

Investment Life & Pensions **Moneyfacts**[®]



Redefining structured deposits

Recognising a new approach



Researching the market for you

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Welcome to the June issue of Investment Life & Pensions Moneyfacts

Figures from an Opinium survey of 2,000 people for Hargreaves Lansdown in May 2023 highlighted that certain groups have stepped up their borrowing, some for the first time. The past month has also seen more reports of individuals losing track of their pensions, while the recent DWP data on the private pension gender gap highlights a 35% difference – a figure that is improving but still far too big.

With continuing concerns over cost of living pressures it might not seem like the ideal time to discuss the investment and savings habits of individuals, but that is not the case. Clear beneficiaries of the recent Base Rate increase run have been savings and deposit interest rates. However, as a recent Atom Bank study has found, half of UK adults are potentially missing out as they stay loyal to their current savings providers.

An option that many savers may not have considered is a structured deposit. Chris Taylor's article in this month's issue provides an in-depth overview of the sector that is set to gain popularity during the coming months. Outlining the option as a further choice for savers/investors, he discusses the merits of the products for those clients prepared to realise the potential for stock market-linked returns without stock market risk at maturity, while highlighting the importance of taking advice from a professional adviser who can assess the suitability or appropriateness, for individual, personal circumstances.

I hope you enjoy this month's issue.

Lee Tillcock

Managing Editor, Investment Life & Pensions Moneyfacts



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Recognising a new approach



Chris Taylor,
CEO, Tempo
Structured
Products,

provides an
overview of the
features and benefits,
and risks and
limitations, of
structured deposits

Structured deposits are very similar to bank and building society fixed term deposits, with a key difference that the level of interest a structured deposit pays may be linked, either fully or partly, to a stock market index, such as the FTSE 100, with the aim of generating higher levels of interest than plain vanilla bank and building society deposits for savers.

Some structured deposits may offer non-conditional, fixed interest; some may offer conditional interest that is linked to the level of a stock market index; and some may offer a combination of non-conditional, fixed interest and conditional, stock market-linked interest.

While some conditional, stock market-linked structured deposits may require the stock market index to rise in order to generate some or all of their potential interest, many structured deposits are designed so they do not require the stock market index to rise in order to pay interest, and some may even allow the index to fall moderately.

Recognising the features and benefits of structured deposits ...

- Structured deposits offer the potential for higher levels of interest than other types of deposit, such as bank or building society deposits, including fixed term deposits.
- Notably, even if interest is conditional and linked to the level of a stock market index, the repayment of money in a structured

deposit is not subject to stock market risk at the end of the deposit term.

- Importantly, structured deposits are covered by the Financial Services Compensation Scheme (FSCS), if the deposit taker bank is licensed in the UK and if deposit holders are eligible claimants, within FSCS claim limits.

Six reasons for savers and investors to consider structured deposits ...

Maximising interest on long-term savings is, of course, something that most savers are always likely to be interested in - but it is particularly important at this time, when inflation is high and eroding the real value of savings over time.

1. The primary reason for savers / investors to choose a structured deposit is their potential to generate higher levels of interest than other types of deposit and / or to access stock market-linked returns without stock market risk at maturity, with FSCS protection.

There are also a number of other reasons to consider structured deposits, including:

2. The potential to place deposits with banks that are recognised as major, global, systemically important banks (GSIBs), instead of smaller, challenger banks and to diversify savings across different deposit taker banks and FSCS licenc1es;

3. The potential to use annual ISA allowances (without suffering lower rates of interest);
4. The potential for annual interest payments, which can be offset against annual personal savings allowances (outside of tax wrappers);
5. The potential to opt for longer fixed terms, which many large banks do not offer;
6. The potential to access money in a structured deposit during the deposit term, partially or fully (albeit with the need to understand important points about accessing structured deposits and their value during the deposit term), as opposed to bank or building society fixed term, fixed rate deposits, which often offer no access whatsoever.

Understanding the risks and limitations of structured deposits ...

