

# **The Structured Retail Product Market in Australia**

**A Research Report  
by Global Fund Services  
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## **Section 1. Management Summary**

**This report examines the structured retail products market in Australia, with information drawn from a wide variety of sources to build a picture of the opportunities and challenges for new entrants.**

**The report provides an overview of the market focussing on:**

- **Size and recent development of the market**
- **Typical product characteristics**
- **Competitive environment**
- **Distribution Channels**

**While there is certainly no shortage of structured products in Australia, market penetration is surprisingly low. Investors have grown comfortable with a wider range of investment options in recent years, but largely due to the sometimes tortuous structure of distribution in Australia's retail funds market, structured products have so far not been embraced as a mainstream investment option.**

**The overall level of activity and interest in the structured products sector in Australia suggests a huge potential market still untapped.**

### **Facts About The Australian Market**

- **Australia is the fourth largest asset management industry in the world, current funds under management of A\$650bn.**
- **Compulsory savings (current level 9% of salary) has enabled a robust and innovative industry to develop.**
- **42% of Australian funds are retail.**
- **The Reserve Bank of Australia projects the managed funds pool to more than double, to US\$1.1 trillion by 2010.**
- **Competition in the asset management industry is as tough as anywhere, with all the large global players present in the market and a vibrant local manufacturing business.**
- **Like most home markets, asset allocation decisions are dominated by local assets. Current asset allocation to Australian equities is in the region of 20%-40%.**

## **Section 2. Market Environment**

### **2.1 Compulsory Super**

**With the introduction of compulsory superannuation via the implementation of the Superannuation Guarantee in 1992, investors' time horizons were extended, and their appetite for and exposure to growth assets increased. The guarantee requires Australian employers to fund retirement provision through compulsory contributions to super schemes established on behalf of employees. The contribution level is currently set at 9% of salary.**

**While capital protection isn't a priority, as shown by the slow take up of protected funds so far, that is as much a factor of the heavily structured product approval process as it is investor preference. And despite this, there remains a clear opportunity for structured products to gain a greater market share.**

**Superannuation is controlled by a small group of managers who have been approved by the securities regulator, ASIC, to operate super funds on behalf of investors. Super has resulted in a long term mentality for the majority of investors, and while this again would suggest a low demand for short term capital protected products, a key growth area for fund promoters is seen as the market for Self-Managed Super Fund (SMSFs). Around a quarter of all superannuation assets are now held within SMSFs.**

### **2.2 Regulation**

**Regulation is extremely heavy in Australia, especially for overseas funds, alternatives and layered fund products. ASIC controls all facets of the industry, from promoters to financial planners, who are all required to be licenced.**

**However, regulation has not resulted in a significantly more qualified industry, or an industry without the rogue sellers and advisers, as the recent 'Westpoint' debacle showed quite clearly. Nonetheless, regulation determines who can and cannot give advice, and what kind of products can be sold and by whom.**

**All advisory businesses require a dealer's licence to operate. The cost and restrictions around getting and maintaining a dealer's licence has resulted in significant industry consolidation at an advisory group level. This has played into the hands of the large financial institutions (banks and fund managers) who have offered turnkey solutions to dealer groups. This in turn has limited the access of boutique managers to many of the larger distribution channels.**

### **2.3 Asset allocation**

All asset allocation decisions are controlled by investment committees, leaving no room for individual advisers to choose alternative investment products from what they are advised. The inhibiting regulatory environment and consequent consolidation has meant that investment decisions are now in the hands of a small group of researchers.

In terms of products, those delivering yield have been the most successful, in light of the search for new and higher sources of return. In the structured products space, growth products are now gaining traction and are considered the most promising area for asset gatherers, considering the size of the market for regular cash contributions from salary deductions.

### **2.4 Sales Channels**

The biggest distributors of structured products are financial planners. It is estimated that 50% of equity transactions are originally generated through them. It is considered to be of no value to try to go direct to the market with new products, such is the dominance of the financial planner channel in funds distribution.

This is in spite of the fact that financial planners have a low rating in terms of respectability with investors and consumer groups. Planners are only now recovering from a savage attack by the Australian Consumer Institute in 2003. The CI survey revealed an overall poor quality of advice being delivered and was seized on by the media as an opportunity to rubbish the planning industry's reputation.

