



Structured
products
EUROPE AWARDS 2016

Risk.net December 2016



**Benelux house
of the year**



BNP PARIBAS

Benelux house of the year

BNP Paribas

In an increasingly unpredictable political world, one of the stranger market effects has been a general decrease in options volatility. This presents a challenge for those running structured products businesses.

“This year volatility has itself been quite volatile. We have had small periods of very high volatility, such as after Brexit, where beforehand it was quite stable. Afterwards, the volatility fell quite a lot,” says Gilles Staquet, head of equity derivatives sales for Belgium at BNP Paribas, winner of the Benelux house of the year award.

“In the context of structured products, you have to look at both the performance and the volatility of the underlying, because if volatility is very high then the underlying’s good performance is almost irrelevant. You won’t be able to buy its performance potential,” says Staquet.

The judging panel decided that BNP Paribas stood out for its efforts not only in managing this uncertainty, but also in growing its market share. The bank’s share of products listed on Euronext Amsterdam grew from 45% in 2015 to 56% in October 2016, for instance.

“Despite being the market leader in this region, BNP Paribas has managed to increase its market share more than any other market participant over the last 12 months,” said one judge. “It has developed a comprehensive offering and some strong innovation.”

A keen eye for opportunity and the capacity to create products both in-house and via partnerships has been well received. For example, the weakness of the euro at the beginning of this year prompted the bank to launch an index based on the theme of euro exporters.

The index was designed by Solactive in conjunction with BNP Paribas. It tracks the performance of eurozone companies that can capitalise on a weaker currency.

“One of the key criteria was the extent that these companies export outside the eurozone,” says Staquet. “We also used the volatility of the stock as a criteria. If we have a stock that is very sensitive to exports but highly volatile, we would only be able to buy a small fraction of its good performance.”

In the Benelux region, the bank has seen the volume of investment into fund-linked instruments dropping off as a combination of low rates and high volatility have hit investor confidence. To combat this, it developed the BNP Paribas MSB – Allocation Fund Stars Index specifically for the Belgian market.

The index includes a volatility mechanism that reduces participation in the basket of funds it tracks if they become more volatile, and increases participation during periods of low volatility. The mechanism has been approved by Belgium’s market regulator the Financial Services and Markets Authority.

“We tried several methodologies and found [one] that was acceptable for them. So it’s a lot of work but at some point you get good results,” says Staquet. “The goal is to make sure that you really optimise the



Gilles Staquet

balance between performance and volatility, and we have been working a lot on that subject with different methodologies.”

That determination to find success is supported by the bank’s ability to leverage many parts of its business across the buy and sell side, which gives it a breadth of expertise not available to every firm. Theam, for instance, an investment specialist that takes a model-driven, capital-protected approach, is a joint project between BNP Paribas Corporate & Institutional Banking (BNP CIB) and its asset manage-

ment team at BNP Paribas Investment Partners (BNP IP).

Created in 2011 from BNP CIB’s subsidiary Harewood Asset Management and BNP IP’s structured, indexed and multi-alpha generation products division, Theam has been extremely successful in the Benelux region, notching up €1.5 billion (\$1.6 billion) in assets under management (AUM) within its Quant product set and bringing in €700 million in new investment since the start of 2016.

The development of socially responsible investment (SRI) products was also picked out by judges as a quality to be recognised. The bank’s SRI funds represented €19 billion of AUM by the end of 2015 – and collaboration between Theam, BNP Paribas CIB Global Markets, research agency Vigeo and BNP IP saw the launch of the Theam Quant – Equity Europe Climate Care equity fund in March this year, with the majority of inflows raised in Benelux. Market data provider Morningstar reported it had €123 million in AUM as of November 3.

“BNP Paribas Group’s cross-business collaborative efforts between Theam, CIB Global Markets, Vigeo and BNP IP really delivered powerful results in new product innovation,” notes one judge. “In addition to product innovation, BNP’s commitment to its distribution networks stands out, particularly in today’s environment of extreme regulatory scrutiny.”

While predictions for the year ahead are difficult given the likelihood of continued political uncertainty, Staquet says he hopes that short-term rates stay very low and long-term rates rise, so that the rate curve steepens and creates a positive environment for structured product volumes.

“That would be a great scenario for structured products,” he says. “There are many things you can work to optimise structured products, and what we have focused on has changed over time. Years ago we had to look at the funding – finding banks that were paying higher rates. Clearly, this year it was all about the underlying securities.” ■

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