As with all forms of saving and investment, it is important for savers / investors to understand the risks and limitations of structured deposits, as well as their features and benefits. Most specifically, savers and investors should carefully consider:

- How the level of interest that a structured deposit may pay is calculated; and
- How the level of interest may compare to bank and building society deposits.

Perhaps the most important point for savers / investors to recognise and understand is that while structured deposits may offer the

potential to generate a higher level of interest than other types of deposit, such as bank or building society deposits, including fixed term deposits, there is a risk that conditional, stock market-linked interest may not be generated and that the level of interest actually paid may be less than the level of risk-free interest that could be paid by a bank or building society deposit, including fixed term deposits.

Savers / investors should always carefully consider the outlook for the relevant stock market index for any structured deposit plan. While many structured deposits are designed so that they do not require the stock market index to rise in order to pay interest, and some may even allow the index to fall moderately, plan managers' target markets for structured deposit plans are typically savers / investors who have a neutral or positive view of the future level of the index, over the deposit term.

It should also be remembered that as bank deposits, structured deposit plans present deposit taker bank risk. Notwithstanding FSCS protection for eligible claimants, the potential interest and repayment of money depend on the financial stability of the deposit taker bank throughout the deposit term.

Lastly, while accessing a structured deposit plan during the deposit term is usually possible, during normal market conditions (unlike most bank and building society fixed term, fixed rate deposit accounts), it should be understood that this is not guaranteed and the value of structured deposits during

the deposit term may be affected by various factors, which can result in values that are below the amount placed on deposit.

Important options for savers and investors: some final points to look out for ...

Savers / investors should expect to see good use of plain English, with clear explanations of both the features and benefits and risks and limitations of any structured deposit plan, that they can understand.

Savers should look for details of annual equivalent rates (AERs), both minimum AERs and potential maximum AERs, to help compare the potential levels of interest that a structured deposit plan may pay with the level of risk-free interest that bank or building society deposits, including fixed term deposits, will pay.

Structured deposits provide important options for savers and investors, offering the potential for stock market-linked returns without stock market risk at maturity, with FSCS protection. However, structured deposits are not suitable for everyone.

Savers should consider their own circumstances and personal interests / requirements, including their own time horizons and views of and attitude to the stock market and risk - and take advice from a professional adviser, who is part of an authorised and regulated investment firm, who can assess the suitability or appropriateness, for individual, personal circumstances.

Tempo enters the structured deposit - and fixed rate deposit - arena with two GSIBs; two indexes; and a suite of six innovative structured deposit plans

As recently as December 2021, the UK BoE base rate was just 0.1%. As the table opposite highlights, at 0.1% interest per year it takes 720 years to double a saver's money. However, interest rates have risen materially - and we are now living in a world of higher interest rates on cash, with 'higher for longer' rates a possibility:

As the table also shows, at 4.0% interest per year, it takes 18 years to double a saver's money. Increase the level of interest to 5.0% per year, and it takes 14 years. But, if the level of interest can be increased above 5% per year, for example to more than 7.0% per year, it's possible in less than 10 years.

Of course, everybody is also aware that inflation is currently (and potentially stubbornly) high ... and eroding the value of cash, in real terms. The table highlights

that even marginal improvements in the potential maximum levels of interest can have a materially positive impact on money on deposit.

Optimising the level of interest that money on deposit can generate is important and, importantly, possible: through structured deposits ...

Clearly, optimising the level of interest that money on deposit can generate for clients is important ... and, importantly, possible.

There are ways for savers to target achieving levels of interest of more than 5.0% per year, on money on deposit: which is possible through structured deposits.

Conditional, stock market-linked structured deposits present the scope to target levels of interest above 5% per year, for savers and investors for whom stock market-linked

structured deposits may be appealing, suitable and appropriate.

Tempo enters the UK structured deposit arena, 'redefining structured deposits' for professional advisers and their clients ...

Tempo has been working hard to enter the UK retail structured deposit arena, with the aim of 'redefining structured deposits' for professional advisers and their clients.