Accounting firms and financial planning firms also dominate structured products such as instalment warrants and capital protected leveraged products.

Generally, the lower risk, 100% (or near) protected products will sell well through the adviser channels. Stockbrokers will be able to sell more growth-oriented products which may have only 80 or 90% protection but which have a growth kicker.

### **2.5 Administration Platforms**

Dealer groups have consolidated their administration to a small number of wrap accounts. The wrap accounts are owned either by the banks or fund management companies. Each wrap account and dealer group will have an investment committee. The wrap account provider limits the number of products it will administer and does have some influence over what products are permitted on the platform.

### **2.6 Manufacturers and promoters**

**Macquarie dominates much of the structured product space. They are the leading warrant provider, wrap provider and capital protected provider. BT is large in the wrap space and there are a multitude of mainly dealer group related wraps such as Synergy and Oasis.**

**UBS and Citigroup are big issuers to financial planners. Guaranteed products are becoming more prevalent as we are close to the top of the market and it is a way to get bigger fees for the issuer.**

**In the hedge fund space, Man Investments have been successful with their OM-IP products, sold through many avenues, but mainly financial planners. They were the first to the market with a trail-focused product. They have over a \$1bn in funds under management.**

**On the debt side, Grange Securities, a stockbroking firm that concentrates on debt instruments, has developed several products. Goldman Sachs JB Were, another local broking firm, have launched four products, one of which is linked to a portfolio of emerging markets debt, managed by UK firm Ashmore.**

## **Section 3: Scope of the Market**

### **3.1 The appeal of structured products**

**The level of structured product issuance in the Australian market has increased significantly over the past three years, along with the number of structured product issuers and manufacturers.**

**There are two principal reasons for the growth in the market in recent years:**

- Low interest rates: greater control of inflationary pressures around the world has led us to a point in history where interest rates around the world are much lower than investors and depositors have been used to. Accordingly, interest rates on deposit accounts offered by retail banks and by bond and money market offerings are not offering the buyer much in the way of excess return. In some countries, investors are losing money in real terms.**
- Volatile stock markets: Structured products give investors protection from a volatile stock market environment. Investors have not forgotten the pain inflicted by the global stocks collapse of 2000-2003. It has made them more risk averse in their attitude towards investment products. At the same time, with the growth of structured products and hedge funds, investors have been made aware of suitable alternatives to mainstream long-only equity products.**

### **3.2 Potential in Australia**

**Barclays Capital estimates that by 2008, structured product assets under management will be at A\$13bn, up from \$6bn in 2005. This is in the context of overall Australian household savings and investment increasing by 8.5% per annum, according to Boston Consulting Group.**

**The success of Australian structured product issuance to date can be attributed to a dynamic derivatives market and a willingness by investors to buy a variety of different domestic securities. Significantly, Australia has consistently had a higher proportion of its investor base than other countries with holdings of direct equities and bonds. However, the relative lack of depth of the Australian equity market means there is always demand for new types of investment. There is plenty of opportunity for structured products providers to devise products to meet this demand.**

**By all accounts, there is an increasing issuance of structured products, and the encouraging factor for fund promoters is the extent of investor demand. Self-managed superannuation and increased investor sophistication are seen as the main drivers. Investors cannot gear their superannuation funds, but some structured products allow them to get around this rule. Many SMSFs will have cash management accounts where they can use a structured product approach to enhance their returns. They have to forego some of the dividend income because of the hedge costs, but they have the ability to benefit from the capital growth.**

**As an example of the growth in the warrants market, 10 years ago there were less than 50 series issued. Today there are in excess of 3200. Yet in this space there are just 3 issuers that account for 80% of products and 6 that account for 99% of products.**

### **3.3 Ownership of structured products**

**Australian investors have only a very small proportion of their investments in structured products. Of the total aggregate mix of direct equities and bonds, managed funds and cash held by individual investors, approximately 0.5% is represented by structured products.**

**Factors observed in other markets suggest that penetration of structured products in Australia will grow quickly. With domestic and world markets increasingly volatile, investors are likely to be more interested in capital guarantees. And a key segment of the investor base will be looking for steady income regardless of market conditions.**

