

# Are there too many structured products?

In a market economy, a large variety of products is an expression of a well-functioning market and strong competition between suppliers. This is the only way in which the principle of consumer sovereignty that is fundamental to a market economy can be realised in a practical way. Here, consumers have a strong influence with their decisions on which goods and services are offered. The same applies to the German structured products market.

## Reasons for the large variety of products

The main reason for the large number of structured products is their great variety of characteristics and features. In particular, these include the different underlyings, amount of risk involved, market orientation and maturities.

- Investors have a plethora of underlyings to choose from, such as German and international equities, standard and specialised indices, commodities and currencies. This enables different sectors, regions and strategies to be tracked.
- Investors can choose from twelve types of structured products, depending on their individual risk profile and expectations with regard to returns, from the secure Uncapped Capital Protection Certificate to the highly speculative Knock-Out Warrant.
- Unlike, for instance, direct investments in equities, structured products based on almost any underlying offer investors the opportunity to speculate not only that prices will rise, but also that they will move sideways or downwards.
- Investors have almost complete freedom to specify the period of investment in a structured product, from the extremely short term, to up to several years.

All these features can be combined in almost any way, which is why the number of products is so large. The diversity of products allows investors to purchase structured products that fit their needs exactly; they do not need to make compromises in this respect. If, despite the variety of products, an investor cannot find a suitable structured product, they can create their own on special issuance platforms and order it from an issuer. A short time later, the investor can then purchase the tailor-made structured product on the Stuttgart and Frankfurt exchanges.

→ Number of investment and leverage products, June 2018												
Derivative investment products									Derivative leverage products			Total
With capital protection		Without capital protection							Without knock-out		With knock-out	
Uncapped Capital Protection Certificates	Capital Protection Products with Coupon	Credit-Linked Notes	Reverse Convertibles	Discount Certificates	Express Certificates	Bonus Certificates	Tracker Certificates	Outperformance/Capped Outperformance Certificates	Warrants	Constant Leverage Certificates	Knock-Out Warrants	
1,088	38	1,548	105,732	173,421	6,519	197,763	10,319	883	602,348	16,355	493,419	1,609,433
1,126		496,185							1,112,122		493,419	1,609,433

### Advantages for the investor

#### Opportunity to trade like institutional investors

With structured products, investors can choose from a multitude of different underlyings. In addition to equities, these include indices and commodities. Until a few years ago, access to such markets was the exclusive reserve of institutional investors. Now, the option of investing simply and easily in a strategy, sector or region by selecting just one structured product is also open to private investors.

This product variety also enables private investors to invest accurately, easily and cost-effectively on the basis of their expectations with regard to almost all underlyings. Just as institutional investors use forward contracts to hedge their assets, private investors can also protect a great variety of underlyings in their portfolios against strong price losses.

#### Competition ensures low prices

The fact that there are often several issuers offering the same product is also in investors' favour. They can choose the most cost-effective product among various financial instruments with identical or similar features.

The benefits of this competition to investors are particularly obvious in the structured products market. For example, stiff competition in the Tracker Certificate market has resulted in these quite simple products being generally offered without administration fees, and sometimes with no difference between the buy and sell prices. Competition among issuers has also had a positive impact for investors on the conditions for other products.

### Product orientation guide

It is certainly not easy for investors to find their bearings with such a large range of products at first sight. For this reason, an orientation guide is needed.

#### Product classification

An essential prerequisite for transparency is the DDV's product classification system, which all German issuers use as a yardstick. It provides structure to the wide range of investment and leverage products. This Derivatives League compares the most important product categories to the eleven positions that make up a football team. The different types of products can mainly be differentiated in terms of the way they function and the degree of risk they involve.

#### Standardised terminology

The DDV has also set an important market standard in defining and stipulating the terminology needed to explain structured products and the way they function. This has been adopted by the members of the DDV and also by the stock exchanges in Stuttgart and Frankfurt.

# Facts and Figures

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## Key information documents

Since the start of 2018, all potential investors have had to be provided with a Key Information Document prior to purchasing a packaged investment product. In principle, this document applies to structured products and insurance-based investment products, and will also start to apply to investment funds from 2020. The Key Information Document presents the key features and functioning of a financial product on three pages, describes in detail the associated risks and benefits of the product in various scenarios, and also lists the product costs. The Summary Risk Indicator provides a clear presentation of the risks of the investment using seven risk classes. The Key Information Document is also intended to facilitate comparison between different financial products.

## Investment checklist

In cooperation with Deutsche Schutzvereinigung für Wertpapierbesitz (DSW), Germany's oldest and largest association for private investors, the DDV has drawn up a checklist encompassing 18 questions and answers that investors can use to check the most important points before buying a structured product. The checklist provides a good overview of information that investors should obtain before deciding to buy a structured product. In addition, investors can check whether they really know the conditions attached to the structured product of their choice and whether they have understood all the important points.

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