SUPERVISION GUIDELINE

Scenario analyses from a customer perspective

In short By carefully developing financial products, firms can avoid foreseeable customer disappointments. An important part of the product development process (PARP) is scenario analysis, that take customer interests into account. PARP investigations by the AFM show that firms struggle with the application of scenario analyses. With this guideline, the AFM wants to provide guidance regarding the use of scenario analyses. The guideline also contains a number of examples of scenario analyses for different product groups.

This is how scenario analyses are carried out thoroughly.

Step 1
Start in the development phase.
§3.4 ▶

Step 2
Which scenario's are necessary: quantitative or qualitative?
§3.2 ▶

Go directly to the corresponding section.

Step 3
Involve the right expertise.
§3.5 ▶

Step 4
Choose the right method.
§3.2 and §3.3 ▶

Step 5
If needed: investigate the interplay between scenarios.

For example through the use of personas.
§3.2 ▶

Step 6
See if changes are necessary due to the outcomes of the scenarios.

For example in the product, distribution strategy or in the target market.
H4 ▶

Step 7
Record the results and possible follow up steps and monitor them on execution.
§3.6 ▶

NOVEMBER 2024

AFM

Contents

SUPERVISION GUIDELINE

AFM

1. Introduction

By exercising care in the development and evaluation of financial products, firms can avoid foreseeable disappointments among customers. On the one hand this will contribute to better consumer protection and on the other hand will generate greater trust in the financial sector. An important part of product development and evaluation is the scenario analysis. In this guideline, the AFM provides financial undertakings with tools to implement such analyses.

1.1 Background to this guideline

Firms use scenario analyses to examine the operation of the product in various circumstances (scenarios). This gives them visibility on the operation of the product and enables them to check whether it continues to fulfil the target market's objectives in the specific circumstances. With this scenario approach, it is crucial to examine the impact of different situations and market conditions on the target market (customers, clients or beneficiaries) and to ensure that the results of the analyses are used in the product development process (PARP).[1] The results of the analyses may lead to adjustments to the target market or distribution strategy. The scenario analysis may also show that adjustments are required to the product or the management of the product. When circumstances change, it is particularly important that firms have conducted relevant scenario analyses so that they can take action or evaluate their products in good time where necessary.

The AFM devotes constant attention to market participants' organisation and implementation of PARP. The AFM's research shows that firms aim to exercise care in the design and conduct of relevant scenario analyses. Firms have difficulty, for example, in designing their scenario analyses and using the results of the analyses in the balanced weighing of interests that is required as part of the PARP. The AFM also notes that firms often conduct scenario analyses from the firm's perspective and examine the impact on the product's target market (the customer perspective) to a lesser extent. Firms benefit from having a clear view of the customer perspective in the event of disappointing circumstances, because this limits the risk of mis-selling.

By means of this guideline, the AFM aims to provide **developers and co-developers of financial products**[2] with tools they can use for scenario analyses in the context of PARP. The guideline is applicable to developers of all kinds of products that are covered by the PARP standard. Where this guideline includes examples concerning pensions, these apply to pension insurers and premium pension institutions. Pension funds are not subject to the PARP standard.[3] The guideline contains a number of examples of scenario analyses for different product groups, but does not provide an exhaustive overview of all requirements with regard to scenario analyses.

1 PARP stands for Product Approval and Review Process, and is also referred to as product governance.

2 For distributors, the PARP includes no obligation to conduct scenario analyses. Distributors may nevertheless carry out additional analyses for their distribution strategy and possible refinements of the target market. Scenario analyses can serve as a tool in such cases. See section 1.3.

3 Pension funds are not subject to the PARP standard, but they are subject to the engagement confirmation standard. In that context, they are also required to carry out scenario analyses to show the effects of their pension scheme. Further information on this can be found in the engagement confirmation guideline of July 2023: https://www.afm.nl/~/profmedia/files/wet-regelgeving/beleidsuitingen/leidraden/leidraad-opdrachtbevestiging.pdf.