### **3.4 Investor Type**

**The investor mix in Australia is similar to the leading structured product markets in Europe. Australia has a large 'mass affluent' segment which is under-serviced with products providing diversification and added alpha.**

**There is a sophisticated superannuation market in Australia that has encouraged, through investor choice, that people take greater responsibility for their own retirement portfolios. Significantly, individual investors have embraced structured products much more than institutional pension schemes.**

**The fund promoters have made efforts to educate investors and product distributors, but there is still much to be done to overcome misperceptions and prejudices towards structured products.**

**Tax efficiency of some structured products, particularly so-called 'protected lending' products, represents a major area of activity and opportunity for structured product providers.**

**Overall, the consensus view is that Australia is poised for substantial growth in structured product assets under management. Promoter activity remains lively and there is a growing buzz in the media. As the business grows, the degree of product innovation is also expected to increase, allowing Australian investors to significantly expand their investment horizons.**

## **Section 4: Product Types**

### **4.1 Categories**

**Structured products in the Australian market can be split into four categories;**

**Principal protection  
Income enhancement  
Market access  
Leverage**

**The structured products market has until recently been dominated by margin lending and credit-based issues. The Reserve Bank of Australia reports that the number of margin lending investors has trebled in the past five years to over 150,000 client accounts. To the end of 2005, the amount of money borrowed has reached almost \$20 bn. The major players are Macquarie, with a market share of 16%, Commonwealth Bank with 14% and Westpac/BT with 13%. More recent entrants to the market include NAB and HSBC.**

**Macquarie's margin lending business grew by 71% to June 2005, with its loan book standing at \$2.9 bn. Financial planners make up 45% of its margin lending business, with 45% from stockbrokers and 10% from direct investors.**

**Increasing competition among margin lenders (there are approximately 25 active lenders in the market) has forced them to expand their product offerings to include more international and alternative asset classes. The market expects to see more international managed funds being added to the approved lists of margin lenders.**

**The trend now is the emergence of equity products and growth investment structures based on global index or domestic share baskets, commodities or China plays.**

**The market is essentially comprised of a large number of fund derivatives with very basic capital protection, offering exposure to an index. You'll see CPPI trades and threshold management products linked to funds and linked to indices.**

**There is also a clear distinction between CPPI products and the simpler 'bonds plus' call structures. Terms are typically three to five years, with some of five to seven years. Anything more is considered a hard sell, unless you are OM-IP, which has sewn up the longer term market by virtue of being in early and paying high commission.**

## **4.2 Use of CPPI developing**

Quite a few of the product promoters seem to prefer the simple zero coupon/options structure, because it is transparent and easier to get across to the client. Within its retail market segment, UBS does a lot of call type products and not much CPPI. In common with experience in other markets, there is a feeling that the CPPI products are difficult for the market to understand, especially where there's a kick-out. And there is a suspicion of them amongst dealer groups and the asset consultants. Having said that, the dominant players such as Macquarie do a lot of CPPI products and cover the ground with most variations of product. And boutique houses like HFA are getting into using CPPI technology.

## **4.2 Equity growth products on the rise**

Recent product launches are an indication of how the market is progressing. There are a lot of 'market access' type products being launched, offering investors exposure to emerging markets, or asset classes that are topical but difficult to invest in, like commodities. The structured products market lends itself well to this type of concept, risky assets in a controlled environment.

Investors like to have non-Australian underlyings to get the offshore exposure. So product promoters are now developing products on the basis of the global growth story and the potential upside for stock markets. This is especially true in the light of the recent corrections across all markets.

## **4.3 Credit products have run their course – for now**

Meanwhile, capacity in the credit markets has all but dried up. The listed or so-called 'flow' products are now all fairly generic. Groups such as UBS are shying away from this side of the market, focusing instead on building retail business, which in their case means selling structured products through stockbroking and private banking channels predominantly.

