



Laying the foundations for sustainable success

Despite contesting one of the world's most competitive markets, a mix of innovative products, great teamwork and good customer service has kept BBVA at the pinnacle of the Spanish derivatives sector

For the past two years, *Risk* has conducted rankings of the Spanish derivatives market and BBVA has been placed first in both. The bank's consecutive triumphs within the rankings have not been accidental – in fact, had *Risk* run the surveys earlier, the bank would almost certainly have topped those rankings as well. Despite the fact that its capabilities are now well recognised, they are still surprising; similar rankings in other geographies invariably show the dominance of the large international houses – and local champions are rare.

Client-focused

Ricardo Laiseca, director in charge of European and US markets, puts BBVA's unusual success down to a single main factor – the bank's clients: "We are fortunate in that we adopted a very client-focused stance from the beginning. Our clients have been very demanding and our approach has allowed us to respond to that. It is thanks to them that we are now playing a very sophisticated game."

Had BBVA adopted a different strategy or been less successful in managing its execution or, indeed, had it been faced with a less exacting client base, Laiseca believes that BBVA's current position would likely be very different. "It is thanks to them that we are where we are – not only because they have voted for us in the rankings – because they have been responsible for driving our success. Their needs have evolved enormously over the past 10 years and we have had to work hard to ensure our capabilities have kept in line with them."

The long-term, client-focused approach has been useful in driving the bank forward, in more ways than one. The tight relationships have led to BBVA gaining an intimate knowledge of the constraints and problems its clients face which, in turn, has afforded the bank a unique opportunity of developing very

innovative and specific products and solutions. "And that has created a virtuous circle, enabling us to reinvest and build our expertise still further," explains Laiseca.

Integrated

BBVA's client-focused approach, however, is only part of the reason behind the bank's success. BBVA's business model has had much to do with it. Unusually for a bank with a large derivatives franchise, BBVA has managed to ensure it runs a tight-knit and closely integrated group. Laiseca's group embraces everything from equity, credit and rates to commodities; the team runs a large-scale vanilla flow business alongside a complex structuring team and works with both issuers and investors. The teams work as a group and the product heads work in partnership, though senior staff have responsibility for individual product lines. Moreover, while specialist sales forces can address particular interests, individual relationship managers ensure that clients face a single point of contact. That way the clients can be confident their managers are always fully informed about their business needs, and that they have no particular product 'axes'.

"A highly integrated approach can be difficult to achieve and manage, as has been shown by the fact that many of our competitors have been forced to separate their business lines out, but it is a pivotal part of the way we approach the market", says Luis Alvarez de las Asturias, head of global sales. "From the client's perspective, it means that they know they are always getting the best possible service and that there is no danger of any inappropriate product pushing. Our strengths are as great in equity as they are in credit, rates or fixed income – and the client's relationship manager will be servicing him or her across all of them."

Solution-driven

Just how well a set-up like BBVA's can work is exemplified by the bank's adaptation of the auto-cancellable product. Developed for – and already well known within – the equity world, BBVA recently exported the auto-cancellable product to the fixed-income universe, exchanging equity-linked payoffs for interest rate ones.

"We were looking to find a solution for some of our issuers and found that, by extrapolating on the original equity-based technology and transporting it into the credit and rates universes, we could usefully deploy it to help our issuers lower their financing costs", says Alvarez de las Asturias. "It has worked extraordinarily

well and answered a real client need – as has been shown by the product's uptake."

Finding such a solution would undoubtedly have taken BBVA longer were the bank to run a less unified operation, as the reapplication of the equity-derivative technology required not only a close level of dialogue between the credit, rate and equity structuring groups, but also between the issuer and investor sales forces.

"This kind of idea exchange is impossible when the individuals responsible for different asset classes do not work in partnership and when the different client-facing staff groups do not engage in close dialogue", adds Laiseca.

