

Structured products from the perspective of institutional investors and independent asset managers

Bachelor thesis

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Executive Summary

Structured products have in the past years become diffused financial instruments both for private and institutional investors. The trend shows an exponential growth of the volume and of the activity in the market as well as an increase of the variety of the instruments and of the number of issuing banks. Usually, the large interest for structured products does not go together with an adequate understanding of these financial instruments. The existing information asymmetry between issuing banks and investor could create a disadvantage, hence could be an additional risk factor for the investors, which also affects the efficiency of the market. The objective of the current research is to understand and to analyze the approach chosen to/not to invest in structured products by institutional investors and independent asset managers, which are professional investors. The segmentation of the market as well as the approach to different asset classes, in particular to derivative instruments, will be explained. Moreover the research offers information regarding the evaluation of structured products as financial assets, an analysis of portfolio structure and of the trading strategies towards the different investor categories. The main reasons to invest in structured products as well as the different criteria, which influence this decision will be detailed. In the end the share of investors that do not invest in structured products will be analyzed. There are two different groups of potential investors: the ones who are not investing anymore and the ones, who never used to invest before. Reasons for why one should not invest in these assets and which factors are needed to make them more likeable will be specified. Moreover, the last section shows an interesting comparison between the different approaches taken to/not to invest in structured products by private households and professional investors. Their differences and similarities will be explained.

The data was collected through a written survey: the survey *“structured products from the perspective of institutional investors”* has been conducted during the month of May 2012. The form was sent to the addressees in an online format under the following link: www.bankingsurvey.ch. The number of professional investors that replied to the survey in Switzerland was 76.

The research paper provides interesting information regarding the behavior of institutional investors and independent asset managers in the structured products market in Switzerland. Moreover, the study offers an analysis of the differences between professional investors and private households given their chosen approach to/not to invest in structured products. Institutional investors and IAMs have different attitude towards investment in this financial asset.

A large percentage of professional investors already invest in structured products as a complementary asset class but the potential of this market is even higher considering the large share of investors, who have never invested in structured products before and in particular the large share of investors, who have ceased their activity in this market. Most of the problems are related to lack of transparency. Investors wish fairer prices, a clearer cost-structure, better understanding of the behavior on the secondary market as well as of the complexity and of the working of the certificates.

Institutional investors have a longer-term approach to invest in structured products compared to IAMs, who normally do not wait until maturity but trade the product during its lifetime. Liquidity is an important requirement for IAMs together with a better understanding of the behavior on the secondary market.

Private households are less actively investing in structured products versus professional investors. The former show bigger interests for these financial instruments but the level of complexity and the lack of capital constitute a hurdle for public distribution clients. The potential of structured products is high. Investors, however, need more transparency and a better understanding. Issuing banks have to improve their services and eliminate the information-asymmetry between issuer and investor.

I sincerely hope the results of my research paper will be useful for issuing banks to understand better the attitude of investors' decisions to invest in structured products as well as their needs. I also expect from issuing banks to improve their services and to increase the efficiency of their business together with the client's needs in order to achieve a steady and successful growth of this market.