Best in China

Standard Chartered Bank

With most of the wealth in China created in rapid time, distributors of structured products have a problem. Accustomed to speedy and large corporate profits, the first generation of wealth generators in China balks at the prospect of single-digit coupons, but equally they fear losing their new-found gains and even struggle with principal protection.

Standard Chartered has addressed these concerns, offering a mixture of deposit-based, principal-protected products to mass retail, and now non-principal-protected products to high-end investors.

The bank has also ramped up its issuance programme. "We are the first bank, since the market recovered in the second half of 2009, to offer non-capital protected structured notes based on the QDII (Qualified Domestic Institutional Investor) scheme, [which are called Qualified Domestic Structured Notes (QDSN)]," says Yu Dong Zheng, head of investment products, wealth management, consumer banking at Standard Chartered in China. "So far, we have issued 30–40 products and have been very prudent, offering them only to high-end clients... A lot of these products have autocalled paying 15–20% annual coupons."


Yu Dong Zheng

The main innovation came with the introduction of a wealth management system in late 2009. By the end of July, the bank had signed up 1,081 clients with US$773 million of wealth, of which they had allocated US$97 million of this through the bank's wealth management system. "Structured products played an important part in helping customers to allocate their investments," says Zheng.

"We work closely and well together," says a private banker based in Shanghai. "They are very willing to listen to us and provide the things we ask for in a timely fashion. We demand products quickly, and they can fulfil this and have very good research capability; they also help me to gather research reports from other counterparties."

In the first eight months of this year, Standard Chartered issued 200 tranches of structured products, the same number as for the whole of 2009. "We have seen some increased demand following customer education. Second, we have increased our tailor-made, private client business. Third we are accelerating our structured notes business on a private placement basis," says Zheng.

The improvement in its China operations has been recognised. "Standard Chartered did a much better job in China than others," said one Hong Kong-based head of structured products for an international bank. "Last year, they could raise US$3–5 million, whereas this year they have raised sometimes more than US$20 million or US$30 million. Not at 2007 levels, but still good."

In the first half of 2010, the bank issued 126 tailor-made products for high-end clients – an increase of 66% on the same period in 2009. "We get the idea for the underlyings, the tenor, the knock-in, the knock-out and the kind of coupon from clients," says Zheng.

The main counterparty for its non-principal-protected structured notes is JP Morgan, through private placements of US$5–10 million, and 35 issues this year takes volume to around US$200 million. "Including the second half of 2009, the total would be around US$250 million," says Zheng.

The bank plans to add Barclays Capital to its list of issuers of non-principal-protected offerings.

It uses a wider selection for its principal-protected offerings, including SCB Hong Kong Global Markets, Credit Suisse – which has a big share of its principal-protected product offerings – Barclays Capital, Deutsche Bank and Goldman Sachs.

Most of its deposit-based products are local currency denominated. Unable to distribute local currency bonds, these structures are based on deposit funds. "We use their structured deposits as fixed-income asset-class investments, because we do not have the licence to sell local currency bonds," says the private banker.

Highlights from Standard Chartered's deposit-based products include an evergreen structure, the Mali10038E, which was new to China and raised US$26 million equivalent. Sales of the evergreen and snowball notes have reached US$260 million equivalent, according to the bank.

Launched on April 26, 2010 and based on three stocks – Belle International Holdings, Tencent Holdings and China Agri-Industries – investors buy an option from their deposit account and receive the proceeds of a monthly coupon of 0.5833% multiplied by the participation rate (where the latter is the closing price of the laggard underlying times the starting price of the laggard underlying). Further tranches of the same product have led to overall sales of US$100 million.

The bank plans to include more exotic onshore structured products. "The securities regulator has this year allowed very basic derivatives on the stock market, so we may see some derivatives based on China-A shares," says Zheng. Investors in China can now buy futures based on the index, although the models and risk-control mechanisms have yet to be built for this kind of derivative instrument. "When this market builds up, we will look to do a structured product based on the A share index," says Zheng.