

# A collaborative approach to raise the structured products bar

*More practical tools and information needs to go into the process of educating relationship managers (RMs) and clients about how and where structured products fit into their portfolios, said panellists at Hubbis' Structured Products Forum 2015 in Hong Kong in September.*

The level of knowledge and understanding among the majority of RMs and other client-facing staff in Asian wealth management about structured products needs to improve to ensure they are capable of discussing them with clients – and in a way that can clearly explain how they apply in their portfolios.

Part of this comes down to giving bankers a targeted range of products that are relevant to their specific group of clients. It can also be achieved by delivering training to the bankers via a combination of different delivery formats, including mandatory training, to get the right concepts into their heads most efficiently.

And if RMs and advisers can help their clients understand more about the full range of products they can potentially use for their portfolios, then everyone stands to gain – as clients can assess for themselves what is suitable and this

**“Product issuers must also share a certain amount of responsibility for educating investors.”**

**ALESSANDRO CAIRONI**  
UBS Wealth Management



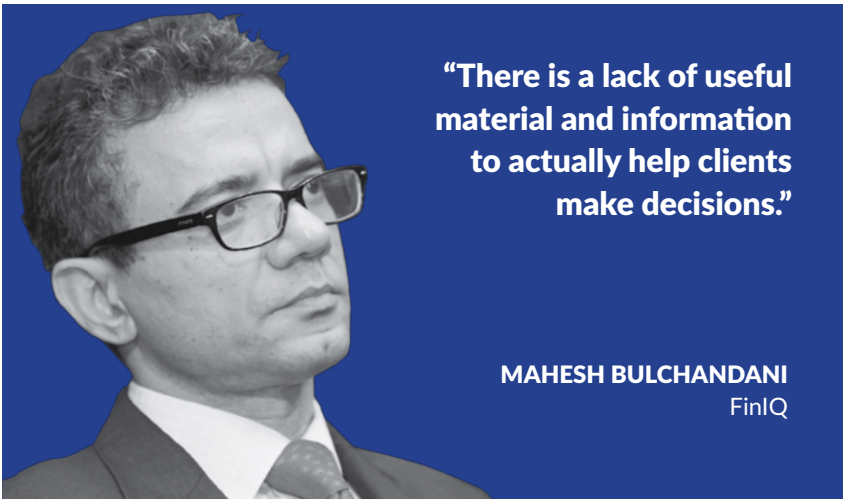
will help them to be able to meet their individual objectives.

## **COMMUNICATION VITAL**

The relative complexity of many structured products makes it essential that there is more interaction among the various stakeholders involved in creating and selling these products.

“Without a continuous dialogue, the sell-side cannot know what the buy-side or end-clients are thinking,” says Philip Cheng, adjunct associate professor of finance at The Hong Kong University of Science & Technology.

As someone who has worked on both sides, he should know. For example, he



explains, the sell-side needs to understand what issues the buy-side faces in terms of their sales process.

Alessandro Caironi, head of capital markets sales, APAC, at UBS Wealth Management, says that the product issuers must also share a certain amount of responsibility for educating investors.

This is increasingly the case given how busy the typical RM is, plus the many other types of products available to choose from.

Perhaps the most important part of the education process, he adds, is listening. “Rather than just trying to pitch the product of the day, the key to doing sales in the right way is to start listening,” he urges.

**EDUCATION WANTING**

The amount of real client education which happens leaves a lot to be desired, according to an audience sentiment poll.

According to Mahesh Bulchandani, chief executive officer for FinIQ in Asia, this is partly due to the lack of useful mate-

rial and information to actually help clients make decisions.

The majority of the so-called efforts to educate clients tend to be based on a few specific products, rather than what Caironi says should be on the bigger picture in terms of why clients need to use structured products, and which types, for example, are suited to whom.

Without the tools, therefore, RMs, who ultimately have the most responsibility

for client education – according to most practitioners – are stifled.

While it is relatively easy for bankers to create a product based on a theme the client likes, Mark Stephens, founder and chief technology officer of Simulytics Systems, says it is far from straightforward to determine which combination of equities and which level of capital protection level will meet the target return of the client, and with an appropriate level of risk.

