KEY ISSUES AFFECTING PRODUCT LIFECYCLE AND GOVERNANCE IN ASSET MANAGEMENT

RESEARCH STUDY
CONDUCTED BY **DEVLIN MAMBO** AND **IDEA GROUP**
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STRUCTURE AND AVAILABILITY OF DATA

From the findings in this report has emerged one very clear conclusion. Participants have been unanimous in expressing the vital need *for comprehensive, universally available data in the right structure to meet the ever-growing challenges around regulation and fund competitiveness.*

EXECUTIVE SUMMARY

This research project has been carried out by Devlin Mambo and Idea Group with a view to understanding the key issues affecting the product lifecycle process and effective product governance. The sample is 5 mid to large size asset managers spanning Europe and the UK and each has been asked 6 questions relating to market & regulation, their firm's product processes and product lifecycle, and their governance processes.

Tighter industry regulation presents challenges which demand the kind of accountability that can only be delivered through rigorous governance processes. The participating firms in this study have generously agreed to share their own perceptions of the governance issues they face, how they are managing to deal with these and what they regard as necessary to meet broader industry challenges in the short and longer term.

In a very short space of time, issues around governance, regulation and compliance have become vastly more important than ever for firms operating in the investment management industry. Tighter regulation has gone hand in hand with an exponential escalation of operational risk and both of these factors have driven the need for the kind of granular data required to establish that 'single source of truth' at the heart of good regulatory compliance.

TERMS OF REFERENCE

Delivering the commercial strategy

Commercial strategy: How to support well designed products to meet client demands

- An effective commercial strategy is delivered through 3 key actions:
    1. Asset managers must <u>clearly identify their client and distribution strategy</u>
    2. Asset managers must <u>design and manage an effective product range</u>
    3. Asset managers must <u>deliver an effective support model for product distribution</u>
- Effective governance firms with multiple jurisdictions, entities, product ranges can be difficult to achieve
- The cost of building and maintaining product ranges and entities to support commercial activity can dampen success factors
- Regulators require evidence of robust governance and management of the product range with individual accountability for Directors
- Non-Executive Directors have an equally important role in ensuring products are being managed appropriately and continue to meet the end-consumers needs

Market Context: Factors affecting an efficacious commercial, product and distribution support strategy

- Fee pressures continue with a focus on costs and charges
- ESG is a megatrend with client and distribution strategies quickly adapting to meet new investor demands and innovation
- Diverging regulation globally and cross-border strategies lead to increase complexity for governance functions
- Multiple locations and teams that are independently managed can lead to duplication of effort, disaggregation of reporting and difficulty achieving a global view
- M&A activity, consolidation and aggressive growth can lead to inefficient infrastructure to support product and distribution activity

SCOPE OF THE STUDY

Focus questions:

1. Based on your asset management industry experience, specifically in product development and management, what do you think are *the most important governance and risk issues* facing the sector?

2. Where do you see regulators and investors - UK and globally - focusing time on *oversight of the product lifecycle process*? An example being the UK FCA PROD review (H2 2021) and ESMA costs & charges (2021).

3. What do you believe are the key *hurdles for meeting commercial strategy*? Do believe you have *the right entities and product range* to support distribution?

4. Could you easily evidence that you have *satisfactory systems and controls* in place within your product processes, if questioned by the FCA and iNEDS on your Fund Boards?

5. Can you easily view the status of products in your product range(s) and produce *MI to support the governance process?* Do you use a system to perform this?

6. How do you rate your product management and governance process? Where are the *areas of strength and areas for improvement*?

FINDINGS

1. Perceived issues related to governance and risk

Focus question:
Based on your asset management industry experience, specifically in product development and management, what do you think are the most important governance and risk issues facing the sector?