Another example of an innovative product that illustrates the advantages of BBVA's particular management structure is the bank's Extinguishable Swap product, which has recently seen high levels of client interest. This instrument is essentially a modified currency swap that includes a credit component. It is structured so that, if the chosen referenced entity suffers a credit event at any time during the term of the transaction, the swap is cancelled, eliminating any subsequent payment obligations. The swap structure means that investors can exploit their particular credit views to gain an attractively discounted swap rate. For instance, several of the bank's Latin American clients requested versions of the product in which the extinguishable swap referenced local sovereign debt. Explains Eloy Fontecha, head of new products: "Here the clients were prepared to assume the risk of their own sovereign experiencing a credit event – a risk they were familiar and comfortable with. Had their local sovereign debt experienced a credit event, the swaps would simply have cancelled themselves out."

Engaging in this kind of product development requires the close co-operation of credit, interest rate and currency groups, but it also demands the kind of organisational structure that encourages a cross-fertilisation of ideas and technologies. Set-ups that are siloed by asset classes can often foster a myopic view of asset and product types. Others that are too generalist face the risk of missing such opportunities. "Because we have very specialist product expertise and a tight management structure, we face neither of these dangers", says Fontecha. "Having teams that are specialised by underlying asset class but integrated in a single close-knit unit encourages the rapid transferral of technological and product know-how from one asset class to another. Our set-up also ensures we are better positioned than most to create innovative hybrid products and to put together tailored exposures and hedges for clients. It would be far more difficult to do the same were the constituent parts of the group working on a more segregated basis."

In the case of the Latin American version, the bank would not have been able to develop and successfully market the product were it not for BBVA having a strong geographical reach as well. "That particular example demonstrates how our core market expertise can easily be deployed to benefit clients around the world. Without a multi-regional presence and close co-operation between product groups you cannot produce meaningful solutions like this", concludes Laiseca.

Value added

BBVA is unusual in that its derivatives business does not rely on third-party input and product development. Instead, the bank has built up an end-to-end capability allowing it to control and risk manage the product design, manufacturing and sales process. For the bank's clients, its chosen model again has advantages.

"We don't sell black-box products that we have brought in and don't understand, but tailor-make solutions for specific client demands. That requires significant technological, risk manage-

ment, research and structuring expertise and investment, but it means that we have absolute control and total flexibility in designing our solutions and in adapting our products and services to changing client demands", says Fontecha.

"Moreover, it ensures that we are able to keep our costs to a minimum because we don't have to add on the margins that others engaged in the third-party distribution kind of business have to", adds Fontecha, who puts down much of the bank's successes in product design to its full-service approach. "Because we manage the entire process, from the initial discussion to the design phase and right through to the manufacturing and final distribution processes, we can ensure that the products really do what they say on the tin."

Dedicated

From its pioneering of fund-linked structured products and constant proportion portfolio insurance technology within Spain, to its early involvement in the credit derivatives market and support of the iBoxx and iTraxx families, BBVA's success in the country is well known and, increasingly, well documented. Less well known, perhaps, is the fact that the Spanish market is one of the world's most competitive. For instance, Spain's retail structured products market is the second-largest in Europe; a market in which it is not easy to do well, either.

"The Spanish market is enormously competitive", says Alvarez de las Asturias. "We have managed to establish and maintain our leadership within it by closely monitoring, renovating and updating our product line."

The rest of the derivatives business in Spain is, in fact, just as hotly contested as the retail sector, with several other local banks competing strongly for business alongside their international rivals. But BBVA's offering has stood out, thanks to the bank's full-service commitment. "To us, the after-sales stage is as – or more – important, than the pre-sales phase", explains Laiseca. "Close dialogue with clients will ensure first-rate design and execution of trades and products, but for us this business goes far beyond that. It is about maintaining that dialogue throughout a product's life, providing valuations and risk management services, restructuring trades and offering add-ons."

"It's the only way we know how to compete in this business", adds Laiseca. "We know it is somewhat unique." ■



From left: Eloy Fontecha, Luis Alvarez de las Asturias, Ricardo Laiseca

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