House of the year

Société Générale

Société Générale (SG) defied the masses and scotched the widespread belief that you cannot innovate when financial markets are experiencing turmoil. The French bank has grabbed the opportunity to offer new and remarkably creative ideas while maintaining high standards when it comes to pricing risk.

"The best for ideas in the market come from SocGen," says one Italian distributor, echoing the general view. "It has another politic of selling: they are not the most aggressive, but pricing is not the only thing. After 15 days, others have the idea."


Benjamin Raccat

The most extraordinary of its feats over the past 12 months has everything to do with the bank's understanding of how markets operate. Pride of place goes to its pioneering work in creating a puttable, or extendable bond enabling sovereign borrowers to secure long-dated funding, while addressing the duration and convexity management requirements of large investors. The bond was placed for the Kingdom of Belgium as market conditions deteriorated earlier in 2010.

Work on the bond began almost a year earlier when SG assembled a 30-strong advisory team dedicated to asset-liability management solutions for European insurance companies, pension funds and banks. "This product could not have been done by any bank because these long-term volatility trades are either untradable or difficult to trade," says Benjamin Raccat, managing director, cross-asset solutions at SG in Paris.

The bank provided an analysis of the comparable pricing of government bond option interest rate derivatives that convinced the Belgian government to sell a €700 million 30-year no put 20 bond and two of the biggest investors in Europe to buy it.

Puttable bonds offer cheaper funding without mark-to-market volatility, and give investors a long-dated asset with an option without them having to buy long-dated derivatives trades, with their associated operational and dealer counterparty risk. The bonds address the long-term requirements of investors ahead of the introduction of Solvency II fair-value accounting rules. "The extendable bond is for larger insurance companies and the Switcher is aimed at smaller institutions – they are the same type of idea," says Thomas Decouvelaere, global head of structuring for rates and foreign exchange at SG in London.

The Switcher – based on the premise that low bond yields and eventual inflation risk is making many fixed interest investments unattractive – is a play on interest rates and inflation based on SGI Firm, a proprietary index, taking positions on the quarterly Euribor three-month futures contract and deciding whether to go short or long. Coupons for the fully capital guaranteed product are linked to the index on the first five of the 10-year term with a floor at 0%, and switch into European inflation thereafter with a floor at 2%.

The bank sees new opportunities in global liquidity, with insurance companies and pension funds long liquidity, and banks and corporates asking for structured loans from SG that repay on the basis of a rate index, potentially saving the lender 1–2%. This technique is now at the centre of the bank's strategy. "Liquidity is an asset class of its own because of this new need that exists in the market," says Marc El-Asmar, managing director for cross-asset solutions at SG in London.

Further innovation has been evident with Sunrise, a new payout in a capital protected and uncapped structured product based on three mutual funds. The skill comes in the form of a payout that cancels the best performer each month. "Because of the high level of volatility, there is a big saving on the price of the option, taking participation from 40–50% to 100%," says Raccat. "It shouldn't save so much, but it does."

Sunrise was launched in March 2010 in Benelux, France, Italy, Switzerland and the UK, and had raised €127 million by October.

At the end of 2009, SG launched the SGI Smart Market Neutral Commodity Index. Features included optimised (ie. long/short) rolling, which consisted of dynamic, seasonal and static two-month forward rolling and a systematic volatility control mechanism set at 6%. SG has notched up €100 million in notional sales from the index.

The bank also released Euristoxx, which plays the decorrelation of interest rate and equity markets and sprang from expectations that interest rates will remain low, but that their rise will signal recovery and trigger a rise in stock markets.

In the first year, investors receive a 6.5% coupon. Thereafter, three-month Euribor and the Eurostoxx 50 index are observed: if the rate is below 2.25% or the index is up more than 15% since inception the strike date, a 6.5% coupon is paid. A memory feature compensates for couponless years and capital is guaranteed as long as the index has not fallen by 40%.

"I have used SG because of their strength as a counterparty, the quality of their advice and their responsiveness," says Patrick Gouyet, an independent financial adviser at Hestia Finance in southern France, which distributed the product. "Frankly, the quality of the offering I have had with SG is so good that I haven't really wanted to look elsewhere."