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Structured deposits and investment products

A structured product ties up your money for a set time and might be designed to give you income, growth or both. Structured products are complex and can be more risky than they seem, so get professional financial advice if you're not sure whether they're right for you.

What is a structured product?

DON'T GET CAUGHT OUT!

If you are looking for a structured deposit it's very important that you don't take out a structured investment by mistake. Structured investments offer you far less protection than a structured deposit.

A structured product is a kind of fixed-term investment whose payout depends on the performance of something else, like a stock market index. There are two main types of structured product:

Structured deposits – these are savings accounts, offered from time to time by some banks, building societies and National Savings & Investments, where the rate of interest you get depends on how the stock market index or other measure performs. If the stock market index falls, you will usually get no interest at all. But unlike structured investments (see below) the money you originally invest has the same protection as you get with any other savings account.

Structured investments - are commonly offered by insurance companies and banks. Your money typically buys two underlying investments, one to protect your capital and another to provide the bonus. The return you get depends on how the stock market index or other measure performs. In addition, if it performs badly or the firms providing the underlying investments fail, you may lose some or all of your original investment.

Structured investments and deposits are sold under many different names, including:

- Guaranteed Equity Bonds
- Structured Cash ISAs
- Growth Deposit plans
- Guaranteed Capital Plans
- Guaranteed Stockmarket Bonds
- Protected Investment Funds
- Guaranteed Income Bonds

The word 'guaranteed' in these product names may not mean what you think. You are guaranteed to get the returns offered only if the index or investment performs as required in the product's terms and conditions. Your capital is guaranteed only if the company providing the guarantee can meet its obligations or is covered by the Financial Services Compensation Scheme. Even when your capital is guaranteed fees and charges may mean you get back less than you put in.

Ask the provider or adviser to explain how the product works, what the risks are and whether you would be protected by a compensation scheme if things went wrong (see below). If you are not happy with the answers, walk away.

How structured deposits work

When you buy a structured deposit you agree to tie up your money for a set time – often five or six years – in return for a lump sum at maturity. The amount you earn depends on how well something else performs – often a stock market index such as the FTSE 100.

Example
The rules for a structured deposit lasting three years might be as follows for an investment of £1,000.

- **If the FTSE 100 is higher at the end of the three years** than it was at the beginning, you get your original investment back plus an interest equal to 15%, giving you a total of £1,150, or

- **If the FTSE 100 is higher at the end of the three years** than it was at the beginning, you get your original investment back plus interest equal to100% of the growth in the index.

So structured deposits give you the possibility of getting a stock market return without risking your capital as you would if you invested direct in shares. But bear in mind that:

- you might get less interest than you would have done with an ordinary savings account - or no interest at all.

- if you invested in shares instead, you would potentially benefit from a rise in the stock market index (share prices) – and you would usually receive income in the form of dividend payments as well.

How structured investments work

When you buy a structured investment, you also agree to tie up your money for a set period. Some of these products offer you a lump sum at maturity depending on the performance of the stock market index o other measure.

Examples

- **If the FTSE 100 is higher at the end of the five years** than it was at the beginning, you get your original investment back plus an extra 30% - a total of £1,300.

- **If the FTSE 100 is at the same level or lower** than it was at the beginning, but is less than 50% lower, you get your original investment of £1,000 back but nothing extra.

- **If the FTSE 100 has fallen by 50% or more**, the amount of your original investment you get back is cut by the same percentage – so if the FTSE 100 has fallen by 60%, you'd only get 40% of your money back, a total of £400.

Other structured investments let you take a regular income and whether or not you get back your original investment in full depends on how the stock market index or other measure has performed. If the stock market falls, you can lose a very large chunk of your original investment. And there are additional risks – see Risk below.

Risk

DID YOU KNOW?
A high street bank was fined £1.5 million in 2012 for selling 'guaranteed' structured products in the UK without making it clear that people wouldn't be fully covered if the firms the bank had chosen to provide the underlying investments failed.

If you take out a structured investment with, say, a bank or insurance company it's not usually that firm which promises to return your original investment or to pay a given return on your money. Instead the bank or insurance company will buy some complex underlying investments from one or more other companies, often referred to as 'counterparties'.

Because you don't have any agreement yourself with the counterparties, if any of them fails – so that your structured investment fails to give you your money back or provide the promised return – you don't have any direct claim on the counterparty and no compensation scheme would apply. Instead, you would have to try to seek redress from the bank or insurance company that sold you the product or any adviser who advised you to take it out. You would have to show that the bank, insurance company or adviser had not made the risk of the counterparty failing clear to you.

In addition, banks selling structured products often talk about 'capital protection' – but this doesn't necessarily mean that your money's completely safe. There are two common types of protection:

- **Full protection** – also described as '100% capital protection', 'capital security' or a 'capital guarantee', this means that the minimum that you receive on maturity should be at least equal to the amount originally invested.
- **Partial protection** – how much of your original money you get back depends on the performance of the index your product is based on and only a proportion – say 90% - is protected by the capital 'guarantee'.

In either case, there is still potential for capital loss as described above, if the company providing the guarantee runs into trouble.

Information you should be given

Structured investment product providers must provide you with 'key facts' information that you can under-stand, covering:

- what the investment is and how it works
- the key risks including the risk of capital loss and counterparty risks
- charges (the fees that will be deducted from your returns or capital)
- when you'll have the right to access to the Financial Ombudsman service and the Financial Services Compensation Scheme.

Structured deposit providers currently do not have to provide a key facts document. But they must give you enough information to allow you to make an informed choice about whether this type of savings account is suitable for you.