In this guideline, the AFM answers three questions:
- Why are scenario analyses important?
- How can a firm carry out scenario analyses?
- What do scenario analyses provide?

What is a guideline?

A guideline is a written policy document in which the AFM aims to provide market participants with guidance and clarity. A guideline may include recommendations, guidance or additional explanations, for example. A guideline is also a means whereby the AFM can set standards for the market on conduct and other matters. The purpose of a guideline is to inform a specific group of people or provide greater insight into a particular subject. This guideline does not have the status of laws or regulations. Market participants are responsible for compliance with laws and regulations. This guideline assists them in that.

1.2 Relevant legislation

Since January 2013, statutory requirements have applied to the development of products by financial firms and the way in which they distribute products to the appropriate target market. This standard is set out in Article 32 of the Decree on Conduct of Business Supervision of Financial Undertakings under the Wft (BGfo). Firms are expected to organise and implement their product development process (PARP) with due care.

After 2013, European sectoral PARP legislation was introduced for various financial products. In Dutch regulations, this was implemented in Articles 32, 32a, 32aa, 32ab, 32b, 32c and 32e of BGfo. The insurance sector specifically is subject to the IDD delegated regulation.[4] In addition, the various sectoral European supervisory authorities (ESAs) have drawn up guidelines or other clarifications for the PARP, such as the ESMA guidelines,[5] the EBA guidelines,[6] the EIOPA approach[7] and the EIOPA guidance.[8]

Scenario analyses are an important part of the development and evaluation of products. Sectoral regulations also emphasise the importance of carrying out scenario analyses.[9]

Scenario analyses are central to this guideline and the AFM provides guidance on their implementation, regardless of the sector or product group. The sectoral legislation nevertheless sets additional product-specific requirements, such as making certain scenarios mandatory. This guideline is not intended as a substitute for sectoral legislation. With this guideline, the AFM aims to provide direction and clarity on the design of scenario analyses across all sectors.

4 Delegated Regulation (EU) 2017/2358.

5 ESMA35-43-3448_Guidelines_on_product_governance_NL.pdf (europa.eu).

6 Guidelines on product oversight and governance arrangements for retail banking products | European Banking Authority (europa.eu).

7 EIOPA's approach to the supervision of product oversight and governance - European Union (europa.eu).

8 EIOPA publishes guidance on integrating the customer's sustainability preferences in the suitability assessment under the IDD - European Union (europa.eu).

9 As specified in Article 32(2)(b) of BGfo, Article 6 of Delegated Regulation (EU) 2017/2358 (IDD) and Article 9(10) of Delegated Directive (EU) 2017/593 (MiFID II).

1.3 Which firms should implement scenario analyses?

Different PARP standards apply to developers and distributors of financial products. Developers are firms that offer or create financial products and make them available in the market. Distributors are financial undertakings, such as financial service providers, that distribute and sell the products.

Developers of financial products are obliged to conduct scenario analyses.[10]

It is also possible to be a co-developer of a financial product.[11] That is when the firm is not the only developer, but does play a role in decision-making on the design and development of a product. In such cases, the developers or co-developers must record the mutual agreements on product development in writing.

Distributors are obliged to use developers' information on the target market in determining their distribution strategy.[12] The distributor determines whether it needs information on the scenario analyses carried out by the developer. If the distributor concludes that it needs this information, the obvious thing to do is to request it from the developer. The way in which the information is exchanged is up to the developer and distributor. The distributor may refine the target market on the basis of the information from the developer and information on its own clients. The distributor must ensure that the financial products match the requirements, characteristics and objectives of the target market and ensure that the distribution strategy is appropriate for the respective target market. If the distributor concludes that the required information from the developer is insufficient for this purpose, it is free to conduct the scenario analyses itself. It may also decide not to offer the product in such cases.

