



## Consultation on Structured Products



TISA

leading on tax incentivised savings

Gareth Shaw

Which?

# STRUCTURED PRODUCTS

Can they guarantee consumer safety?

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### Recognising the differences

- Clear distinction between structured deposits and structured investments
- Around 75% of structured product sales are made through high street institutions
- Complex products now have a mass market exposure - is this appropriate?

### Who is the customer?

- Looking for better interest rates than regular savings accounts
- Loss averse, looking for capital protection
- But... unsophisticated, poor understanding of complex products, reliant on the trust the product distributor

## Which?'s concerns

- Are the structured products sold to consumers suitably built?
- Are the products being marketed fairly and accurately by product providers?
- Are the products being sold responsibly?

Are the products sold to the mass market suitable for unsophisticated consumers?

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### A history of poor performance

- Credit Suisse Protected Capital account
- Marketed to achieve up to 60% growth of FTSE 100
- In fact, this has never been achieved in the history of the index
- Generally, very little in the way of past performance comparison in the industry

### Complex structures

- Certain products, like 'cliquet' structured products are hard for consumers to understand
- Limited participation
- Unfair terms on early encashment - punitive charges but are these representative of the impact on the provider?

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### Counterparty risk

- No longer the esoteric issue it was
- Providers have improved transparency
- Should customers looking for a savings-type product have any counterparty exposure?
- Too big to fail no longer a defence - counterparty risk and compensation coverage a vital part in decision-making

Are structured products being marketed fairly to consumers?

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### Misleading material

- Unobtainable headline rates
- Lack of AERs to make like-for-like comparisons
- Unrealistic worked examples
- Failure to explicitly highlight deposit takers
- Inexcusable oversights - sales over information

### Guarantees guaranteed?

- Case study: Santander Growth Plan
- Previously called 'Guaranteed capital plus' and 'Guaranteed Growth Plan'
- Described as "very low risk"
- Counterparty is Santander Guarantee Company
- The guarantee from the guarantee company isn't a guarantee - still with me??



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### Opacity of charges

- Very few products list explicit initial or annual charges
- Costs are important - this makes it difficult for consumers to make a decision
- Challenge the industry to make costs clearer
- What are providers making out of their clientele?

Are structured products being sold responsibly to consumers?

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### Sales processes

- Commission incentivised
- Deposit products currently fall outside of RDR, commission will continue to be paid
- Off-the-shelf deposit products - guided sales leaves consumers without FOS protection

### Tied products

- Consumers seeking a good deal tend to focus on the product they want and may not fully understand investment risk
- Difficult to evaluate the whole package
- Complexity makes it difficult for consumers to understand investment
- Reduces consumer mobility and choice



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### Mind your distributor

- Fractured distribution market
- Nearly 60% of bank advisers recommending structured products
- Poor and misleading sales tactics - illustrates lack of understanding from distributors