Risk Policy Overview - Product Risk

2022

The co-operative bank

1 Introduction

1.1 Aims

The purpose of this Policy is to establish a principle for managing Product Risk throughout the Bank. It sets out the principles by which the Co-operative Bank defines Product Risk. The Policy forms part of the Risk Management Framework (RMF). The RMF consists of Risk Policies, Risk Appetites, Control Standards and Business Unit Operating Procedures.

At the heart of the Bank's approach to Product Risk is to ensure we only have products which we believe our customers need, that offer fair value for money, are promoted honestly and transparently, are distributed and sold appropriately and only to customers whose needs they meet, and perform as customers have been led to expect.

1.2 Definitions

The Bank defines Product Risk as follows:

- The risk that the Bank's products result in unfair outcomes to customers, significant compliance breaches, financial loss or reputational damage.

2 Application and Sources of Risk

2.1 Application

The Policy applies to:

- All business units and functions within the Bank
- All regulated entities, including any subsidiaries or Joint Ventures in which the Bank has a 50% or greater interest
- All employees of the Bank whether permanent, contract or temporary, including employees of any subsidiary in which the Bank has a controlling interest
- All organisations and people working on behalf of the Bank

2.1.1 Third Party Suppliers

This Policy may also apply subject to contractual agreement to all third parties who process Bank data, perform operations or provide regulated services and activities on behalf of the Bank.

2.2 Sources of Risk and Scope

Sources of Risk

Products are designed to operate as expected, delivering good customer outcomes and service. Material failures would be subject to investigation and potential fines by the Financial Conduct Authority (FCA) and could result in reputational damage.

Risks and processes which have not been effectively identified, assessed and mitigated can result in Product Risk. The sources of these risks can vary from internal and external forces and include:

- Poor product design
- Inadequate reviews
- Lack of governance

- Changes to UK regulatory standards and guidance
- Changes to supervisory approach
- Key product-related regulatory policy initiatives
- Key areas of product-related thematic work
- Consumer and consumer group preferences and sentiment

2.2.1 Risks in Scope

This Policy covers all aspects of the product life cycle. For the purpose of this Policy, the relevant risks are principally those associated with any failure of the Product Standards. The Product Standards were established to provide guidance on each element of the product life cycle. All the elements of the Product Standards are in scope. Below details each section of the Product Standards:

Product Standards	
Customer Research & Target Market	We only launch products which we believe our customers need. We will identify a target market for our products to enable us to identify which types of customer our products are likely to be suitable, or not suitable, for
Value for Money	Our products offer value for money, as the costs (including pricing) and charges provide fair value in relation to the benefits and services provided
Marketing & Promotion	We market and promote our products honestly and transparently to meet the information needs of our customers
Distribution, Sales & Advice	The design of distribution and sales processes is appropriate having regard to the level of risk, relative complexity of the product and financial capability and best interests of the target market. Where we provide advice to customers, the advice is suitable and takes account of their circumstances
Information & Service	We provide customers with clear information and keep them appropriately informed before, during and after the point of sale. We provide products and services that perform as we have led the customer to expect. We ensure that we do not impose unreasonable post-sale barriers to enable our customers to change products, switch provider, submit a claim or make a complaint
Periodic Review	We will periodically review products to monitor the risks to customers, taking appropriate action where we have concerns, particularly where there is an indication of potential/actual customer detriment; (this includes both 'on sale' and 'backbook' products).

The Product Standards are regularly assessed, reported and governed via the Bank's Product Governance Committee (PGC), and overseen by the Operational, Compliance and Financial Crime Risk Oversight Committee (OCROC).

Regulations in scope (including but not limited to):

- Principles for Businesses
- Mortgage Conduct of Business Sourcebook (MCOBS)
- Banking Conduct of Business Sourcebook (BCOBS)
- Conduct of Business Sourcebook (COBS)
- Insurance Conduct of Business Sourcebook (ICOBS)
- Consumer Credit Sourcebook (CONC)
- Responsibility of Product Providers and Distributors for the Fair Treatment of Customers (RPPD)

- Product Intervention and Product Governance Sourcebook (PROD)
- Senior Management Arrangements, Systems and Controls Sourcebook (SYSC)

The Bank has also signed up to various voluntary codes like the Lending Standard Boards voluntary codes of best practice.

3 Roles and Responsibilities

The Bank's Three Lines of Defence (3LOD) governance model is designed to ensure appropriate responsibility and accountability is allocated to the management, reporting and escalation of risks.

