

FSA WARNS OF 'COMPLEX, BUNDLED PRODUCTS' WITH 'OPAQUE STRUCTURES' AND 'RISKS THAT ARE DIFFICULT TO ASSESS'

Complex investment products rarely in consumer interest



Barry O'Neill: commission

BY BARRY O'NEILL

The Financial Services Authority has recently compiled a list of what it refers to as “warning signs” that it believes will help identify financial products that could cause problems for consumers.

It should be little surprise to anyone that “complex products, including bundled products or those with opaque structures” and “performance risks that are difficult to assess or are not properly understood by the provider

or distributor” rank among them.

As part of the constant deluge of financial product promotion that crosses my desk, I see examples of products that could justifiably be included in these categories.

Just last week, I saw one from an insurance company being promoted by a building society which had been recommended to a client aged 80.

It was a fixed six-year term investment where any additional return over and above a modest cash rate would be based on the performance of three stock market indices.

If the selected stock market indices did well, you could get more than the modest inter-

est rate, receiving 100% of any stock market-linked growth, subject to final-year averaging, up to a maximum return of 50% of your original investment.

Let's just revisit that last sentence: 100% of any stock market growth – sounds good? Hang on, this has to be averaged over the last year to avoid nasty bumps at the end because of the inflexible nature of the fixed-term element of the product.

This obviously means that, in a rising market, you'll lose out from this process. Then, the U-turn stating that actually, your growth is not necessarily 100% of the stock market return, it's a maximum of 50% of your original investment.

The customer was told that there were no costs involved. Although, the investor gets the returns as described above net of costs, the fact that commission is paid by

the insurance company to the building society should give you some clues as to whose interest this product is really intended to serve.

Opaque? Complicated? Yes. But the real issue is an 80-year-old customer being sold a six-year fixed-term investment with no flexibility to withdraw early.

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