10 As specified in Article 32(2)(b) of BGfo, Article 6 of Delegated Regulation (EU) 2017/2358 (IDD) and Article 9(3) of Directive 2014/65/EU (MiFID II).

11 Legal standards for developers and co-developers and distributors of insurance products (afm.nl).

12 As specified in Article 32ab(2) of BGfo, Article 32b(6) of BGfo and Article 32e(2) of BGfo.

2. Why are scenario analyses important?

PARP essentially revolves around a balanced weighing of different interests (for example those of the customer, the firm itself or other stakeholders) in the development of financial products. A financial product must demonstrably be the result of the balancing of such interests. Only products that serve the interests of customers and are offered to a well-defined group of customers for whom the product is suitable (the target market) should be developed. The financial product must be prevented from being sold outside the target market.

When developing and evaluating products, it is important that firms assess whether their product will meet the objective(s) of the target market in various scenarios. After all, changing circumstances may affect the impact of a product in relation to the target market. Market conditions, such as the level of interest rates or house prices, but also the personal situation of the customer, for example in the event of divorce or death of a partner, may change. Firms themselves assess which scenarios are relevant to the product in question. With this scenario approach, it is crucial to examine effects that are relevant to the target market (consumers, clients or beneficiaries). To assess whether the product detracts from the objective(s) of the target market, the firm must record the interests of consumers, clients or beneficiaries and take them into account in the scenario analyses. The 'KNVB criteria' (cost-efficiency, utility, security, understandability) can be applied for this purpose.[13]

Scenario analysis is a powerful tool for firms in determining how the product, target market or distribution method should be designed. It also helps in checking whether the product, target market and/or distribution method need to be adjusted. This enables firms to ensure that the product continues to fulfil target market's objectives.

The results of these scenario analyses must be used in designing the features of the product and defining its target market. The operation of the product **as a whole** and **its individual components** in various scenarios can be determined by means of scenario analyses.

The AFM's view of the market
The AFM finds in practice that firms usually approach scenario analyses from the company perspective and examine the effects on the product's target market to a lesser extent. An example is when firms assess the profitability (margins) of a product in different scenarios but do not examine the effect of the costs on the target market in these scenarios. Firms must take the target market perspective into account when developing their products.

If firms do not conduct adequate scenario analyses, there is a real risk that foreseeable disappointments will arise among the customers for the product. In addition to impactful damage to consumers, firms have to take (possibly costly) remedial measures in such cases and may incur reputational damage. Firms thus also have an interest in ensuring that their products are properly tested from the customer's perspective. In short, both the firm and the customer benefit from robust products.

13 Details of these can be found on the AFM website: Product governance (afm.nl).

3. How can a firm carry out scenario analyses?

3.1 How can a firm carry out scenario analyses in practice?

First, the firm determines which scenarios should be included. To that end, it must understand which scenarios are relevant to the operation of the product in relation to the target market. This relevance depends particularly on how dependent the operation of the product is on crucial product features and external factors from the product perspective (such as customer life events, longevity risk and the macroeconomic and fiscal context). Firms can determine this by using **sensitivity analyses**. These analyse product features and applicable external factors and examine the extent which the operation and/or performance of the product is sensitive to changes/variations.[14] A firm then assesses the effects on the target market in the respective scenarios. The relevant features of the product are taken into account, so that a firm can determine whether the product continues to fulfil the target market's objective(s).

Certain (possibly unique) features of a product can have a potentially major influence on the operation of a product, such as the interest-on-interest effect on equity-release mortgages or whether or not the macro-longevity risk is also insured in the case of a variable pension benefit. In the case of insurance products, certain types of cover and exclusions may be crucial for the target market. Such product features will emerge as sensitive parameters and/or assumptions from the aforementioned sensitivity analyses. It is important to design and vary scenarios on the basis of the most sensitive parameters/assumptions and also to take account of any accumulation of such parameters/assumptions and the interaction between them. That will clearly indicate not only what effect ***one*** scenario has, but also how ***a combination of*** scenarios affects the operation of the product. In order to assess the effects of certain scenarios, a firm can use average investors (fictitious persons used as an example). The use of average investors helps to build a picture of the effects on the target market or sub-target market. There is a risk that a firm may lose sight of the broader effects by focusing too much on individual features.