Although a variety of issues were flagged in the responses, there was a strong degree of convergence in identifying key governance and risk issues facing the sector. These fell into 3 broad areas: Regulation, Data and Products. More specifically:

> **a. Regulation**
> ESG reporting *(100% of respondents)*
> Regulation/pace of regulatory change
> Regulatory challenges associated with product proliferation
> Brexit-related regulatory divergence between EU and UK
>
> **b. Data**
> Data gathering/having accurate data to fulfil regulatory obligations *(100% of respondents)*
> Having data to support commercial decisions
> Having data to fulfil Assessment of Value obligations
>
> **c. Products**
> Meeting the needs and expectations of investors *(100% of respondents)*
> Aligning product development to investor insights
> Aligning products to markets
> Product modernisation/product rationalisation
> Market divergence across Europe

2. Product lifecycle oversight priorities

Focus question:
Where do you see regulators and investors - UK and globally - focusing time on oversight of the product lifecycle process? An example being the UK FCA PROD review (H2 2021) and ESMA costs & charges (2021).

There was broad agreement among all respondents about 5 priority focus areas for product lifecycle oversight:

> a. Assessment of value (60%)
> b. Robust governance systems (60%)
> c. Aligning products with markets (40%)
> d. Commercial viability

e. UK and European regulatory alignment

a. Assessment of value

> "Product lifecycle process is a key consideration, why wouldn't you confirm value to your investors as a part of this? This is a challenge for all asset managers."

> "Ensuring we're offering value to investors with the expectation that the regulator will interrogate our methodology and processes."

> "There will be increasing focus on MiFID II and the evidencing of value to investors."

b. Robust governance systems

> "Culture, range expansion and back end management will be a focus but relatively complex to evidence."

> "ESG regulations are not clear and there is no standardisation of company reporting."

> "CP86 has required a re-focus on requirement to operate a management company with robust oversight of delegation and management throughout the product lifecycle."

c. Aligning products with markets

> "Providing evidence that funds are meeting the needs of investors."

> "Checking how we're ensuring our products are designed and aimed at their intended market."

d. Commercial viability

> "Regulators wanting to understand the profitability of our business."

> "Looking at how we make decisions when thinking about the commerciality of funds."

e. UK and European regulatory alignment

> "Index/closet tracking from the Euro and investor perspective."

> "Delivery of value is key across the EU."

3. Key challenges to commercial strategy

Focus question:
What do you believe are the key hurdles for meeting commercial strategy? Do believe you have the right entities and product range to support distribution?

Respondents identified key 'hurdles' within these 4 areas:

> a. Complexity of product offering (80%)
> b. Governance systems & product oversight (80%)
> c. Operational expenses
> d. International jurisdictions

a. Complexity of current product offering (80%)

"The product strategy is currently mapped to the corporate strategy but there needs to be a reduction in the 'ad-hoc' range of products."

"...measuring the net launches, rather than the total new launches – change in the governance view. Fund closures should be seen as a positive rather than just bringing new products to market."

"There is an onus on the asset manager to prevent product stagnation – less launch activity and more activity on enhancing existing range."

"An increasingly complex footprint may lead to standards slipping."

b. Governance systems and product oversight (80%)

"A significant infrastructure to support our extensive product range and provide more effective management.'

"Infrastructure challenges include: fee pressure/ margins, cost savings, more ruthless on closures, robust management."

"Concern with scalability – the process is manual and an increase in funds/ umbrellas will cause resourcing issues."

"Focus on data and workflow – e.g. moving away from PowerPoint for ongoing product reviews."
"...robustness and rigour of governance process is good but feedback loop from distributors is poor."

c. Operational expenses

"Operational expenses with service providers continue to be a key hurdle for bringing down costs for investors."

d. International jurisdictions

"Issues with local regulation for sales, marketing, entity and product."

4. Evidence of appropriate systems and controls

Focus question:
Could you easily evidence that you have satisfactory systems and controls in place within your product processes, if questioned by the FCA and iNEDS on your Fund Boards?

Respondents were split between those who were confident they could easily provide evidence of satisfactory product process systems and controls (40%) and those who identified significant issues in this area (60%):

> "Yes, but room for improvement. Automation and being housed on a system cloud."

> "All the data is there, but it is spread across 5 different sources. There is not one system or consolidated view."

> "Product lifecycle is OK in terms of oversight, but we are conscious of scalability."
> "Data governance is an issue."

5. Product status visibility

Focus question:
Can you easily view the status of products in your product range(s) and produce MI to support the governance process? Do you use a system to perform this?

> 80% of respondents identified data visibility as a major factor preventing easy viewing of the status of products in their product range. Comments:

> "We are in the middle on this. We are somewhat systematised, but still partitioned between teams with proprietary solutions. Our aim is to bring all data and regions together."

