UK Structured Products Association™

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FOR IMMEDIATE RELEASE

91% of Statistics are False: An open letter to the editorial team at Which?

Dear Martyn Saville and the Money team at Which?

We read with interest your January article titled 'Not so simple savings', which once more affirmed your negative opinion of Structured Deposits. Your article included historical simulations of selected Structured Deposits' performance to back your view, leading you to conclude that these products underperform fixed rate deposits. However we take issue with the simulations you conducted – partly because they were so selective, but more alarmingly because the figures you quoted were incorrect in some cases. We have therefore put together our own simulations and ask you to reconsider your stance on Structured Deposits in light of this more accurate data.

It just doesn't add up!

Let's start with the simplest product included in your analysis. This pays a fixed return of 15% if the FTSE 100 Index is unchanged or has risen at the end of 3 years, or just the repayment of the deposit with no return if the FTSE 100 Index has fallen at the end of 3 years: it's an 'either or' situation between the maximum or the minimum return. However the results of your simulation don't make sense: you have calculated that the maximum return would have been paid in 38% of cases during the last decade, but also that there is only a 53% chance of receiving the minimum return. This leaves 9% of simulated client outcomes unaccounted for. In fact, our own analysis of this product (which we will make available to anyone who wishes to see it) shows that the maximum return was achieved in 48.6% of cases, and the average AER was 2.37%, rather than the 2.02% you have calculated.

Statistics can prove anything

Mistakes aside, our main concern is the motivation behind the simulations and the 'cherry-picking' of example products used. It's commonly joked that statistics can be used to prove anything, and this seems a case in point. We chose our own selection of products and ran our own simulations. Unsurprisingly, our results indicate that structured deposits *outperform* fixed rate deposits (and we believe our numbers add up). What's more, you've been selective on the benchmark used. When discussing the performance of products launched very recently, you make a comparison between the 6.2% AER offered by a Halifax bond in 2007, and the simulated returns from structured deposits launched 5 years later. It ought to be obvious to your experts that the terms available on structured products in 2007 would also have been much better (e.g., we found a typical example offering a minimum return of 30%), so the comparison is mysterious. Your whole approach of comparing product terms available in late 2012 with cash rates obtainable as far back as 2002 is flawed: how does this actually help consumers?

Table showing comparison of benchmark performances from 2007 to 2012
This data demonstrates that selecting a benchmark rate that was available at one point in time as a comparison to historical simulations of a product launched during a different period of time is fundamentally flawed: this is by no means an accurate comparison!

	1 November 2007	**1 November 2012**
UK Base Rate	5.75%	0.5%
Typical Minimum Return on Structured Deposit	30% (4.47% AER)	10% (1.6% AER)
FTSE 100 Index Performance	-11.00% (-2.30% AER over the 5yr period)	
FTSE 100 Tracker Fund (Total Return) Performance	+5.50% (1.08% AER over the 5yr period)	
Which? Comparison Rate	6.20% per annum (available in November 2007)	

We are concerned that analysis that is not only misleading, but also *incorrect,* was able to go to print in your publication. Consumers have great respect for your opinion, and we feel it unfair that they might reach decisions on where to save their money, based on inaccurate and severely imbalanced information. We agree that most savers will put money away in fixed-term savings accounts, but this doesn't mean there isn't a place for structured deposits. They offer a great solution for savers looking either to access the stock market with the *possibility* of greater returns but within the safety of a deposit account, or for investors looking for a more protected alternative to direct investment in shares or funds.

A need for balance

Your article also highlighted what you saw as 'problems' with Structured Deposits, and whilst we agree there are considerations that consumers need to be aware of (as there would be with any savings or investment product), they are not really problems as such – a Structured Deposit could still be the right tool to help a consumer meet their savings needs, just as long as they understand and accept these considerations, which are clearly described in current marketing literature.

You also inform readers that Structured Deposits 'baffle potential investors', and mention that your online panel were confused by the websites of some

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Structured Deposit providers. We would be interested to see the full results of this panel (including the questions asked), as we believe the market has come a long way in terms of how the products are marketed and described, and your results don't match the market research conducted by our members. In fact, our members go to every effort to ensure product literature is clear, fair and not misleading. The glaring inaccuracies in your article insinuate that your research doesn't get quite such a rigorous treatment!

Furthermore, the FSA themselves acknowledged the improvements made in the design and distribution of structured deposits, in their annual report on Retail Conduct Risk in 2012.

As an organisation dedicated to furthering consumer understanding, the UKSPA would be keen to review any new information you have suggesting that more action is required, to provide constructive help and greater understanding for all concerned. We have previously made efforts to meet with you to understand your concerns about Structured Deposits, but for whatever reason you have been reluctant to meet with us, or to share your research and customer feedback. We would therefore once more like to extend an invitation to meet to discuss your research in more detail and for us to present the case *for* structured deposits, with the aim of producing a more balanced picture for consumers.

Kindest Regards

Jamie Smith
Chairman, UK Structured Product Association

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