Firms must not only develop qualitative scenarios for certain products, but also calculate their impact. The need to quantify scenarios will depend on the nature of the product. As a product becomes more complex and impactful, the importance of quantifying scenarios increases. Scenarios can be quantified by means of statistical analyses. For example, a developer can calculate the effects of a feature of the product (such as its cost) over the term of the product under constant and changing market conditions. Other examples include the use of (statistical) simulations[15] or performance scenarios according to the PRIIPs methodology.[16]

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14 See Annex 2 of the Occasional Paper on interest-only mortgages for an example of this. Figure 19 is a graphic representation of the effect of factors such as mortgage interest rates, house prices and assessed income on the refinanceability of interest-only mortgages.

15 The Monte Carlo simulation, for example, is a statistical method in which the probability of various results is modelled. Running a simulation consists of repeating or duplicating the features and behaviour of a real system. The main aim of the Monte Carlo simulation is therefore to try to imitate the behaviour of real variables, in order to analyse or predict as far as possible how they will evolve.

16 NB: the prescribed analyses as in PRIIPs are intended to provide information for the customer, as presented in the KID. As EIOPA's explanation also shows, these performance analyses can also be used to carry out further testing on the product and may correspond to the scenarios presented in the KID. However, the scenario analyses for product testing based on PARP have a broader perspective than the testing of performance in various market scenarios.

NB: the standards for product development do not state precisely which methods the developer should use to carry out scenario analyses. It is up to firms to select appropriate methods and to substantiate their choice. It may be necessary to use different methods for the same product: for an investment product, the PRIIPs methodology can provide insight into the expected return in different market conditions. A developer can also take account of possible relevant life events occurring during this (potentially long) term.

Example of quantification: equity release mortgages
A provider of equity release mortgages calculates the impact that a steep rise in interest rates has on the objectives of the initially defined target market. Due to the interest-on-interest effect of these products, costs can rise sharply, rendering the target market's objective unachievable. This interest-on-interest effect must be assessed in both constant circumstances over certain terms and in the event of changing circumstances such as rising interest rates. Rising interest rates cannot be prevented, but this analysis can allow a better assessment of when customers will no longer achieve their objectives and/or costs will become disproportionate to the added value of the product. Using average investors in this analysis can help to determine the impact on different groups more clearly (for example by defining a number of profiles that fall within the product's target market).

A firm must use the results of scenario analyses to determine whether the product, the target market and/or the distribution method need to be adjusted. It must also consider whether the customer should be better informed of the possible risks. A provider of an equity release mortgage, for example, can adjust the maximum loan-to-value (LTV) because analyses have shown that an average interest rate rise may lead to a significant group of customers withdrawing (consuming) the value of their home too quickly and therefore no longer being able to withdraw any money. In this example, the product therefore needs to be changed. In some cases, an adjustment to the target market or distribution method may be necessary.

3.2 Which scenarios can a firm analyse?

When conducting scenario analyses, firms must take account of the complexity, impact and (possibly unique) features of the product. Hence there is no fully standardised approach. Examples of possible scenarios include:

- **Operation of the product under constant market conditions:** Providers must show how the product operates and must assess relevant risks. For example, how high are the costs in various customer situations? And how high will the costs rise during the term of the product? Are the costs in line with the target market's objective? In other words, are the costs in proportion to the underlying value of the product? The cost structure (including fixed costs) may determine that some products are cost-efficient from a customer perspective where the original investment is high, but not where the original investment is low. In this case, a provider can make the product more cost-efficient[17] for the target market by modifying the cost structure and/or adjusting the minimum entry level. Another example is finding out whether and in which cases there is added value for customers in taking out all-risk insurance for an older car (to prevent overinsurance).