> "Everything is maintained manually by spreadsheets. We are aware of service providers offering systems to support the governance process. This is being considered."

"The product lifecycle is OK in terms of oversight, however, we are conscious of scalability."

"No. Everything is maintained manually via SharePoint, PowerPoint, Excel & Word."

"There is not one system or consolidated view.

6. Strengths and areas for improvement in product management and governance

Focus question:
How do you rate your product management and governance process? Where are the *areas of strength and areas for improvement*?

While all respondents were able to identify particular strengths in their own product management and governance processes, they also identified many areas improvement - and among these there was unanimous agreement on the need for more robust, enterprise-wide product governance systems.

Comments identifying perceived strengths in product management and governance:

"Our process is solid but evolving."

"We have a strong lifecycle model to ensure all launches, changes or terminations are rigorously reviewed both internally via the business and externally by the board, before being implemented."

"We have a strong firm culture to put investors first at all times and do what's in their best interests."

"We have a strong Company Secretary to ensure governance is tracked, documented and held on record accordingly."

"We have robust processes."

The need for improved data management systems

With regard to perceived areas for improvement, 100% of respondents pointed to their need for better and more systematic data management systems.

"We don't have one system to manage our products and initiatives throughout the lifecycle."

"Data - lacking a single source of truth."

"Lacking a system to help track all initiatives, record processes for each type of initiative (e.g. fund launch, termination, merger) and track the progress through each stage of the initiative."

"We are lacking a system to interrogate the data to allow the product function to self-serve and provide information which can then be analysed. This would help provide efficiencies with our current approach to product development, management and lifecycle."

"Client insight could be an improvement. We have client testing at the outset but not throughout the product lifecycle.

CONCLUSIONS

Although disparate in size, scale and operation, general consensus between the 5 asset management participants in this study provides strong and compelling evidence of issues which are common to a majority of firms currently operating in today's rapidly-changing regulatory landscape.

From the answers provided by the 5 participants, it is possible to draw these conclusions:

1.   Among participants in the study, there was broad agreement about what they saw as the most important governance and risk issues facing the sector:

>   *   ESG Reporting
>   *   The need for accurate data to fulfil regulatory obligations
>   *   The need for products that meet the needs and expectations of investors

2.   When asked what they saw as being the main focus of regulators and investors on oversight of the product lifecycle process, participants identified these 3 areas:

>   *   Assessment of value (60%)
>   *   Robust governance systems (60%)
>   *   Aligning product with markets (40%)

3.   When asked their key hurdles in meeting their commercial strategy, participants identified these two areas:

>   *   Complexity of product offering (80%)
>   *   Governance systems & product oversight (80%)

4.   When asked whether they could easily evidence that they had satisfactory systems and controls in place within their product processes if questioned by the FCA and iNEDS on their Fund Boards, only 40% of respondents replied in the affirmative.

5.   When asked whether they could easily view the status of products in their product range(s) and produce MI to support the governance process, 80% of respondents identified data visibility as a major factor preventing easy viewing of the status of products.

When asked whether they used a system to perform this, only one respondent replied in the affirmative, and even then the system was said to be incomplete.

6.   When asked whether about areas for improvement to their product management and governance processes, there was 100% agreement on the need for more robust, enterprise-wide product governance systems.

OUR PERSPECTIVE

In the market we are seeing much stronger emphasis on the evidencing of good product governance throughout the product lifecycle - all of which should lead to improved outcomes for end consumers. As well as meeting both client and regulatory requirements on ESG, today's asset managers must manage an *increasingly complex infrastructure* to support product and distribution activity - as well as being able to evidence that their *products are delivering value to their investors*.

Against this backdrop, asset management firms are facing significant *product governance issues around data.* They need to ensure that their product information is accurate and accessible, they need to be able to evidence activity and control throughout the entire product lifecycle process, and they need to ensure that product boards, compliance teams, and internal committees have the *right MI and reporting* to deliver the effective governance that is required.

It is plain to us that *this has been an area of underinvestment.* Given the renewed emphasis on product governance, we believe it would be a sensible area of focus for asset managers to ensure that they can confidently meet future client and regulatory requirements.