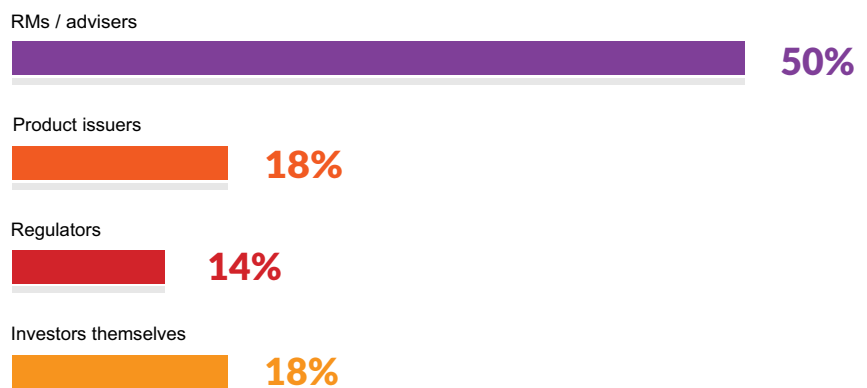
He questions the extent to which clients really understand the risk in a structured product in terms of the potential probability and magnitude of losses to which they may be liable if they invest in it.

At the same time, giving clients some real insights and education is also an opportunity for RMs to be able to differentiate themselves.

**STRIVING FOR SIMPLICITY**

An essential aspect to enhancing the education process is to be able to explain products in simpler terms and

**WHO SHOULD TAKE THE GREATEST RESPONSIBILITY TO EDUCATE CLIENTS ABOUT STRUCTURED PRODUCTS?**



Source: Hubbis Structured Products Forum 2015 - Hong Kong

## FEATURE ARTICLE

therefore make them more accessible to a wider audience.

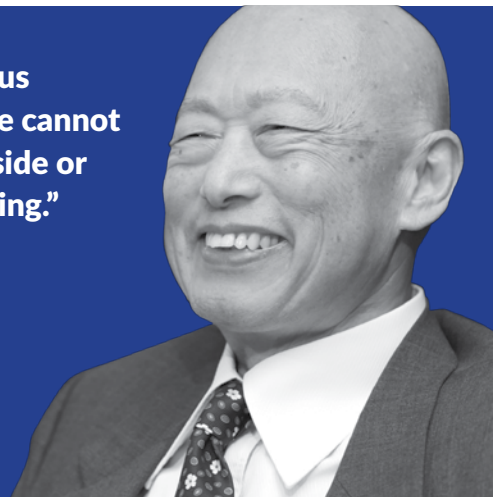
“These products can be explained more simply if you really explain what is happening,” says Bulchandani.

“In Europe, they put a simple factsheet on the top to achieve this.”

He says he believes that there is no product that cannot be described in simple terms.

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**PHILIP CHENG**  
The Hong Kong University  
of Science & Technology



### WHAT WILL HAVE THE BIGGEST IMPACT ON IMPROVING THE SALES PROCESS AND GIVING THE FRONT-LINE MORE CONFIDENCE?

Limit the range of products they can sell



Provide a targeted range of products for each client risk profile



Better training via a combination of delivery formats



Involve clients in the training process



Source: Hubbis Structured Products Forum 2015 - Hong Kong

Indeed, it is a tall order to expect a client to be able to understand literature explaining a complex product when it may only constitute a small part of their overall portfolio.

Adds Stephens: “There is limited time in a client meeting to cover very technical and complex products, so there is a good argument for simpler products with less complexity, and that can be explained more simply.”

Pushing for this and trying to simplify the conversations between RMs and clients, for instance, is, however, easier said than done.

After all, Caironi says there is a vast amount of information that he and his bankers are required to put in front of clients, to help them understand the product better. But this doesn't make the products any more relevant for a particular client.

Yet Stephens says that a chart showing thousands of reconstructed past performances across many market cycles, for example, provides the best way of explaining a product's nature to a client.

