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Structured products EUROPE AWARDS 2016

Risk.net December 2016

Retail structurer of the year

BNP PARIBAS

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Much has been made of the 'Japanification' of European markets in the post-crisis years – the toxic combination of long-term low rates, deflation and little or no growth, which renders policymakers immobile and spells vanishing returns from traditional investments for retail punters.

Nowhere is the comparison more obvious than the structured products markets; Japan's army of retail investors – the archetypical Mrs Watanabes – have grown dissatisfied at the miserly returns on offer from traditionally low-risk, short-dated equity Uridashi and broadened their horizons to hybrid offerings and longer-dated plays. This year, European investors – most obviously the traditionally conservative French and Italian markets, where investors have historically favoured full capital protection – have had to do the same. BNP Paribas has done more to get the retail investing public used to the idea than most.

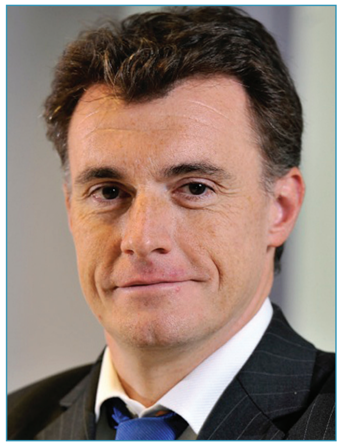
Renaud Meary, global head of equity derivatives distribution sales at BNP Paribas in Paris, and previously the bank's head of structured equity for Asia-Pacific, has brought several lessons back with him to the bank's traditionally conservative home turf – namely, that it is possible to offer a decent return from structured products in a moribund macro environment, but that punters need to accept some principal risk.

"This year was challenging for equities businesses, and structured products distribution in particular. Given the macro environment and negative interest rates in Europe, it has become very difficult to structure attractive products with a full guarantee. In markets where people are used to investing in capital-guaranteed products, we've been able to address the situation by encouraging investors to consider extending product maturities, or taking some risk on principal to offer them a pickup," says Meary.

"This year was challenging for equities businesses, and structured products distribution in particular"
Renaud Meary, BNP Paribas

Among landmark offerings to a public starved of conviction and investment ideas this year, the bank created a dedicated Quantitative Investment Strategy team, offering alternative investment strategies in a retail-friendly wrapper. The products' blend of uncorrelated returns, downside protection and a low sensitivity to market volatility has proved a winner this year, replacing many shorter-term flow products traditionally favoured by private banks and distribution clients.

Other issuers in Europe have been more hesitant in offering such strategies to retail punters, leery of tightening standards around index calculation and dissemination handed down from principles set by the International Organization of Securities Commissions (Iosco) and gold-plated by European regulators. BNP has bucked the trend by embracing the higher standards early, says Meary – and has set a marker for the industry.


Renaud Meary

"For quantitative investment strategies sold to retail investors, we are at the edge of increasing the standards set by the industry; we adhere fully to the Iosco principles. For instance, we make sure all our indexes only rely on public, observable, market data and parameters. To minimise reputational risk and ensure high transparency, we also aim to have all our indexes distributed to retail being computed with an external calculation or verification agent," he says.

The bank continues to set the pace for sustainable and responsible investment (SRI) themes, bolstering its range of environmentally friendly themed indexes by partnering with both FTSE and Solactive on decarbonisation indexes. Though the bank outsources the day-to-day calculation of the indexes to the external providers, it always seeks to keep control of index construction – a move Meary argues gives it an edge over other houses by adding oversight on key issues such as factor and component selection.

"We generally partner with external providers on our SRI index suite, but we retain a strong degree of oversight. We closely monitor the limits in terms of size granted to components of the index with the help of our risk department. We typically impose liquidity thresholds on the components, in due proportion with the notional we aim to distribute and the various possible scenarios we might face in the future. It might weigh on performance in some cases, but it's worth it to ensure greater visibility on liquidity and performance," says Meary.

The pressures of the structured products business in Asia – driven largely by local markets' failure to recover from last summer's China equities rout – have seen several banks exit the business, providing opportunities for BNP to acquire books of products and market-making activities from retreating rivals.

Meary believes there will be similarly rich pickings for the bank in Europe next year, but with the drivers here amplified by Europe's heavy regulatory agenda – namely, the Packaged Retail and Insurance-based Investment Products regime and the revised Markets in Financial Instruments Directive and its accompanying regulation. ■

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