Structured products Europe Awards 2011

Best in Spain

BBVA

With a market that has grown considerably tighter and with greater volatility spawned by economic and financial uncertainty, growth in structured products has been difficult in Spain. Lingering doubt surrounding the solvency of some European countries and liquidity issues have led to a more cautious investor base favouring simpler products. BBVA's ability to identify and adapt to a changing environment in terms of risk appetite and market needs, in particular, has made the bank stand out, and while being faced with a much more challenging environment, BBVA illustrated its commitment to the Spanish market by allocating more resources, such as 15% more staff than last year, and a volume of business up 20% for both the retail and institutional segments.


Juan Pablo Jimeno

"The market has changed dramatically – due to liquidity issues, regulatory changes, capital constraints, [higher] volatility and risk appetite for investors – and this has affected the way we have to approach our products with clients, using collaterals or new wrappers," says Juan Pablo Jimeno, head of global structured solutions at BBVA.

Despite fierce competition in deposit offerings, BBVA added €1.8 billion in structured retail deposits in the first eight months of 2011, with a dual component added to the majority of the bank's deposits where part of the amount is invested in short-term, fixed-rate positions from four to 12 months at a subsidised rate, while the rest is placed in longer-term structured products providing exposure to equities with a downside risk limit.

"Dual structured retail deposits have been very popular this year," says Jimeno. "It's a simple product clients perceive as a high-yield product with low risk because only 10–20% of the notional is invested in an equity-linked derivative."

Regulatory changes, such as the Bank of Spain now requiring banks to charge additional interest to multiply the contributions they would normally pay to the deposit guarantee fund as well as the need to optimise capital usage and offset counterparty risk in view of the upcoming Solvency II and Basel III regulations, became a source of opportunity for the bank as it aimed to develop solutions involving contingent credit derivatives or more complex structures for capital consumption, market risk management and counterparty risk control.

"In the past year, we've been focusing on credit derivatives such as contingent credit derivatives, which get active when an external event occurs," says Alfonso de Miguel, global head of rates, currencies and commodities structured solutions at BBVA. The fact that the sovereign bond market has also offered attractive yields to investors has made it harder to compete, he adds. Seeing that clients were looking for a simpler payout that required more bespoke solutions, BBVA came up with Triple Star, a product aimed at retail investors and distributors that takes the best of three strategies between a digital coupon, a European call and an Asian call to allow investors to get the most out of different market scenarios. Launched in February, it was sold to three different clients, raising €50 million.

"We launched this product at a time in the market when implied volatility was still low and it was really good timing for this product as the client was able to buy volatility at a low level," says Jimeno.

Another focus for the bank has been to increase its range of products, such as products offering exposure to soft commodities. BBVA's 100% Natural Multisoft autocallable differentiated itself from similar structures more often traded in equity by linking the coupon to the performance of a basket made up of coffee, sugar and corn as underlyings.

"The autocallable feature isn't new, but what makes it different here is that it offers exposure to underlyings that are not often used in the retail network that we have in Spain," says de Miguel. Aimed at retail investors, the capital-protected product has a three-year maturity that can pay up to 8% a year until the call date if all three underlyings appreciate, and has raised €150 million.

"In the past year we closed a lot of structured products with BBVA, both retail and private banking," says a Barcelona-based structured products distributor. "The main underlying closed with BBVA was equity, but we also closed interest rates and commodity-linked products. This last product was very innovative, because commodities weren't a common type of product for retail."

BBVA has also been working on strengthening its presence in Latin America, aiming to become the house of choice for structured products and Latin American market access in particular.

At the start of the year, Spanish investors could benefit from BBVA's offshore sales of the new LatAm Access product to access the Latin American debt market and particularly Chilean credit risk. Investors buy a structured note in dollars linked to a Latin American bond denominated in a local currency. The payment of any interest and the principal of the note then depend on the performance of the bond and the cross-currency swap that convert the bond's cashflow into dollars for payment under the note.