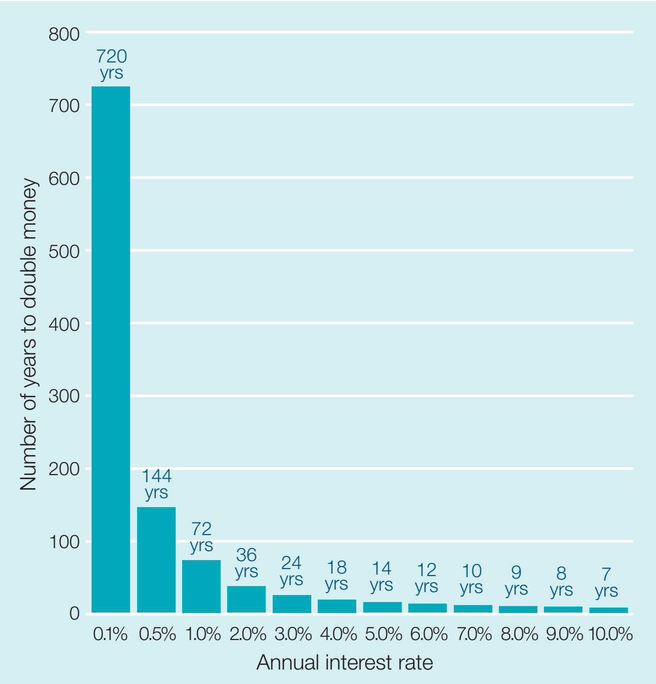
Tempo enters the structured deposit – and plain vanilla fixed rate deposit – arena

- 2 *'GSIB'* deposit taker banks
- 2 FTSE Russell, FTSE 100 indexes
- 6 structured deposit plans

As recently as December 2021, the UK base rate was just 0.1%.

As the table below highlights, at 0.1% interest per year it takes 720 years to double a saver's money on deposit:

Number of years to double money on deposit (rule of 72)



However, we are now living in a world of higher interest rates, 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. And, if it can be increased 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 money on deposit, in real terms.

As can be seen from the table, even marginal improvements in the level of interest generated on money on deposit can have a material impact on savings wealth.

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 and investors to target 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 generate interest of 5 - 8% per year, or more, 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 choice via a suite of straightforward structured deposit plans, all developed with 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: as the regulator has put it before, *"2+2 does not make 5!"*.

We are the first – and only – plan manager to detail the annual equivalent rates *('AERs')* in our plan documents, including both minimums and maximums, as opposed to just the total and simple rates. To our minds, this is obviously the right thing to do, even if it is not an explicit regulatory expectation of structured deposit plan managers.

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 access to plain vanilla, fixed rate deposits – exclusively through professional advisers

We are working initially with two global systemically important banks *('GSIBs')*, including a major European deposit taker bank – Societe Generale, London Branch.

Societe Generale has had a presence in the UK for over 150 years, and is now entering the structured deposit – and plain vanilla fixed rate deposit – market in the UK for the first time, via their London Branch, as they continue to grow their footprint.

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

Notably, we will also be unveiling a sixth plan, offering access to plain vanilla, fixed rate deposits (without any stock market link), offering competitive levels of interest, from Societe Generale.

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 considerations with regard to longer term deposits…

An obvious – but fundamentally 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 the 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 deposit plans.

Importantly, therefore, we believe that longer deposit terms (for example, 5-6 years instead of 2-4 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, if interest rates fall at some point in the foreseeable future.

Whether prevailing rates of interest on savings 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.

We would suggest that these are areas where savers and investors may benefit from professional advisers raising these points with them – subject, of course, to savers / investors considering their own individual circumstances, 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 bank and building society deposit 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 1 year to 5 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 3 years), fixed rate savings products from large high street retail banks and building societies.

In particular, we note the low rates of interest and dearth of long fixed term, fixed rate deposit options from large high street retail banks and building societies – which is conspicuous, at a time when we would suggest that 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 customer's interest margins *('CIMs')* , i.e., whether some could be doing more to minimise mortgage rates while also maximising savings rates.

Notably, this is forcing savers who want the most competitive savings rates and long term fixed rate deposits towards smaller institutions, including so-called *'challenger'* banks – which may not be what some savers want, particularly at this time and / or in respect of placing significant sums on deposit, in excess of compensation scheme limits.

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

Full details of Tempo's suite of structured deposit plans can be accessed through the Tempo website:

https://tempo-sp.com/our-products/current-deposits