

*Structured Products* talks to Jaime Uribe and Jorge Masalles about the role that **Commerzbank** has played in the creation and development of the structured products market in the 20 years it has been present. Less about the payoff and more about the underlying, the market is also having to cope with a post-financial crisis in which the regulator is making the market better for all

**Why did Commerzbank get so involved in structured products at the very outset?**

**Jaime Uribe:** Commerzbank got involved about 20 years ago, when our German customers started looking to diversify from traditional investments in equities and bonds. They were looking for products that provided capital protection, short tenors or leverage. We built an infrastructure, so we built the ‘kitchen’, if you like, for the products. We started with a small kitchen and now we have a very large kitchen that can gather the demands of our clients around the world.

**What was the stimulation in Europe for structured products?**

**Jaime Uribe:** It took off because structured products provide a number of things, one of which is market access. So, as an example, when a European client wanted access to an Asian market that provided a certain opportunity, the way to do this was via structured products. Second was capital protection, while participating in the performance of the underlying.

**Do investors today have a better understanding of the risks that they’re taking?**

**Jaime Uribe:** Yes, they are much more familiar. Lessons have been learnt from the financial crisis, and so we’ve seen product simplification – there are fewer payoffs, for instance, and there has also been an effort to make documentation and marketing material more clear and transparent.

**How do investors assess credit risk? Do they look at credit default swap (CDS) levels or credit ratings?**

**Jorge Masalles:** Most investors still look at the CDS. Whether it is the right or wrong measure is a different topic, but it is one tool we have and it is liquid. A lot of clients require a minimum credit rating and a minimum or maximum level of CDS, while also avoiding a big discrepancy between the CDS and the funding level they’re obtaining.

**What do distributors have to do nowadays to promote structured products?**

**Jaime Uribe:** Investors are requesting fixed-income-like products, so income products that pay coupons. Given the low interest rates environment, everybody is looking for yield. At the same time, volatility has dropped, which means there is less fear about the direction of the



Jorge Masalles (left), Head of Institutional Sales, Equity Markets & Commodities, Commerzbank  
Jaime Uribe (right), Head of Institutional Regional Sales, Equity Markets & Commodities, Commerzbank

market. From that perspective, clients have been, to a certain extent, more open to market risk, which explains the popularity of autocallables with very low barriers.

**Jorge Masalles:** The distribution channels have not changed that much, but the tools available are different. Now we have a proliferation of tools that allow clients to access, price and buy – via the internet – directly from manufacturers. This could facilitate the new types of products and a new type of investor that have much lower entry barriers. We can do entry for €50,000, which was unthinkable not that long ago. Also bearing in mind the regulator that we have nowadays, the Retail Distribution Review (RDR) particularly, we favour these more tailor-made, simplified payoffs, which is what these platforms allow.

**What are the biggest challenges structured products face this year and in the coming years?**

**Jorge Masalles:** Regulation comes in different waves. On the one hand, we manufacture and we need to think about how we talk to our

distributors and how the distributor reaches the final client. The RDR is a perfect example: we need to think about the integrity of products for the distributor and the end-client. We also need to think about how documents are presented. We need to make sure that we explain the risks that every product has clearly, in a language that everybody can understand. We have also changed capital constraints and need to look at costs and credit valuation adjustment charges. We need to look at different capital. We are now in transition, it’s still going to take one or two years for the whole industry to adapt.

It’s a challenge and an opportunity. It’s an opportunity because, whenever you have an industry in which you have fair play and fair roles, everybody knows that whatever product you buy from whatever manufacturer requires a minimum standard. That will favour growth in the industry. I favour regulation in that respect – it will create a safety net that all of us are going to benefit from and will lead to better products for clients.

**So, what are the best ideas that you’ve seen over the last two years?**

**Jorge Masalles:** We have low volatility and low interest rates, so investors look at yield when they invest. The combination of credit and equities or credit and other asset classes has been popular.

We have seen a move in underlyings from traditional to more sectoral industries or more stock picking, and more transactions based on particular stocks. In Germany, the automotive industry has always been popular as a way to gain access to the real economy and to benefit from the growth in the economy in Europe. This year, we have seen a lot of investors going back into southern Europe.

**Is there room for products based on risk factors and premia to be sold to retail?**

**Jorge Masalles:** The main topic is suitability. You need to make sure that the product you’re manufacturing is suited to your targeted audience and, if they happen to be retail or retail through a distributor, you have to ensure that you add all the safety nets.

**Along those lines, which structures are going to be interesting?**

**Jorge Masalles:** Let me step back. Before structure, let’s talk about underlyings. I do think, provided the economy keeps on track, equities will still be dominant this year and next. I see a bit of recovery in fixed income; rates are going to go up, so that hopefully is going to add volatility, which should favour a bit of play on fixed-income products. There has been a bit of revival in commodities, as well as the concept of diversification and correlation.

In terms of structures and income generation, again autocallables and similar structures will remain popular. Combining credit and equities

is also probably going to be with us for a couple of years. Southern Europe is still going to be a topic of interest, although clients prefer domestic underlyings. There is a lot less emphasis on the product. One of the criticisms of structured products has always been the emphasis on focusing on selling a product. Given the changes in regulation and changes in the market mood, the emphasis is much more about service. Part of that is the product itself, but there are many other things, such as the quality of the documentation.

**All the controls are costing money, which means people are having to look quite carefully at the business. You can no longer just produce something and say it’s a good idea.**

**Jorge Masalles:** All across Europe now you have the RDR or something similar. We’ve seen it in the Netherlands, they are talking about it in Sweden, apparently it is coming up soon. The other markets are picking up on it as well, even in Asia. You can see the regulators are talking to each other, so there is some global co-ordination there.

There’s no point of fighting it, it’s a given. The industry has to change, so the better or the quicker you adapt to it the better.

**Initiatives like those based around valuations are clearly helpful and important, although difficult to do with structured products because they’re based on a defined benefit at the end of the term.**

**Jaime Uribe:** Estimated value, which means breaking up all the components of a product, is something technically we can do, since we need such information for the products we issue. We currently provide the clients with indicative secondary market prices in real time. So, technically, it is possible to break up the parts of the product and provide that information to the clients.

**How have you dealt with the concept of complexity, and how has this affected the product range you offer to retail investors?**

**Jorge Masalles:** Complexity is a relative concept. What was considered complex many years ago might not be considered complex today and the definition of complexity changes from one investor to another. I think we must focus on suitability, and product manufacturers and distributors must understand who the targeted audience is and one must design products best suited to them.

View the full proceedings of the *Structured Products* 10th Anniversary interview with Commerzbank’s Jorge Masalles and Jaime Uribe at [www.risk.net/2353269](http://www.risk.net/2353269)