Structured products return to the market

But few are investing after many lost money during 2008 financial crisis

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BY YASMINE YAHYA FINANCE CORRESPONDENT

Hundreds of Singaporeans lost money through structured products when the New York-based Lehman Brothers collapsed in 2008. Banks are reintroducing such products, some with interest rate returns of over 10 per cent. -- PHOTO: BLOOMBERG

THE return of structured products to the investment market has raised some alarm bells but banks say they are careful to target savvier investors when selling these complex instruments.

Financial advisers still stress that consumers must read the fine print, maybe even with a trusted independent professional at their side, before signing up.

Eternal Financial Advisory head Viviena Chin said few of her clients have taken on structured products as many got burnt during the 2008 financial crisis.

Hundreds of Singaporeans lost money through structured products linked to Lehman Brothers when the investment bank collapsed.

Eternal Financial Advisory

Six years on, banks are reintroducing such products, with some advertising interest rate returns of over 10 per cent.

These products include structured deposits and structured notes. In both cases, a customer invests a principal sum for a fixed period and returns will be linked to the performance of one or more underlying assets or benchmarks, such as a bond, a stock, market indices, interest rates or foreign exchange rates.

The Monetary Authority of Singapore said on Wednesday that it is considering guidelines on the advertising and the handling of complaints over these investments.

Ms Chin noted: "I think the people who are signing up for structured products today are those who have parked their money in fixed deposits and are not sure how to go about investing in assets that can offer higher returns.

"So they go into their bank branch, speak to the relationship manager and end up with a structured deposit.“

Another financial adviser, who declined to be named, added that while he feels it is still quite safe to invest in structured deposits and notes now, they might get riskier over time.

"That's always the case with these cycles. When the financial institutions introduce a product into the market, they tend to design it with safe underlying assets," he added. "But as competition increases and they start having to offer higher and higher returns to attract customers, their underlying investments will also become riskier."

Eternal Financial Advisory head Viviena Chin.

Both advisers say structured products are not inherently "bad" instruments but customers should read the fine print carefully.

"If the product says it is capital or principal-guaranteed, you should find out if you can really get back your principal," Ms Chin said. "Sometimes, investors don't have time to read through all the documents. What if one of the companies linked to the product collapses?"

And if you have trouble cutting through the financial jargon, ask a trusted adviser to help, they said.

Banks that The Straits Times spoke to said they offer a range of structured products designed to fit different customer segments and that each person's needs and risk appetite will be assessed before a particular product is recommended.

At DBS, for example, potential investors must go through a Customer Knowledge Assessment when investing in structured notes.

"There is also a much higher level of risk disclosure compared to before the Lehman crisis. In addition to the typical term sheet, we have a product summary sheet for structured notes to help a customer better understand the product," a spokesman said.

Maybank, Standard Chartered and OCBC said their relationship managers study each customer's investment knowledge needs, risk profile and investment horizon before recommending a product.

At Citi, the three structured notes that the bank offers are available only to accredited investor clients and are not for retail customers.

yasminey@sph.com.sg