Structured products EUROPE AWARDS 2015

Technology vendor of the year

Opportunity knocks

European issuers have been blessed with a year of opportunity. Macroeconomic tailwinds at the beginning of 2015 propelled structured products to new heights among both retail and institutional investors, while choppier trading conditions in the latter half of the year offered rich pickings for those canny enough to take advantage.

Equities revived their status as favoured underlyings following the European Central Bank's launch of quantitative easing (QE) in January. After years of moving sideways, continental indexes suddenly surged. The bull run whipped up interest in traditional yield-generating knock-out products such as leveraged certificates and autocallables.

QE additionally ushered in favourable conditions for the launch of hybrid products, with the inverse correlation between European equities and the euro/dollar exchange rate tempting investors into dual barrier structures referencing both stocks and forex. The tumbling euro also spurred a flood of assets into currency-hedged exchange-traded funds referencing European bourses.

This benign period came to an abrupt halt towards the end of the second quarter when the future of Greece in the eurozone was once again brought into question. The political tug-of-war played havoc with equity markets and spurred frantic action across equity derivatives desk as dealers sought to hedge the volatility exposure they had accrued from the bulk issuance of autocallables.

Benchmark indexes were dealt another blow in August as China's economy slowed and its stock market bubble burst. European blue chips briefly lost much of the ground they had gained since January, while volatility spiked to levels not seen since the global financial crisis. Enter proprietary indexes: a theme that ran through many of the pitches received for this year's awards. Issuers have been churning out algorithmic strategies and bespoke multi-asset baskets that promise to outperform the benchmark at a frantic pace.

The variety of indexes on offer is breathtaking. Some dealers have focused on building out traditional smart beta offerings, with high-dividend and low-volatility strategies being two particular favourites. Others have taken a thematic approach: designing indexes that track the equities of firms with strong environmental, social and corporate governance credentials, for example.

At the top of the range are highly engineered, multi-asset risk premia indexes. These isolate and extract the performance associated with popular carry and hedging strategies executed by alternative asset managers in a single, transparent package, giving sophisticated investors access to hedge-fund-like returns at a fraction of the cost. The SGI Risk Premia Index, developed by this year's overall winner, Societe Generale, is a flagship example.

Yield-hungry institutions have also flocked to structured products to augment the returns on their fixed-income portfolios. Dealers have revved up their bond repack platforms in response to demand from life insurers for enhanced coupons on their sovereign holdings, with Societe Generale and Crédit Agricole duking it out for supremacy in the continental arena. The latter's unique twist on the standard repack – incorporating a range accrual feature designed to take advantage of the spread between inflation and rates – won it this year's deal of the year award.

Congratulations to all our winners and the best of luck to all firms submitting entries for the 2016 awards – nominations open in August 2016. ■

Technology vendor of the year

Modelity Technologies

For Structured Products in Sweden (SPIS), an industry association established in 2013 for Swedish structured products manufacturers, the advent of the Packaged Retail and Insurance-based Investment Products (Priips) regulation offered a big opportunity to standardise market and credit risk calculations among its members.

Priips, which comes into force in January 2017, will require standardised ratings for structured products, but issuers remain at odds over how the risks of the investments they sell to retail clients should be disclosed. Given the size of the local market in Sweden and the complexity of some of the products on offer, and with ongoing uncertainty over the Priips technical standards, SPIS was keen to introduce risk indicators that could be used straight away.

The association needed a partner to help implement its methodology whilst educating its members on the new indicators and providing an outsourcing option and validation service for their calculations. The methodology also needed to handle credit-linked notes – a popular instrument in the Swedish market, for which there were no standardised risk indicators.

Modelity Technologies fit the bill on all counts. The company has specialised in technological support services for the manufacture, marketing and operation of structured products for more than 10 years. While SPIS members are free to choose an alternative provider or calculate the indicators themselves, 10 of its 15 member firms are already using Modelity.

"Modelity is professional and solutions driven, and they understand the needs and challenges of the structured products market. Not only do they have technical competence, they also fully understand the existing and emerging regulatory requirements, such as Priips, and how the market must adapt to be compliant," says Stefan Sonnerstedt, chief administrator at SPIS until September this year.

The association hired Modelity in November 2014 and the platform was completed by the following August. Among the more complex of the risk indicators is one SPIS calls 'average downside', which involves running Monte Carlo simulations on a product's performance, converting the results of all positive scenarios to zero and generating an average loss from those scenarios for which the results are negative.

Modelity went one step further than the SPIS standard, which only requires the calculation of risk indicators once products are launched. As risks change during the lifetime of a product, the platform allows for revaluation at any point in time.

"The SPIS standard does not rank products after their launch, but clearly financial advisers and clients will want to have this ability, which is already available for funds," says Sonnerstedt.

The platform includes additional functionality, such as analysis during the design process to enable users to better understand the risk and return profile and the provision of support documentation and other information once the products are live. Although SPIS had specific requirements for its standards, Modelity built flexibility into the platform to accommodate a variety of approaches.

"We realised that different countries might have different views on how risk indicators should be calculated, so we built our methodology in a flexible way where users can input their own ideas and build their own risk indicator modelling into it," says Eran Elad, vice-president for structured products sales at Modelity in Tel Aviv.

Eran Elad, Modelity Technologies

Modelity has also been active elsewhere over the past year, supporting its growing European client base, which includes Barclays, Commerzbank, Danske Bank and Royal Bank of Scotland. When Finnish fund manager Estlander & Partners decided it wanted to expand into structured products in mid-2014, it turned to Modelity.

"We wanted to set up the new structured products business in a streamlined way without a lot of traditional overheads. Modelity provides us with a full platform to help deal with product design, marketing, training and after-sales support. Also, when we are looking at product ideas, Modelity gives us the tools for historical stress testing and future performance simulation so we can ensure the products we offer are sound," says Henrik Hermann, head of structured products at Estlander & Partners in Helsinki.

Among other developments, Modelity has continued to enhance the automation of legal documents, such as term sheets and information letters, creating templates in the familiar environment of Microsoft Word with links directly into Modelity's platform for carrying out calculations and analysis.

Modelity also responded swiftly to the thematic review of structured products development and governance published by the UK Financial Conduct Authority (FCA) in March 2015, which identified weaknesses in the way some firms approach structured products.

"Modelity extensively researched the review and the FCA's 2012 guidance on product development and governance and, using its field experience and technological capabilities, designed an independently run solution that can be used by product providers to comply with the guidance," says Elad. ■