



Product Simplification



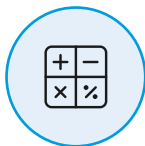
Product Simplification is the process of reducing operational, conduct and consumer risk and service costs within a product universe by removing complexity from the product offering.



Established financial services firms typically have a large suite of products, with a significant proportion of these being low demand, low value products that are often part of their legacy range.



Complexity has a significant impact on consumer's ability to fully understand and compare products to meet their needs.



While product variety can be required to meet consumers' demands, this variety is directly proportional to the complexity that firms will have to deal with and the costs that they will incur to service an extensive product suite.



There are a number of lessons to be learnt from the COVID-19 pandemic, large remediation / enforcement programmes and the regulatory shift to focus on good consumer outcomes. Firms have generally struggled to be agile and to compete with simpler and technology-driven competitors disrupting the financial sector.



Channel & customer variety



Operational complexity & associated costs



Product & Service variety

The Right Time for Product Simplification:

Firms can reduce the operational costs of servicing their products, meet changing customer demands and help drive sustainable growth by engaging in Product Simplification. Firms require a detailed understanding of their product suite to **remove unnecessary complexity**. Firms are striving for clear oversight across the whole organisation and to create a product suite that is **digital and fit-for-purpose**, while meeting consumer and regulatory expectations in an ever-changing regulatory environment.

A simplified product suite is easier to control and allows customers to more easily compare products to find one best suited to their needs. Through Product Simplification, firms are able to compete with new entrants and **reduce the risk of “permanent switch” – where customers permanently transfer their business to competitors**.

Simplification of financial products aligns to the current trend of digitalisation and sustainability by providing:

- Simplified and optimised product ranges – resulting in a **better customer experience** while using fewer employees;
- Streamlined new product launches – encouraging firms to **only introduce products that can compete** in a market that is increasingly focussed on sustainable offerings and automation; and
- Learning from emerging industry disrupters – competing with firms whose product offering is straightforward and based on a digital end-to-end journey.

The current economic environment and upcoming developments are also an appropriate backdrop to Product Simplification:

- The current negative interest rate environment in Europe creates an opportunity to move customers from multiple legacy products to a **single product with one interest rate structure**, particularly for savings products; and
- Changes in consumer preferences and behaviour emerging from the COVID-19 crisis provide a platform to re-assess and streamline products, ensuring **changes in risk appetite levels of the target market** (e.g. notably within investment products) can align with changes to products.





Operational and Cost Efficiencies:

Due to the inherent complexities of a large product suite, the recent need to create bespoke COVID-19 solutions and deal with increased insurance claims has led to many manual work arounds. In addition, the recent Interbank Offered Rate ("IBOR") transition has exposed some large firms' inability to maintain their IT systems in line with market changes, due to operational inefficiencies associated with product complexity.

Product Simplification can help firms improve to meet such challenges by:

- Creating an **agile product suite** to ensure that firms can respond with appropriate speed when facing future issues and challenges;
- Looking to the future and **reducing the risk associated with multiple product management strategies** and manual workarounds, in turn reducing the downstream impact on product management costs; and
- Bringing **pricing transparency** due to fewer price points associated with a streamlined product suite e.g. some banking firms are reducing the range of deposit products on sale as a result of prevailing negative interest rates.
- Financial institutions will also benefit from "business as usual" cost efficiencies due to the reduced maintenance costs of an optimised product suite, such as:
 - A **reduction in specialised skills** required for dealing with complex cohorts of customers and increased front line sales effectiveness will have positive impact on resourcing costs in the long term;
 - Creating process efficiencies which will **reduce full-time employee ("FTE") time spent on product servicing**; and
 - A reduction in the number of systems and applications required to service the products across the product lifecycle.

The products that will remain as a result of the Product Simplification process will be more profitable due to cost reductions, easier to manage operationally and straightforward for consumers to understand.

Meeting Regulatory Expectations:

Product Simplification complements some of the key aspects of Consumer Reform at an EU level and the Individual Accountability Framework in Ireland:

- The Senior Executive Accountability Regime ("SEAR") will require clear oversight over the full end-to-end product and associated control environment;
- Enhanced consumer protection regulatory focus more generally at EU level will prompt firms to provide clear, simple solutions that meet consumer needs;
- Compliance with regulatory requirements will be smoother due to fewer products and less complexity;
- Responding to future regulation changes will be more efficient, reducing the risk of future conduct and compliance issues; and
- A narrower product suite will allow firms' Product Oversight and Governance programmes to focus on assuring a smaller, less complex product set.

While there may be potential short-term customer impact due to removal of existing products and / or transfer to alternatives, consumers will benefit in the long-term by:

- **Product suitability assessments** becoming easier to perform as customers are able to better understand and compare products;
- Simplification of the customer journey will **reduce consumer protection risk** and will likely lead to a reduction customer complaints; and
- The process will allow firms to position and launch innovative products which are aligned with consumer interests, emerging trends and regulatory priorities.



How can KPMG help:

KPMG can provide you with a step-by-step Product Simplification process that identifies, measures and realises benefits with a consumer, regulatory and operational lens.

We will help your firm by establishing a clear plan that will ensure that the right decisions are made regarding your product suite and that the appropriate Product Oversight and Governance requirements are maintained.

KPMG will assist you with the following steps at planning, analysis and execution:

- Compiling the key elements of your product suite and processes (product process maps, sales volumes, customer base etc.). This will facilitate cost and time savings estimation and help inform the approach to Product Simplification;
- Designing a tailored approach which harnesses the data collected as part of the product lifecycle; and
- Executing our Five-Step Product Simplification process involving:
 1. The classification of products under a conduct / compliance, customer and operational lens;
 2. Understanding your existing / “as-is” product suite;
 3. Identifying which products are on sale for customers;
 4. Identifying the minimum product suite required to satisfy broad customer needs; and
 5. Establishing the impact of your assessed plan to move customers to the minimum product suite.

In addition to the above, we have an established Product Assurance approach, which will help you maintain and control your product set on an on-going basis, while maintaining regulatory compliance and enabling positive customer engagement.



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Produced by: KPMG's Creative Services. Publication Date: October 2022. (7559)