Risk publications

Structured products
EUROPE AWARDS 2016

Risk.net December 2016

Italy house of the year

BNP PARIBAS

Italy house of the year

BNP Paribas

In many ways, the outlook for Italian investments is a mirror image of that in the rest of Europe: bond yields are miserly and equities are volatile, leaving those looking to park cash in traditional assets between a rock and a hard place.

Macro jitters aside, however, much of Italy's current malaise – the leading index of Italian shares is down 21% on the year, while 10-year treasury yields are nudging 2% – owes a lot to local market factors. Aside from a perennially unstable government, a looming banking crisis – which saw bondholders of some regional lenders, many of them retail punters, get bailed in at the start of 2016 – continues to weigh heavily on investor sentiment.


Fabio Filippi

With structured products buyers shunning local names, one bank has ridden to the fore with a range of innovative solutions for investors: France's BNP Paribas.

"We have over 30 years of structured products experience in Italy and deep knowledge of the Italian market. We can offer clients a better-value service," says Fabio Filippi, Milan-based head of cross-asset distribution for Italy at BNP Paribas.

> "Our ambition is to maintain our global footprint. The cost of investment you need to make to set up a structured products business is huge and few international banks are able to make it. We aim to continue to be a leading player"
> Stefano Sbranchella, BNP Paribas

In one landmark deal, the bank brought the World Bank back to the Italian listed market for the first time in 20 years, offering four emerging market currency-denominated sustainable bonds. It sold a five-year 5.8% Indian rupee note; a 6.6% three-year South African rand note; a 7.6% three-year note in Brazilian real; and a 2.52% five-year note in Chinese yuan.

"Italian financial issuers were under strong pressure this year. Buyers have been concerned about paper issued by Italian names, and some market participants have switched from equity-based products to other assets, including AAA sovereign issuers," says Stefano Sbranchella, Milan-based head of global markets for Italy at BNP Paribas.

For the buyer, the notes offered the attraction of a currency play with the comfort of a triple A-rated issuer – one that, as a supranational development bank, is not subject to bail-in rules.

Not all World Bank bonds are swapped back to US dollars; some remain in the currency of issuance to fund liabilities in the designated region. But should the World Bank wish to swap to dollars, BNP Paribas is able to facilitate.

The bank has continued to see success with its multi-factor investible index suite. In April 2016, it unveiled the retail-focused Smart Investor product. This offers exposure to Euro Stoxx 50, but with various checks and balances in place: clients take an initial exposure to equities of 50%, which can increase if the index climbs above a designated barrier. Furthermore, it pays a fixed coupon of 4% until that first barrier is reached, and then 2% until the next barrier is reached.

Acting as distributor, Banca Nazionale del Lavoro raised €75 million ($80.5 million) through this product in 2016.

"Given the low interest rates in the bond market, our clients were looking for an alternative solution. Together with BNP Paribas, we came up with an innovative equity structured product able to pay periodic coupons and to optimise the market timing," says Marco Mazzone, head of retail investment solutions at BNL.

Looking forward to 2017, the European bail-in framework is due to be translated into national law, potentially dampening some issuers' appetite to keep issuing structured paper. Issuers will also be flat out implementing the Packaged Retail and Insurance-based Investment Products regime, another costly undertaking – so it is no surprise that BNP Paribas is predicting a consolidation of the issuance landscape.

"Our ambition is to maintain our global footprint. The cost of investment you need to make to set up a structured products business is huge and few international banks are able to make it. We aim to continue to be a leading player," says Sbranchella. ■

IN A CHANGING WORLD,
BY THE TIME YOU MASTER THE GAME, THE RULES HAVE CHANGED.

ANTICIPATING YOUR BUSINESS ENVIRONMENT

We support your business in adapting to ever changing environment. Our expertise across the globe helps you understand environment and turn changes into opportunities.

www.cib.bnpparibas

BNP PARIBAS

The bank
for a changing
world