Our approach is based on offering professional advisers and their clients a choice of straightforward structured deposit plans and demonstrating a bar-raising focus on client-centric, best practice governance and compliance.

For example, we have carefully considered saver and investor behaviour and behavioural biases, including the potential for savers / investors to over-estimate the

likelihood and level of conditional, stock market-linked interest from structured deposits: 2+2 does not make 5!

We are the first - and only - plan manager to detail the annual equivalent rates (AERs) of our plans, both minimums and maximums, as opposed to just detailing the total and simple rates, which is surely the right thing to do, even if it is not an explicit regulatory expectation.

In addition, we continue to demonstrably champion the use of plain English in our plan documents - which is surely the most obvious way to fundamentally address consumer understanding, a key regulatory expectation of the incoming Consumer Duty.

A suite of six new structured deposit plans - including plain vanilla, fixed rate deposits - bringing a major deposit taker bank to the UK, exclusively through professional advisers - working with a major European deposit taker bank, entering the UK deposit market for the first time

We are working initially with two global systemically important banks (GSIBs), including a major European deposit taker bank - Société Générale, London Branch. Société Générale have had a presence in the UK for over 150 years, and are now entering the structured deposit - and plain vanilla fixed rate - market in the UK for the first time, as they continue to grow their footprint.

We are now live with a suite of five new, innovative structured deposit plans, backed by two GSIBs (in addition to working with Société Générale, we are also working with Royal Bank of Canada, London Branch), with two indexes (the FTSE 100 and FTSE 100 EWFD), offering both non-conditional, fixed interest and conditional, stock market-linked interest.

Notably, we will also be unveiling a sixth plain vanilla, fixed rate deposit, with Société Générale (without any stock market link), offering competitive levels of interest.

In line with Tempo's approach to offering 'deliberately defensive' structured products, all of our structured deposit plans are designed so that they will generate interest without the stock market needing to rise, with some also allowing it to fall moderately. In addition, we have included other innovative features that can increase the likelihood and level of interest generated - such as 'best entry' start level and 'memory' features.

Important - and potentially timely - considerations with regard to longer term plans ...

An obvious - but important - point to make is that savers need a return on their savings, in addition to the return of their savings - particularly when fixed term, fixed rate deposits from banks and building societies offer a risk-free 4-5% per year.

For savers and investors who believe that

stock markets can reasonably be expected to rise over time (noting that many structured deposits simply require the stock market index to be at or above its initial start level, with some plans allowing it to fall moderately), it follows that longer deposit terms may be seen as increasing both the likelihood and level of potential interest of conditional, stock market-linked deposits.

Importantly, therefore, we believe that longer deposit terms (for example, five-six years instead of two-four years) should be a key consideration for savers and investors, particularly at this time. Longer deposit terms may also mean that savers take advantage of prevailing levels of interest rates, if current levels prove to be elevated, in other words if interest rates fall at some point in the foreseeable future.

Whether current, prevailing rates of interest on saving products prove to be elevated will depend on various factors in the future, including if governments and central banks 'pivot' from fighting inflation, with higher interest rates, to addressing any actual or perceived weakness in economic growth, with lower interest rates, at some point.

Of course, nobody has a crystal ball, but many people with mortgages may have recently been wishing that they had fixed their mortgage rates for longer, before mortgage rates started rising: in the years ahead, people with savings may wish they had fixed their savings rates for longer, if interest rates on savings start to fall.

These are areas where savers may benefit from professional advisers raising these points with them. We are inclined to think that encouraging savers to consider the potential benefits of longer-term time horizons and longer deposit terms can help optimise the risk / return profiles of structured deposit plans - subject, of course, to savers considering their own circumstances and personal interests and requirements, including their own time horizons and views of and attitude to the stock market and risk.

Highlighting some final points regarding bank and building society deposits ...