“Without such information a client may not be aware of the potential consequences of a note should the market change suddenly in a dramatic way as it periodically does.”

### MAKING IT PRACTICAL

According to panel speakers, by applying scenarios to a client's portfolio can help show what a structured product can do.

This is important given the number of variations of products that exist.

“We need to make it more tangible and show them what solutions there might be to address specific situations,” explains Caironi.

For example, by focusing on a particular issue or concern that clients are likely to have based on the wider markets, a potential solution can be proposed.



Getting clients involved in the process of training and education is another option to improve understanding about how structured products work and how they can be used within portfolios.

“It’s one thing asking a client to sign a pile of disclaimers to say he understands the risk. It is quite another to actually give the client some real meaningful understanding of the potential risks they face, especially in extreme market conditions,” explains Stephens. ■

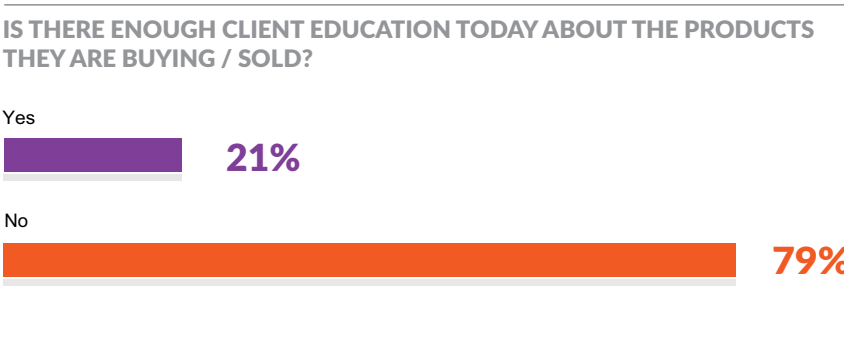
In line with this, Stephens believes there should be a distinction made between shorter term ‘flow products’ that serve a need among HNW investors to be actively involved in managing their money, and products which are geared to longer tenures.

These might be use with trust money put aside for children, and for preserving and growing wealth longer term.

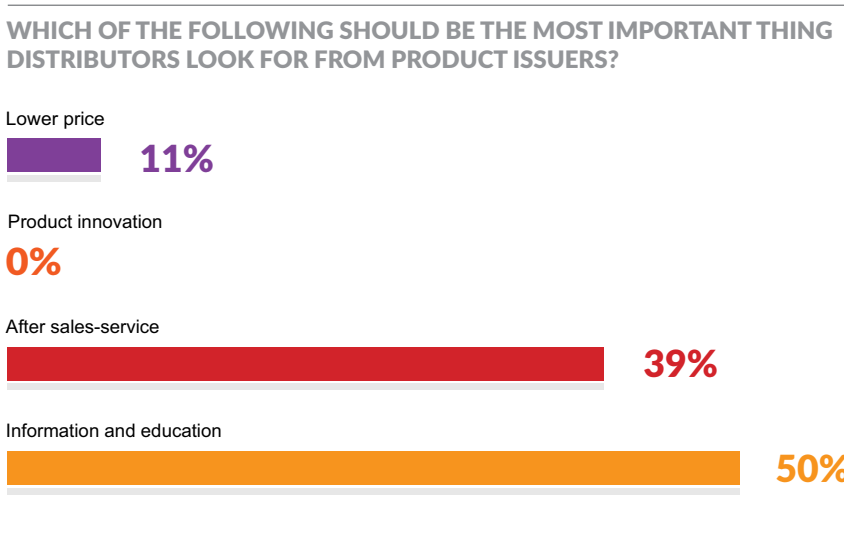
“There should a place for structured products in both areas of a client’s portfolio,” he explains.

“With the more conservative, longer term portion, greater emphasis on targeting, the risk characteristics of a product is required, and the client is not gambling with this money he wants it invested,” he adds.

This type of approach might also enable bankers on both the sell-side and buy-side to introduce new instruments that have to date been largely neglected in Asia because of the way the market in this region has developed.



Source: Hubbis Structured Products Forum 2015 - Hong Kong



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