Best in Ireland

Ulster Bank

"At the beginning of the year, we took a look at some very, very dysfunctional conditions in the Irish deposit market, and the Irish economy generally, and observed the ESRI Savings Index was at 105, down off its peak," says Mark Caffrey, head of investment and funding solutions at Ulster Bank in Dublin. This showed a high level of savings but a reluctance to spend as the economy recovers after the country's International Monetary Fund bail-out. "Selling a term investment product is tough when you can get 4% for a one-year deposit."

Mark Caffrey

Ulster Bank set itself the task of being the most helpful bank in Ireland in 2011, an initiative that included opening branches on Saturdays. "We changed the branding, moving to plain, bold colours," says Derek Sheehan, the bank's Dublin-based head of corporate and institutional structured products. "Customer focus groups said structured products were complicated, with something hidden. For example, consumers did not like five years and 11 months – it's like a €9.99 price, so we changed our offerings to four or six years."

The high deposit rates on offer across Ireland meant products such as Ulster's Index Lock-In Bond needed to offer chunky returns. With an eye to the volatility in the market, in August Ulster offered a bond that offered a minimum of 18.75% over the six-year term, and a potential maximum return of 37.5%. The new issue followed an Index Combination Bond sold between April and July that attracted €56 million, but which could not be recreated exactly due to a deterioration in euro swaps.

The structuring team considered the minimum level required to compete with deposit rates and retained the popular digital element, but with annual lock-ins (as opposed to one large rebate at maturity), which allowed them to bolster the minimum return. "The real breakthrough came when we looked at structuring the lock-ins with the ability to offset each other," says Caffrey.

Sheehan says: "We went back to the drawing board: we could not touch the minimum return, so we took a look at the derivatives we were using. As opposed to locking in the maturity, or having everything to play for at the final observation date, we said, if we break this down into its constituent components and have a digital lock-in every year, we could lock in gains. We started running prices on that, but it was still as expensive to put together, so we went back to the drawing board again. But if we look at the coupons we are trying to lock in, we are locking in a coupon every year, which has to be higher than the minimum return for that equivalent year.

"So, we decided that we didn't need to lock in the entire coupon because, effectively, a portion of it is already locked in, in the case of the bond. We tinkered and decided that in years when the asset performs, we lock in 50% of the coupon. In a year of negative return, we get the coupon back because we have, effectively, 50% of our coupon locked in. By structuring the derivatives, effectively through a sellback feature, we can harness the volatile conditions we were seeing in the market to sell back to the option writer, reducing our cost."

It was a great success, with sales of more than €30 million by early September, during a particularly quiet part of the year.

The Goodbody Stockbrokers Protected Income Equity Basket was created not long after Goodbody was sold by Allied Irish Bank to Fexco in November 2010. Based on equity research from the stockbroker, and feedback from investors, who said they wanted 100% capital protection at maturity, an investment product was designed that pays an annual coupon of 2% annual gross return of the deposit account, while also offering a variable coupon subject to a cap of 6% of the deposit amount. The variable coupon depends on the performance of the single stock reference basket chosen by Goodbody. Speed, flexibility and sharpness of price were the decisive factors, says Caffrey. The six-year product requires a minimum investment of €100,000.

"We primarily use Ulster Bank for hedging our structured deposits," says Eanna McCloskey, managing director at Wealth Options in County Kildare. "We have structured about 35 bonds in the past 12 months and Ulster Bank's service has been excellent. Its understanding of our business model and our requirements makes it very easy to deal with. There are times when we need it to 'step up to the plate' for a certain pricing and it has never let us down. Ulster's attention to detail is a key factor in using it."

The bank also created the Auto Secure Bond 25, with diversification through a dynamically managed investment strategy that follows the trends and price levels of equities, emerging markets, property, commodities and cash (the reserve asset), then invests when markets are rising and diverts to cash when they fall. Capital is 100% secure at maturity, while the five-year product offers full participation in any rise in the strategy. "Our main structured deposit is our Auto Secure Bond, which tracks an RBS Auto Pilot strategy and is very well received by consumers," says McCloskey. "We are now on our 26th tranche of this bond over the past 24 months."