3.1 1st Line of Defence (LOD)

All Executives and Senior Leaders are responsible for the management of Risk. As part of the Senior Manager & Certification Regime (SM&CR) specific accountabilities are defined. Below are specific requirements, over and above the responsibilities set out in the RMF Policy, of the 1st LOD in relation to this Risk type.

The Managing Director Retail, the Managing Director SME and the Managing Director Customer and People and, where appropriate, day-to-day delegates act as the 1st LOD and are responsible for:

- Implementing appropriate processes and procedures to embed and comply with this Policy
- Analysing the relevance of New or Changes to existing Products, to Principal Risks and seeking input and guidance where necessary from the RFO on the identification of risks and mitigating techniques
- Ensuring that adequate controls and metrics are implemented and embedded to identify, manage, monitor and report on risks associated with a Product following its launch and throughout its lifetime ensuring that New or Changes to existing Products are consistent with the Conduct Risk Policy and Control Standard
- Conducting Post Implementation Reviews (PIRs), Annual Product Reviews (APRs) and using the outcomes to inform the product development and change process
- Conducting ongoing Product Risk reviews and using the outcomes to inform the product development and management process
- Maintaining robust records relating to Products to meet internal and external requirements
- Identifying and promptly escalating breaches of this Policy to the RFO.

3.2 Second Line (The Risk Function)

The Bank's Compliance and Risk Functions act as the second line of defence (2nd LOD). 2nd LOD are accountable for ensuring there is appropriate oversight and guardianship, challenging and monitoring the implementation of the RMF. 2nd LOD is also responsible for designing methods and tools employed for Risk Management purposes and overseeing the implementation of these in liaison with the 1st line.

3.3 Risk Framework Owner (RFO)

The RFO in the 2nd LOD is the Director of Compliance. The RFO for Product Risk is responsible for:

- Upkeep of the Risk Policy and necessary Control Standards
- Defining risk appetite and measurement
- Implementing appropriate oversight and assurance

Compliance provides oversight and challenge to the 1st LOD management of Product Risk on a risk based resource allocation by specifically:

- Providing review and challenge over all Products to ensure that relevant risks have been identified and assessed and appropriate risk mitigation techniques defined, including any third party product and any outsourcing arrangement
- Raising any concerns about Products as early as possible and escalating such concerns if necessary
- Supporting New Product and Product Change Risk Assessments and Product Reviews by providing advice, guidance and technical input as required
- Providing advice and challenge on the adequacy and appropriateness of Product metrics and other post launch risk and control monitoring techniques
- Keeping other governance forums relevant to the Principal Risk appraised of Products as appropriate
- Reviewing and challenging the results of Product PIRs and APRs

3.4 Third Line of Defence

Internal and External Audit act as the third line of defence (3rd LOD). They independently monitor the embedding and report on progress to the Executive and Audit Committee. On an ongoing basis, Internal Audit will form an independent view on the Bank's management of risk, based on BAU audit work, issue assurance and business monitoring. This will include activity of both the 1st LOD and the 2nd LOD.

4 Compliance

All areas of the Bank are expected to evidence compliance with this Policy unless specifically excluded within the Scope section.

4.1 Waivers and Dispensations

No waivers (permanent exceptions) will be agreed outside any area excluded within the Scope section of this Policy.

A temporary dispensation is the action / decision to exclude temporarily a Business Unit, process or activity from the scope / requirements / principles of all or parts of the Policy. This will increase the risk profile and the likelihood is this will result in a specific risk outside appetite. Requests must be sent to the appropriate RFO setting out the rationale, expected impact and duration.

An Issue must be raised in the Bank's Operational Risk Management System with an action plan designed to achieve compliance. Where there is no action plan and therefore the risk falls into the criteria of a risk acceptance, the Bank's Risk Acceptance process must be followed.

4.2 Breaches

A breach is classified as non-compliance with any requirement of Policy where there is no approved modification or exception in place. In situations where breaches of Policy arise, it is essential that there are clearly defined, efficient and appropriate processes to get the risk back within appetite and this should be made clear in an Issue and Action plan. The RFO must be informed of any breaches who will escalate a confirmed breach through governance.

5 Policy Ownership and Approval

This Policy is owned by the Director of Compliance and approved by the Operational, Compliance and Financial Crime Risk Oversight Committee (OCROC).