A third and very active category of structured product in Australia is the 'protected lending' market. It is a large market dominated by the margin lenders on the one hand and investment banks on the other. The market for these products is very active in the run to mid year financial reporting because they are highly tax efficient. In June 2006, the Australian TV company Nine Network announced it is seeking to raise A\$12.5m through the sale of a structured copyright deal in up to 20 episodes of the drama *McLeod's Daughters*. The offer is open for a minimum investment of \$50,000, giving a return of 106% and a fixed 8 year interest in the copyright. The investment can be funded by a Westpac loan. Investors receive a 50% tax deduction in this financial year and the same next year.

## **Section 5: Overall market size**

The 'flow' market would be worth around A\$1bn, calculated by the amount of notional outstanding warrants. Protected lending is worth probably \$1bn a year, perhaps more depending on how the products are categorized. The investment growth structured products market is also estimated at about \$1bn a year. The totals could easily be \$1bn for each market segment because, as in other regions, there is a lot of business that doesn't get reported.

UBS also predicts that the market will double in size in the next three years. Although the numbers don't look very big in terms of Europe and Asia, it is important to take into account the potential growth once the dealer groups and financial planners get behind the concept. The Australian investor is very funds-focused, so the promoters and issuers expect this will be a major growth area in the next few years.

## **Section 6. Competitor activity in Structured Products**

A key aspect of the success of structured products in finding a place for themselves in investor portfolios, is the ability to provide income and to offer diversification outside of Australia.

Typical examples of the structured products that have done well in Australia are Citigroup's YIELDS (Yield Income Enhanced Listed Deferred Securities), the Goldman Sachs JB Were GLRs (Global Linked Return Investments), Macquarie's ALPS (Alternative Listed Protection Securities) and their Capital Plus program.

OM-IP have done very well out of the Australian market (with over \$1bn in funds under management). Interestingly, several people commented that their success had nothing to do with capital protection. Targeted return, and the partners' (Westpac) badge on the front were the biggest selling point. And let's not underestimate the commission and trail incentives offered to planners.

The more recent OM-IP issues have struggled though, in relative terms, raising \$30m-50m, compared to \$200m-\$300 for earlier issues. Target returns are lower, terms longer and people have begun to question if they have too much exposure to OM-IP.

ORB funds, promoted by Capital Guaranteed Investment Ltd (CGIL) in association with Credit Suisse, made a big entrance to the market, but have not been an unqualified success. ORB tried to market their products directly, believing they had the relationships to get on the necessary recommended lists and thus get fund flows. Researchers proved to be a major stumbling block to their progress in Australia. This

obstacle is the most common reason for non-mainstream managers failing to break new product into Australia's retail market.

The biggest competitor threat to any newcomer to the Australian market is Macquarie. Just in terms of their manufacturing capability, marketing budget, market profile and the fact they have their own wrap account and distribution channel. Macquarie have launched a few competitor products to OM-IP with reasonable levels of success – Apollo raised around \$300m, however Apollo II was not nearly as successful due to poor performance of the first issue.

Citigroup has been issuing credit based products with some success. Citigroup's overall strategy is to differentiate itself from institutions that simply churn out products. Its global head of structuring says "We very much go after full service structured products and retail business. We brand it and get as close to the customer as possible. And we try to do it with consistency, clarity, and a full service ethos. We're not just putting out products and term sheets."

The result is the *Equity First* family of products, colour-coded products issued as MTNs across multiple countries at once: blue 'protection first' products are for the defensive investor, green 'performance first' products for the cautious investor and orange 'opportunity first' products for the risk-taking investor.

For warrants specialist Next Financial, their core structured products business is based on instalment warrants. They develop the products, manage them and market them, which they describe as a sometimes tedious approach with quite a lot of operational and risk management issues.

Next have also launched another structure, *Caprice*, an unleveraged equity investment with protection, sold through dealer groups and platforms. The group has also developed an unsecured loan facility for investments into their products, which became operational in June 2006.

ABN Amro are also focused on the warrants market. They launched a CPPI product a few months ago called *Mars*, which was withdrawn for lack of interest.

UBS has between 10 and 12% of the warrants market, although the bank has stepped back from it recently because there isn't much to differentiate the products. The instalment product is the most robust type, but UBS sees the growth investment structures opening up much more.