17 The product is cost-efficient from a customer perspective if it offers value for money. This concerns the added value for the customer, not the extent to which the provider operates cost-efficiently.

- **Macroeconomic and other external developments:** developments such as changes in interest rates, the value of investments, developments in house prices or sustainability risks must be included in the scenario analysis where such developments are relevant to the products. What are the consequences for the customer of a variety of developments? In the case of products whose operation is affected by external developments, it is important that firms examine the impact of stress situations, such as a very sharp increase or decrease in interest rates or a combination of several unfavourable developments at the same time.

- **Life events:** It is also important to examine the impact of relevant life events on customers, particularly in the case of products with longer terms. What will happen if there is a change in the family situation, unemployment, incapacity or death of a partner? For example, will the mortgage still be affordable after the partner's death, and can certain risks be anticipated and covered? In the case of life events, firms can determine the impact in order to examine the extent to which the possible consequences are acceptable to the customer, for example if they have to leave the home because they can no longer afford the mortgage. It is then up to the distributor to assess this specifically for each customer. The developer identifies the risks to customers based on the scenario analyses and determines which measures can be taken to mitigate them. It is up to the developer to determine whether to apply these directly in the product or by means of instructions to the distributor.

- **Exit strategy:** How will the firm deal with a situation in which it no longer offers the product to new customers? This may be the case if a product is no longer commercially viable, or a pilot phase reveals that the product does not work in its current form. Will certain customers or customer groups be hit disproportionately hard by such a decision or are mitigating measures required to prevent adverse consequences for customers?

- **Limited use or non-use of the product:** What will happen if customers make little or no use of the product? For many products this should not be a problem, but there are also products in which these 'dormant' customers are worse off (after a certain period) than if they did not have the product. An example concerns customers who took out a revolving mortgage at the same time as another regular mortgage. If these customers are paying fees[18] for this revolving mortgage, even though they are not using it, it may be an inappropriate product. This will not necessarily be the case if customers have consciously chosen such a mortgage to maintain flexibility, but in that case the customer must be explicitly informed.

- **Changing regulations:** What will happen if there is a change in regulations affecting the product? To what extent will this affect products? Examples include the phasing out of mortgage interest tax relief and relief in cases where there is little or no owner-occupied home debt ('Hillen Act') and changes to the pension system. Another example concerns tax-friendly products in the third pillar.

- **Mandatory scenarios:** Sectoral legislation and regulations for developers of certain products prescribe specific scenarios that must always be analysed (in the PARP). For financial instruments, for example, it is mandatory to analyse the scenario in which the product is no longer viable.[19]

- **Other scenarios:** what does a firm do when demand for the product is much higher than expected and the resources and/or market for the underlying product come under pressure? Other examples are how the product works if it is surrendered or made paid up or if additional contributions are made. Examples also include examining the effects of longevity risk[20] and cases in which the product is no longer liquid (for example in the case of investment products).

18 For example, higher interest on a mortgage because the loan-to-value is higher when the revolving mortgage is included.

19 See for example: Article 9(10)(c) of Delegated Directive (EU) 2017/593 (MiFID II).

20 Longevity risk is the risk that an insured person will live longer than expected based on the prevailing mortality rates.

- **Sustainability scenarios:** It is important that firms include sustainability scenarios where relevant when applying scenario analyses, to determine whether the objective(s) of the target market will be compromised. In this framework a distinction can be drawn between various risks that may lead to scenarios. It is possible that a firm will include climate risks in its analyses. These are, for example, physical risks (such as floods, heat waves and drought) and transition risks (such as the consequences of climate policy).

  A firm can use scenario analyses to anticipate new or recently introduced legislation on sustainability. Examples are the introduction or application of climate policy that leads to a reduction in the value of investments in carbon-intensive companies.