There are, of course, many and various bank

and building society deposit account options, including fixed term, fixed rate deposits, for savers. A number of interesting and important observations can quickly be identified, when looking at the various Best Buy tables, published by Moneyfacts, for example for different deposit terms, from one year to five year, and for cash ISAs, etc, including:

- the lower interest rates available for cash ISAs (which have to provide access during the deposit term, but that also often penalise savers who exercise this access);
- the lower interest rates on savings products from large high street retail banks and building societies;
- the lack of long fixed term (more than three years), fixed rate savings products from large high street retail banks.

In particular, we note the low rates of interest and the dearth of long fixed term, fixed rate deposit options from large high street retail banks and building societies - which jars, at a time when we would suggest this is exactly what many savers should be looking for.

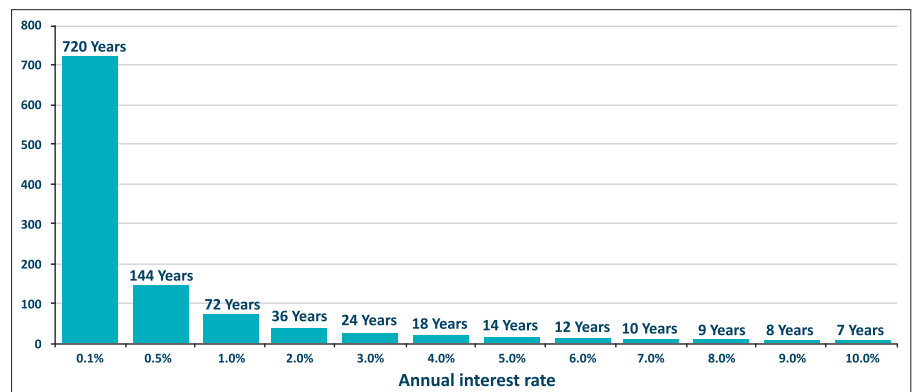
This point raises the important question of whether large high street retail banks and building societies are focusing more on optimising their own net interest margins (NIMs), as opposed to their customers' interest margins (CIMs), ie, whether some could be doing more to optimise rates and long-term interest rate options for savers.

This is also forcing savers who want the most competitive savings rates and long fixed term savings products towards smaller institutions, including so-called challenger banks - which may not be what some savers necessarily want, particularly in respect of deposits in excess of compensation scheme limits.

These are fundamentally important points that professional advisers can add value around for their clients, including through structured deposits, where suitable and appropriate.

Chris Taylor, CEO, Tempo Structured Products

Number of years to double a deposit (*rule of 72), based on the interest rate...



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Tempo enters the structured deposit - and plain vanilla fixed rate deposit - arena

Live video webinar for professional advisers

Wednesday 28 June @ 2.00 – 3.30pm

We are now living in a world of higher interest rates, with '*higher for longer*' rates a possibility. However, everybody is also aware that inflation is currently (and potentially stubbornly) high and eroding the value of money on deposit, in real terms.

This informative, cpd-accredited video webinar for professional advisers will:

- Highlight the important considerations and opportunities of a higher interest rate environment for savers and investors.
- Show why optimising the level of interest that money on deposit can generate is important: and, importantly, possible.
- Explain the features and benefits of structured deposits.
- Explain the risks and limitations of structured deposits.
- Introduce Tempo Structured Products and our new suite of structured deposit plans:
 - two 'GSIB' deposit taker banks;
 - two FTSE 100 indexes; and
 - six structured deposit plans.
- Highlight what Tempo does differently as part of our aim of '*redefining structured products and structured deposits*' for professional advisers and their clients, focusing on '*doing the right things – and doing simple well*'.

Whether you are a professional adviser already using structured deposits, or a professional adviser who would like to know more about structured deposits, we hope that you and your colleagues will engage with this informative cpd-accredited video webinar.

Register your place at our live video webinar:

www.tempo-sp.com/newsroom/live-video-webinars

To find out more about Tempo, our structured product and structured deposit plans, the support that we provide for professional advisers, or to discuss any aspect of structured products and /or structured deposits:

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