Goldman Sachs JBWere have been in the market since beginning of 2005 and have four products out, essentially variations on the global

**growth theme. Ord Minnett and JP Morgan started promoting structured products in December 2005.**

**Ords were actually one of the earliest firms to get involved in the alternative structured space. They were the originators of the OM-IP stable of products (the OM comes from their name).**

**The current Ord Minnett product is focused on markets such as Brazil, Russia, China, Korea and Taiwan, with a five year term, 90% capital protection and a booster of between 135% and 150%.**

## **Section 7: Distribution and Fee Structures**

**The marketing strategy in the Australian market is critical to the successful distribution, given the geographic spread of the distributors and the compliance regime.**

**For fund distributors in Australia, financial planners are the real gateway to success. Getting their attention is probably the biggest challenge any new fund manager will face. The concept of independent financial advice is a relative term in Australia, since there are few truly independent financial planning companies. In the last few years, most planners have allied themselves to a dealer group who will provide them with administrative support and access to a range of product options. The dealer groups are in turn owned by the major banks and fund managers.**

**Stockbroking firms have traditionally concentrated on listed securities sales but have become active in the structured products market. And the banks will be a key factor in the overall take-up of structured products, given their focus on interest rate, savings and loan products.**

## **7.1 Master Trusts and Wrap Accounts**

The market leaders such as Macquarie and BT are able to move products through a variety of channels including their own wrap platforms. The financial planners are seen as the key growth area for a variety of reasons, and those groups who can gain access to planners through the dealer groups who effectively control retail distribution in Australia, will do well.

The development of master trusts and wrap accounts has on the one hand given planners a sound product and administrative platform, but it has also resulted in large-scale consolidation of the industry. The product menu is effectively governed by five or six key portfolio systems. And the increasing regulation and compliance regime imposed by the Financial Services Regulation Act (FSR) in 2004 has put an end to any semblance of independence in the financial planning industry.

### **Major Master Trusts and Wrap Programs**

**Asgard**

**AMP**

**AXA/IPAC**

**BT Wrap**

**Colonial First Choice**

**ING**

**Macquarie Wrap**

**Masterkey Custom**

**Mercer**

**MLC**

**Navigator**

**Perpetual**

**Promina**

**Strategy**

**Suncorp**

**Symmetry**

**Tower Trust**

One thing the market appears to need is effective education and promotion of the concepts of structured product investing, together with on-going research to support the asset allocators and advisers.

## 7.2 Financial Planner Segments

Business Size Classification	No. of Representatives
Small practice	1-5
Boutique advice	6-20
Small advice	21-50
Medium advice	51-100
Large advice	101-200
Financial Services Group	201+

Source: RMIT, Principal Member Survey

The industry averages for Funds Under Administration (“FUA”) per adviser relative to their business size classification are as follows:

FUA Per Adviser	
Small practice	34.38
Boutique advice	36.78
Small advice	31.75
Medium advice	18.83
Large advice	24.47
Financial Services Group	19.91

The key point here is that advisers from the “small practice” and “boutique advice” groups generally have an 80% higher FUA per adviser.

Whilst the larger dealer groups must be targeted for product issues they have not historically supported structured product issues unless they play a key component role.

### Adviser market breakdown

No. of Reps	No. of Businesses	No. of Businesses	Average No. of Reps	Reps	Reps
	%	Number	Number	Number	%
1-5 reps	59	419	3	1,257	8
6-20 reps	30	207	10	2,070	13
21-50 reps	4	28	32	892	6
51-100reps	2	13	75	969	6
101-200 reps	2	15	139	2,086	13
200 + reps	3	18	492	8,858	54
<b>Industry</b>	<b>100</b>	<b>700</b>		<b>16,132</b>	<b>100</b>

Source: FPA, Financial Planning Association

### 7.3 Product Fees

Fees to issuers tend to be in the range of 2-3% up front for 3-4 year products, with trail of typically 25bp.

At the high end, the OM-IP products look to compete more directly with the fund managers and they charge much higher fees as a result. The products also typically have 7 to 10 year terms, so the trail fees can be a huge carrot for the financial planner. The likes of OM-IP are charging 450bp and pay trail of 50bps. The major dealer groups may tell you they can't approve your fund unless you pay an extra 50bps to compete more keenly with this type of commission structure.

