AsiaRisk Awards 2016

Structured products house of the year

Societe Generale

Thin liquidity across the globe, and specifically in Asia, is making it increasingly difficult for investors to find the asset allocation strategies that they need to meet their specific hedging and investment needs. Societe Generale is named this year's Structured Products House of the Year for developing its capability to recycle additional risk around the world – which has helped the French bank deepen trust and confidence among its client base.

SG has also continued to show true commitment to Asia by expanding its teams in the region and adapting strategies and solutions that are popular in the US or Europe to an Asian context.

The French bank recycles risk both internally and across its broad client base, which requires a detailed knowledge of risk appetite among clients and the capability to map this to those risks that need to be recycled.

"We are focused on redistributing risks as soon as we receive them, which makes us a safe and ever-present counterparty in all market conditions," says Andrew Scott, head of flow, strategy and solutions for Asia-Pacific. "As a result, clients are increasingly comfortable coming to us on an exclusive one-to-one basis, even in a low liquidity environment. This has allowed us to strengthen an already close partnership with some of the most sophisticated clients in the world."

There are two primary risks associated with SG's structured product flows. One is the equity volatility and convexity exposures that result from the optionality embedded in autocallable structures. The other type of risk is the currency volatility in forward exposures, caused by the underlying structures being based in one country and the profit-and-loss being delivered in another.

"Over the past year we have offset these risks through a plethora of structures and spent a lot of time helping clients understand why certain strategies can be most beneficial in diversifying or hedging their portfolios," says Scott.

In the past 12 months, SG has traded almost $20 billion in notional of vega in variance-volatility swap spreads, as well as variance replicating strategies. This has not only helped the bank mitigate its convexity needs, but also helped clients capture better convexity premiums. SG has also traded a similar amount in corridor variance structures.

"From a trading perspective, we've matched our risk profile much more closely and from the client's point of view they get a nice pick-up in yield for a trade that they would like to do in vanilla form anyway," says Scott.

SG has also added additional features to the structure, such as knock-outs and non-standard ranges, which has encouraged a broader range of clients to become involved.

Another success story has been SG's ability to recycle more than half a billion dollars of notional risk from Asian-based clients in the US rates market. To achieve this, SG reverse-engineered the typical structure of

products by combining digital and linear payoffs over the relevant spread and tenor. There was nothing overly complex about this structuring, but as Scott points out this is sometimes the point.

"We call these structures 'alternative risk transfer' or ART – and the art of ART is not always about complexity," says Scott.

A core component of SG's setup is its focus on cross-asset structured solutions. The bank moved into the cross-asset space quite early – in 2009 – and remains one of the leading providers of hybrid solutions for its clients, with sales of $1.7 billion across Asia this year. SG's strong position in the cross-asset space allows the bank to also offer risk premia strategies on the cross-asset side, and not only on specific asset classes.

SG's cross-asset franchise also allows the bank to nimbly switch in and out of positions when it sees market conditions changing. As an example, as equity markets have deteriorated, SG's flexible cross-asset strategy has allowed it to swap them with other asset classes. Last year the bank was 60% invested in equity. At the beginning of this year, it was 60% invested in fixed income.

But what really makes SG stand out this year is the commitment it has demonstrated to Asian markets, even as many of its competitors have fled.

"We are trying to build up as much local capability as we can. Our setup is very local when it comes to product design, strategy design, and risk premia. We are one of the few structured product houses making the effort to see how we can adapt strategies that have proved popular elsewhere in the world to an Asian context," says Jerome Niddam, head of engineering for global markets, Asia-Pacific.

SG has set up dedicated teams to look at specific Asian strategies – such as creating indexes based on Asian underlyings and a team in Hong Kong to carry out research on risk premia strategies for Asian underlyings. ■