FI-analysis No. 46
Poor profitability for consumers from autocalls

Author: Mathias Lien Oskarsson

Summary

The classification structured investment products is broad and includes many different types of financial instruments. In this analysis, we focus primarily on structured investment products that are largely sold directly to consumers, often via advisory services.

Structured products are often expensive and complex savings products – and in some cases have a high risk-profile that is that is difficult to understand. For Finansinspektionen (FI), which adopts a strong consumer protection approach in its work, it is important to understand how these instruments function and the risks they present to those choosing to invest in them.

During the period January 2018–June 2024, Swedish consumers purchased structured investment products for approximately SEK 18 billion. Approximately 20,000 individuals have invested in these products since 2018, with an average investment of around SEK 186,000 per investment. The age of the average investor in these products is 63, which is much higher than the average age of an investor in equities.

In this report, we delve deeper into one specific instrument – autocalls (defined as product code 1260 in a Swedish context according to the EUSIPA definition) – since it is the most common structured investment product. During the period covered in the analysis, almost 40 per cent of the turnover in structured investment products consisted of autocall purchases. Autocalls are a type of derivative for which the value is dependent on the development in one or several underlying assets. We find that autocalls more often than not generate a lower return than the underlying assets. In 67 percent of the cases, the investor would have received a higher return by investing directly in the underlying equity assets. High costs, limited upside possibility through pre-determined coupons, and a downside payoff

18 november 2024, FI Ref. 24-32650

The FI Analysis series has been presented at an internal seminar at FI. The reports are approved for publication by an Editors' Board..

structure that tends to be based on the worst-performing share are some of the reasons why.

Even though autocalls are marketed as beneficial on most types of markets conditions – stagnant, rising and sometimes falling – they only outperformed the underlying portfolio in 24 of the 208 months in the study. Our findings are in line with the findings of previous research into similar products.