#### *Fee variation – an example: Rubicon*

Zero management fees and a 10% performance fee based on an unleveraged positive return subject to a high watermark.

#### Brokerage:

Up front 2.5% - paid by the promoter but subsequently recovered from the first distribution payable by the fund

Trail: 0.5%

Product Fees: direct: 1% up front, 2.63% ongoing, annual, early exit fees of 1.5-3%

The lowest fee products such as the Credit Suisse Orbits have a low or no initial commission and pay 100bps over the life of the product. That is the other extreme and is a key factor in the product not getting much support from the financial planners. The idea that the Australian planner market has moved to a fee-based model is not entirely accurate.

Fees are coming down though. On the wealth management side, providers are increasingly charging on a fee for service basis, and they know they can't justify charging product fees as well. Up front fees are coming under pressure from wholesalers providing retail who rebate up front and rely on trails.

### 7.4 Wrap costs

There are a variety of fees bundled into a wrap account, from underlying fund fees through admin fees, trail and the overall wrap provider's fee. Industry studies indicate that despite the wrap providers buying at wholesale rates, there are no economies of scale for the client. Average expense ratios for wrap programs are in the region of 2.3%, compared with around 2% for individual management funds.

There is bound to be more focus on up front fees as debacles such as Westpoint (which sold property debentures, provided large up front fees of 10% and went spectacularly bust after investigations by ASIC) resonate with the market. Investors' trust in new forms of investment

will have been dented, but that may present opportunities for protected funds.

## **Section 8: Market growth hampered**

**UBS, in common with other global investment banks, sees the problem of expanding structured products into Australia as literally a structural one. The slow pace of market penetration can be best explained by the approvals process for distribution.**

**They observe that few wrap platforms will support structured products in Australia. A senior manager for UBS in Sydney commented, “Macquarie will have their own wraps that include structured products, but a lot of the broader platforms don’t support them, largely because they don’t see how they fit within the range of products. The wrap piece is something we need to open up. As a promoter, Citibank will have been able to get interest from planners in their products.” For its part, UBS tends to focus on the high net worth private bank clients. The gatekeeper issue is remains the obstacle to overcome.**

**One of many fund promoters to comment on this issue said, “The gatekeeper problem is the big issue for distributors. It’s a real Catch-22 because the dealer groups will say, we can see your product is there, but we will only put it on our approved list when we can see adviser demand.**

**“So you speak to your adviser connections and they say ‘has it been approved by the dealer group?’ So you go back to dealer group and say, what do we need to do to get the fund on the approved list? The answer is, you need three independently produced research reports rating the product.**

**“The first question the research groups ask is, how many dealer groups want this product? And then of course you have to pay for this ‘independent’ research.”**

### **Dealer groups by the number of authorised advisers under their license**

<b>Dealer Group</b>	<b>No. of Contacts</b>
AMP	916
PIS	616
Count Financial	583
GWM Adviser	503
ABN AMRO Morgans	359
Financial Wisdom	305
RetireInvest	285
AXA Financial	250
Godfrey Pembroke	247

Fund research follows the 'manager pays' principle used by groups such as Standard & Poor's in Europe. The three main research groups are Aegis, Lonsec and Assirt. Aegis and Lonsec both charge \$15,000 per fund report and Assirt charges \$25,000.

Each dealer group has its own investment committee and research department. The problem is that some research houses have lumped structured products in with alternative assets. This has meant the products are being compared with pure hedge funds and other alternative products.

As with all wholesale type deals, researchers are fickle and prefer to have liquidity to enable them to move the funds as soon as performance does not match the peer group. Relative performance is what the researchers and investment committees are measured on, and in some cases remunerated on.

The fund promoters feel the dealer group and research houses have too much control and are preventing the end customer from accessing new ideas. One thing they would like to see is a standardised procedure. ASIC needs to recommend a formal approval process for new products, to avoid the situation where the dealer groups determine which products the client will buy.

A prospective fund manager in Australia also needs to have a 'responsible entity' status or trustee. The requirements are extensive but as another senior fund industry observer adds: "It's probably worth doing all this, because you can get \$20-\$30m a month coming through wrap accounts – and it's sticky money from investors who are well-diversified. Just don't expect it to happen quickly."