3.3 Proportionality: depth of analysis depends on product complexity and impact

The complexity, target market and impact of the financial product are key determinants of the extent to which the firm has to carry out scenario analyses. As the complexity and impact of the product increase and the product is no longer offered exclusively to corporate customers, the operation of the product must be examined in greater depth in various scenarios. This means the firm must elaborate scenario analyses in more detail. For a simple product such as an ordinary savings account, for example, no scenario analyses have to be carried out. For complex and/or impactful products, it is important not only to assess relevant scenarios qualitatively, but also to calculate their impact where possible. Determining the cost-efficiency of a product often requires a calculation (quantification) and is also important in the case of less complex/impactful products. In some cases, simple-looking products may be more complex than they seem. For example, in the case of a savings account in foreign currency the customer incurs a currency risk. This product is more complex than a savings account in euros. A payment account combined with a credit card (with or without spread payments) or with the possibility of investment is (considerably) more complex than a standalone payment account.

3.4 When in the process are the scenario analyses carried out?

Before a product is marketed, the financial undertaking must ascertain that it meets the target market's objective(s). It must do this partly by analysing the operation of the product in different scenarios. The results of the scenario analyses must therefore be incorporated before the product design (including the target market and distribution) has been finalised. The results of scenario analyses must also be allowed to influence considerations with regard to the features of the product, the determination of the target market and/or the distribution strategy. During a review, a check must be made of whether the original product still meets the objective(s) of the target market. The results of the scenario analyses must be known in good time, so that they can be incorporated in the decision on whether or not to adjust the product. The results of the scenario analyses and the choice based on them must be recorded. This also applies to reasons for not conducting any (additional) scenario analyses.

Conducting scenario analyses is also important in the case of intended changes to the product or product components, so as to determine what impact an adjustment would have on the product or product component. These may include, for example, modifying the insurance cover, adjusting the exit possibilities or adjusting the cost structure. With such drastic effects on the operation of the product, the firm may have to redefine the target market and objective(s). An important point is how far-reaching the effect of the change is on the operation of the product. Not every change requires the scenario analysis to be rerun.

3.5 How can a firm ensure that scenario analyses are carried out with due care?

A firm must build in safeguards (adequate procedures and measures) to ensure that the PARP, including the scenario analyses, is carried out to sufficient depth. In the case of scenario analyses, this means among other things that the firm ensures that:

- relevant scenarios are determined, in which all components of the product are analysed individually and in combination;
- scenario analyses are conducted and quantified where necessary;
- the results of the scenario analyses are included in the PARP and contribute to a balanced weighing of interests;
- actions planned as a result of the scenario analyses are carried out promptly; and
- the results, choices and dilemmas are recorded (and are therefore traceable).

The quality of scenario analyses can improve if the right (internal) expertise, including expertise from the customer's perspective, is included and sufficient capacity is made available. The actors involved will benefit from sufficient direction: they do not have to 'reinvent the wheel', so quality and efficiency are increased. The process of defining and carrying out a scenario analysis is periodically evaluated and improved where necessary.

3.6 The importance of careful recording

Products must **demonstrably** result from a balanced weighing of interests. For scenario analyses, this means recording why certain scenarios have (or have not) been chosen, what the results of the scenario analyses are (the operation of the product in various scenarios) and what the firm has done with them. Proper records can also help the firm take decisions and check internally whether the PARP has been carried out properly. This also makes it easier to repeat relevant scenario analyses, for example for other (possibly comparable) products or during a review.

4. What do scenario analyses provide?

After relevant scenario analyses have been carried out, it is important that firms incorporate the results in their PARP. The result of the scenario analyses may be that the product, the intended target market and/or the associated distribution strategy have to be adjusted. It may also be necessary to provide additional information for the customer and the adviser. In this regard, the AFM points out that providing additional information is not always a solution to the problem. Using the information from scenario analyses to give customers better insight into the operation/risks of the product can be useful and necessary, but is not the only goal. In the PARP, a firm must examine how it can address the risks (to the extent possible) within the product, the intended target market or the distribution strategy. This means the product is ultimately the result of a balanced weighing of interests.

