reasonably be expected, the distribution of the financial product are both **suitable** for the target customer*

*Checks of and, if necessary and appropriate, updates of the procedures and measures shall take place **on a regular basis**.*

# Legislation: Limitations

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1. Principle based regulations
2. Not all products are under scope (yet!)
3. PARP remains own responsibility
4. Legacy products (unit linked insurance) excluded

# **Our supervisory approach**



## Some basic considerations

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**Responsibility** for own product design processes and resulting products: prevent moral hazard

Institutions and products vary: **no one-size-fits-all** approach

**Risk-based** approach: thousands of products

Conduct of business and **prudential supervision** are related: twin-peaks model

More interested in the way procedures **actually work** in practice than in the way they are documented

# Main approach for supervision

## *The proof is the product*

Ask them for their own review of the product

Perform a similar analysis

Discuss both analyses with each other

## *Need data*

Actuarial data for (life) insurances, probabilities even

Exact costs and characteristics to simulate investment products

# Continuous monitoring of product offerings



# Thematic or incident driven supervision



# Four criteria to determine added value

Value for money



Need



Safety



Complicatedness



# Market response and examples

## Market reactions: some 'quotes'

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*AFM: You do not have the legal powers to supervise the product, but only the process*

*AFM: I spoke with a consumer who wants this product, and you want to tell me I cannot sell it?*

*AFM: We have not received any complaints, so who are you to tell us we are not doing it right?*

# Examples: Products to match expectations

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*Smart Beta: low volatility ETF*

