

How to educate advisers to sell structured products

Relationship managers (RMs) and advisers have a key part to play in ensuring clients in Asia fully understand the risks and rewards of structured products. However, to play this role fully they need to understand the products themselves, said panellists at Hubbis' inaugural Structured Products Forum 2015 in Singapore in June.

"If RMs understand [structured products] they can explain them to a client, but if they find them difficult to understand themselves they may not properly explain them," said Mahesh Bulchandani, chief executive officer for Asia at FinIQ, speaking at Hubbis' inaugural Structured Products Forum 2015 in Singapore in early June.

He said that a two-pronged approach to RM education works best. "One side uses more formal training, which we offer to clients but also use to remind our internal sales people as well. We add new joiners to the sessions, with the training typically taking two to two-and-a-half days."

But while this is effective, he admitted he doesn't think it's sufficient. "So we have used technology as a way to train them as well. We give them a [structured products modelling] tool that they can play with and see how certain perimeters play out. They can see how

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ALESSANDRO CAIRONI
UBS Wealth Management



the products pay out when they change different terms, and you would be surprised – they learn themselves."

In addition to this, Alessandro Caironi, head of capital market sales for Asia Pacific at UBS Wealth Management, said more effort to raise the end-client understanding of structured products could help.

"I think it's about matching the client's need with the right structured product," he said. "What is the client looking for, and can they find this through a structured product rather than through the underlying investment?"

Some principal-guaranteed products are gaining appeal in today's low interest rate environment. However, Bul-



chandani cautioned that while such products may appeal, they still carry a number of risks.

“Often when you buy a principal guaranteed product we say the principal is safe, and if conditions go in your direction you might make a large coupon, and if it doesn’t you get no coupon. Generally investors feel confident about this because rates are so low anyway,” he said.

“But issuers who give the security and say they will pay it back at maturity need to be able to do so. If the issuer goes into default your principal is not guaranteed. Secondly, if you need to access the money you’ve invested in the product before its maturity you may not get all of your money back.”

CLEAR OBJECTIVES

Yash Mishra, head of private clients at Taurus Wealth Advisors, said a key requirement for RMs to decide how best to use structured products was first to ascertain the client’s objectives. “Clients often have many bank accounts and a large collection of investment products with no sense of strategy. We often ask them to explain the

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underlying objectives and what they want to achieve, and the clients usually say to us ‘I have no idea; some of these investments are what my private banker suggested’”

She added that the understanding by HNW individuals of structured products is often also somewhat limited. “If we [described some structured products as] ‘fluctuating principal and maybe some return’, no client would

buy the product, notwithstanding the technicalities,” Mishra said. “Clients don’t remember why they are sold products, and their memories are so short they usually take the last reference point as being when they lost money. When they make money [from the products] they don’t care.”

Caironi added that he felt clients were fairly clear on principal-protected products but that these were of less interest as they were much more focused more on liquidity.

He added that RMs didn’t always explain why structured products were sometimes better than other options to meet client needs.

“The disconnection I think is more one of [client] understanding and optimisation of how [structured products] can meet their needs,” Caironi said. “[A client might ask] ‘Why do I need to do a bond certificate instead of buying an ETF or the S&P 500?’ That’s where the disconnection lies.”

WHAT CAN BE DONE TO BRING GREATER TRANSPARENCY TO THE SALES PROCESS?

More multi-issuer platforms



Regulatory-led initiatives



Better RM understanding to ask questions of issuers



Better technology



Source: Hubbis Structured Products Forum 2015 - Singapore

PRODUCT EDUCATION

An audience sentiment poll asked a question about ‘Whose responsibility should it be to educate clients about structured products?’ The available answers were ‘RM / Adviser’; ‘structured products issuer’; and ‘regulator’. Caironi said he felt the responsibility ultimately lies with the RM / adviser. “The RM and adviser must be able to explain products in a way that means the final HNW client knows what they are doing and which are the riskiest.”

The audience overwhelmingly agreed; 89% felt it was the responsibility of the RM / adviser.

However, Mishra felt the client also needed to take some level of responsibility, using an example of a doctor where she said she didn’t need to know exactly what medicine was being prescribed, but that she expected to be consulted on the risks of taking it.

“I tell clients the same thing. I say ‘I could talk to you for 30 minutes or 30 hours about structured products and you might take five things from it. If you believe in the trust you placed in us as fiduciary professionals, that we have your best interests at heart to do what is right for your portfolio, these products play a role, but there are risks attached to them.’”

ADDING TRANSPARENCY

Another question that was offered as part of a sentiment poll was ‘What can be done to bring greater transparency to the sales process?’

The audience were invited to choose between: ‘more multi-issuer platforms’; ‘regulatory-led initiatives’; ‘better RM understanding to ask questions of issuers’; and ‘better technology’.



The voters plumped for better RM understanding, a result that Caironi agreed with.

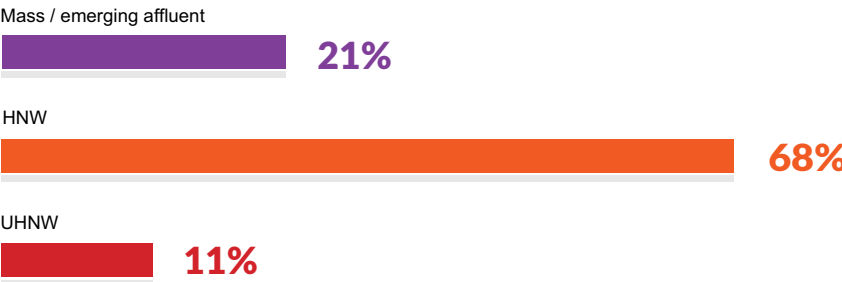
“The multi-issuer platform is important, but it’s more important to get RMs to better understand the operation and product, and also to try and get issuers to understand the products.”

He added that greater automisation let distributors to become competitive on price with flow products, which could help with the sales process.

“When discussions are about standard products, then we have more dedicated people going together with the RMs [to discuss them with clients].” ■

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WHICH TYPES OF INVESTORS DO YOU THINK WILL BUY MOST STRUCTURED PRODUCTS IN 2015?



Source: Hubbis Structured Products Forum 2015 - Singapore