Below we provide a number of examples of follow-up measures based on scenario analyses. The examples may apply to a scenario analysis during product development and/or a product review.

Insurances

- A developer of non-life insurance notes that due to climate change certain risks such as flooding may manifest themselves more often/differently than previously and incorporates this in various scenarios. On this basis, the developer concludes that the insurer's current terms and conditions do not sufficiently match the needs of the target market and then decides to adjust the conditions and/or the target market of the insurance.

- Due to a pandemic, the Dutch government has issued negative travel advice. This means that certain travel insurance policies may provide no or only partial cover, but customers can still take out such insurance as an add-on when booking their trip. The developer of this insurance concludes on the basis of its own scenario analyses that this situation could occur more frequently and that it should amend the conditions and/or distribution strategy for the product.

- A developer of investment-linked insurance examines the effect of the project's cost structure on the target market, in both constant and changing circumstances (for example a negative stock market climate). On this basis, the developer modifies the product's cost structure.

- A customer takes out home contents insurance at a young age. The customer may have steadily rising income over the years and purchase expensive furniture and electronics. On the basis of the scenario analysis, the insurer can assess whether the insurance still provides sufficient cover for this target market during the term of the insurance and if necessary amend the terms and conditions accordingly.

Loan (mortgage or consumer)

- When developing a loan, a provider's scenario analysis shows that the costs of the loan are not transparent and can lead to a long-term debt position. It therefore decides not to market the product. An example concerns interest-free car loans where the purchase price of the car has been artificially increased to cover the cost of the interest-free loan.

- A firm notes that interest rates are changing and are liable to change further in the future. It checks whether this is in line with the scenario analyses it previously carried out. Since it used different scenarios when developing the product, it goes through the review process to determine whether the product and the distribution are still appropriate for the target market. The firm defines new scenario analyses and carries these out to investigate the impact on the product.

- A provider of interest-only mortgages has assessed the effect of falling house prices on the target market in various scenarios. On this basis, the provider concludes that it should change the target market for this type of mortgage. It offers existing customers the opportunity to adjust the current product so that it is more appropriate.

- A provider of equity release mortgages concludes that quite a large proportion of customers in its target market (pensioners with a lot of equity in their home) get a new partner who moves in with them. This partner then has to move out if the customer (mortgagor) dies (because the partner has no entitlement to the home). On the basis of this information, the provider adjusts its product, the target market and/or the information provided.

Investment products

- Scenario analyses show that an investment product is only cost-efficient if it extends beyond a certain horizon and investment level. The developer therefore decides to adjust the cost structure and/or target market for the product.

- A firm concludes on the basis of scenario analyses that two-thirds of customers lose money on its leveraged investment product. Further analysis shows that the losses are suffered predominantly with higher leverage. The firm decides to stop offering high-leverage products.

- A bank offers interest rate derivatives and examines the effects on the target market in various scenarios. This means it examines among other things the effect of the product on the target market in different interest-rate scenarios (from a sharp decline to a sharp rise). Based on the results, the bank adjusts its target market and distribution method.

- A pension insurer or premium pension institution that develops a variable pension product conducts a number of scenario analyses based on different average investors. For a large part of the target market, the costs are greater than the benefits when insuring longevity risk. On the basis of this conclusion, the developer adjusts its product and target market.

- A management company that is subject to PARP offers an open-ended investment fund to retail customers, where customers can easily enter and exit. The fund invests in illiquid assets, such as real estate or unlisted companies. The management company takes account of possible liquidity problems, for example using stress tests. The management company incorporates the results of these tests in the development of the product and the determination of the target market and distribution strategy.