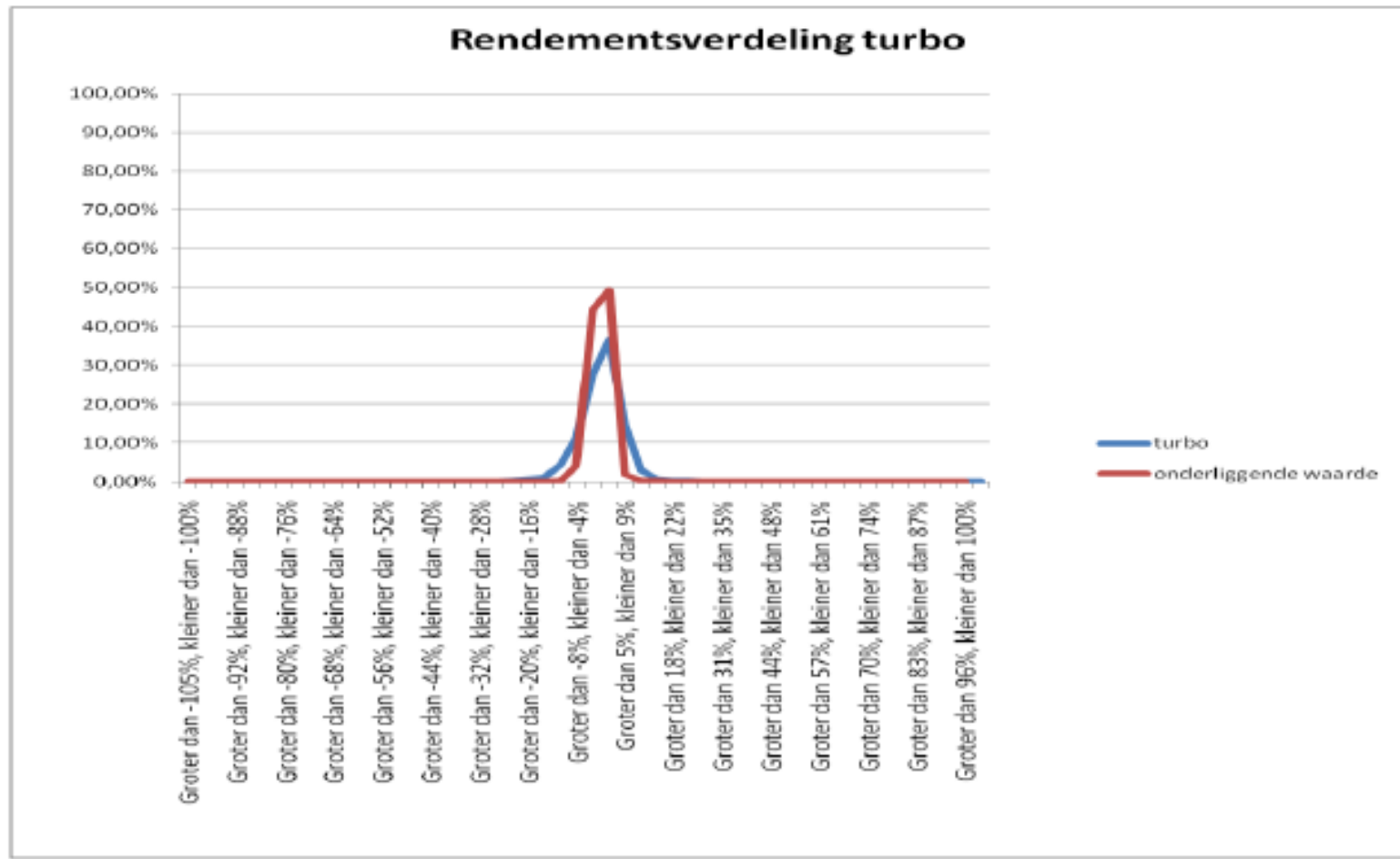
Investment funds

*Turbos*

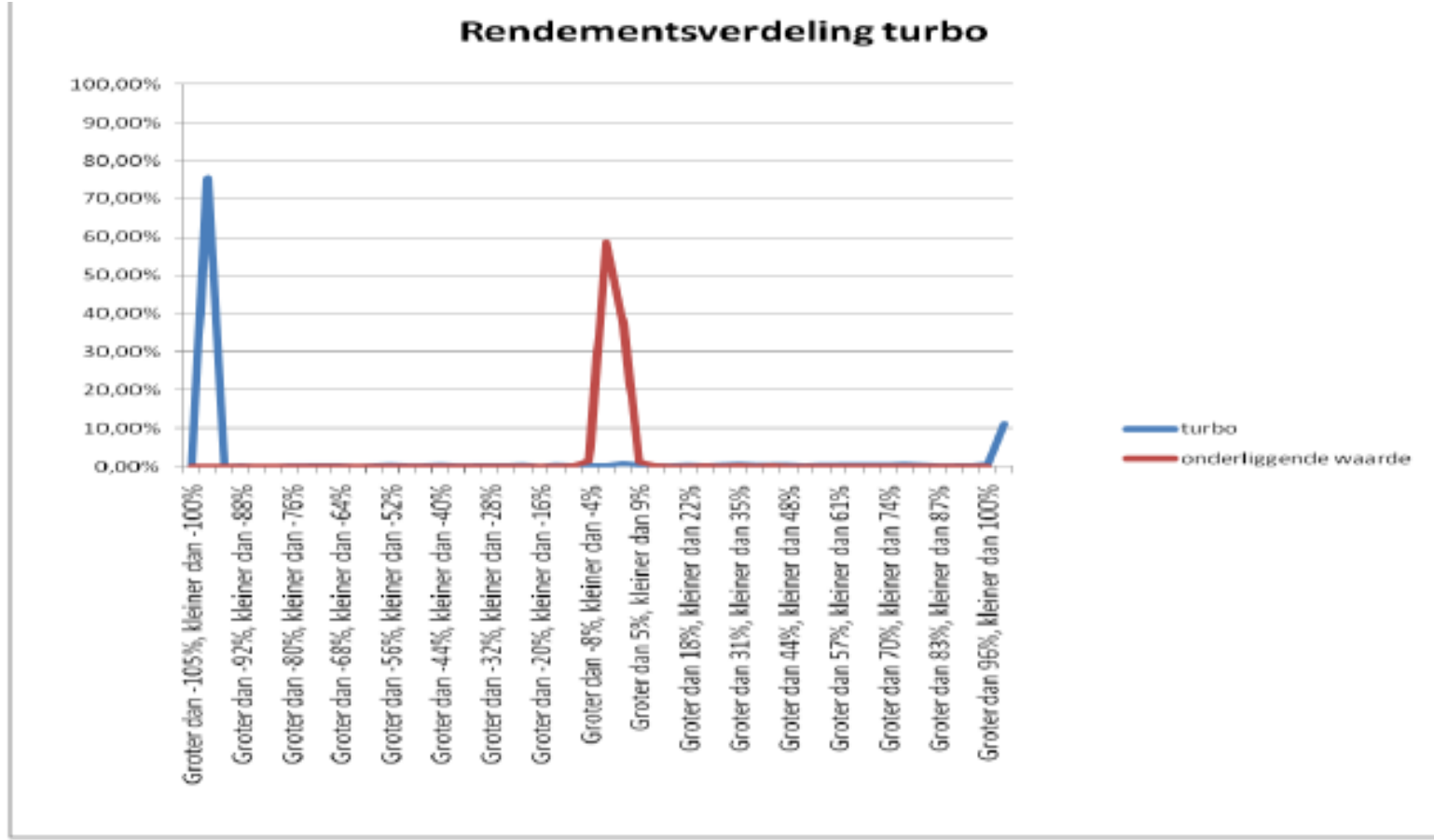
*Structured products*



# Turbo Long Gold, leverage 2, holding 5 days



# Turbo Short AEX, leverage 195, holding 2 days



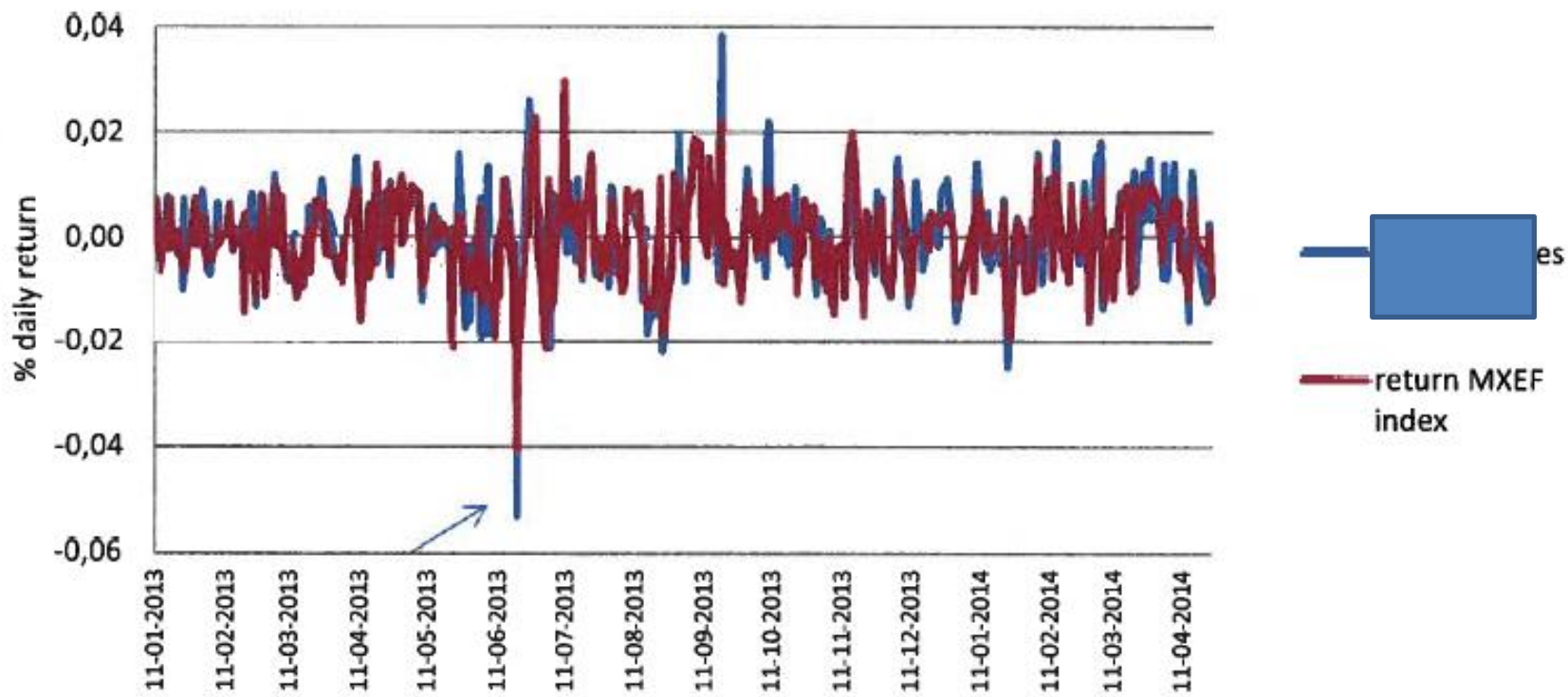
## Measures taken

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- *Nedsipa was founded, to represent all issuers of these products*
- *More and better information, including warnings for high leverage Turbo's*
- *Limitations were introduced to prevent high leverage Turbo's*

# Examples: Products to match expectations

Figur 2: return  minimum volatility ETF



# Evolution of supervision

- *From 2013 on, the focus has mainly been on the product*
- *All investigations showed that a lot of work remains to be done*
- *Focus is shifting, to prevent 'tick the box' exercises*
- *Selfcritical abilities need more 'encouragement'*

# Questions?

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