He also said, "It's a high-risk business to promote a product into the Australian market. In New Zealand, they have a situation where every investment statement follows the same format. In Australia, every product disclosure statement (PDS) is different. So we also need to have standardised documentation to make it easier for adviser and clients to compare products.

"Another change in the last 5 years is that the big brokers have bought up the financial planning groups – so there are probably only 3 or 4 big groups you can run money through. Otherwise it's the banks you have to go to and it's very difficult to get a hearing."

Even the asset consultants fight shy of anything remotely 'alternative'. Russells have never really embraced alternative managers and its head of consulting has recently said she 'doesn't believe' in structured products. It's a good thing the industry is focusing on education, to overcome the ignorance of the funds distribution mainstream.

## **Section 9: Future Development**

**Structured products provide risk-managed alternatives for advisers to use for their clients, so it is natural to assume that the products will evolve as advisers become more comfortable with them.**

**A director of retail distribution with one of the global banks says structured products should be part of the advice process: "Advisers should have a section of the portfolio in structured products when they have a particular asset class on their investment platform. It is for the clients who need to have exposure in an asset class, but with capital protection. It comes down to the risk appetite of the client."**

### **9.1 Changing consumer views**

**Consumers are increasingly shunning product-based advice, putting pressure on financial planners to ditch the old commission structure. Some of the biggest wealth management firms in the country, including AXA, MLC and ANZ, have come around to this way of thinking and have already made changes to their remuneration policies. AXA planners were transitioned to a fee-for-service model because of consumers' changing perceptions about commissions and to enable advisers to develop "clearer and more compelling value propositions for consumers".**

**ING-owned RetireInvest is following suit and has transitioned a fifth of its advisers with the rest to follow by the end of this year, in what is perceived as a watershed move for the industry.**

**The standard model is for planners to charge the client an initial up-front implementation fee followed by fees for ongoing services, rather than simply collecting commissions from a chosen investment product, although clients with smaller amounts to invest will still be allowed to opt for the commission-based system.**

**An experienced financial planner commented, "I am pleased to say the days of planners filling a bucket with funds under management and collecting the trails are disappearing."**

## **Section 10: Market Entry**

**This final section briefly sets out some ground rules for possible entry by a new player looking to engage in the structured products markets of each country.**

### **10.1 Super underpins the market**

**The Superannuation Guarantee and the culture of investment in funds have resulted in strong and steady growth for the Australian asset management industry in the last 10 years. The introduction of member choice and the growth in popularity of self-managed super funds ensure that super will remain a key focus for fund managers and other product promoters going forward.**

### **10.2 The future for structured products**

**As described in this report, there has already been a great deal of activity in structured products. There is still scope for new ideas though, especially with regards to equity linked structures. The existing players have yet to fully stretch themselves in terms of products development, as structured products are still a relatively unknown quantity for investors. The fact that dealer groups and wrap providers are taking a long time to accept these products is also holding back the market's development. Once the breakthrough comes, this market can be expected to mushroom**

### **10.3 Key success factors for new entrants**

**In order for a new player to be successful in Australia, it will need to identify its own strengths and weaknesses in the context of the local market. This may be in terms of:**

- Structuring capability**
- Exotic option pricing capability**
- Access to a wide range of underlying markets**
- Credit rating**
- Access to a range of efficient funding vehicles**
- Existing distribution arrangements, key banking or dealer group relationships, and potential partners**

**This last point is perhaps the most crucial. Effective distribution comes from a combination of a competitive product and a simple sales message delivered through an efficient channel. There are many different channels to choose from. The one thing they have in common is how effective they can be if you provide them with the right level of support.**

**As in other markets, there is a tendency for structured products to be sold on their headline numbers, so it is perhaps not surprising to find**

**that they are sometimes mis-sold and their particular properties misunderstood. This is a recipe for trouble, because when the product fails to deliver, there is a huge backlash against the product promoters.**

**The only way to guard against this is by going in with as much information and educational material as you can muster. Securing approval from the retail dealer groups remains the stiffest challenge but if you can overcome that, there is huge potential in Australia's retail funds market.**

**Richard Newell  
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