

Societe Generale was at the forefront of creating a cross-asset structured products team, which continued to cement the French bank as one of the leading innovators in the industry. Hubert Le Liepvre and Marc El Asmar discuss the creation of structured products and the role the bank has played in this innovation

Societe Generale (SG), as a bank, celebrates its 150th anniversary this year. How did SG get into structured products?

Hubert Le Liepvre: It started 30 years ago with the creation of a specific derivatives group, which included a group of talented French engineers who got involved in the development of new products. It was a new area, they were successful, and it was just the beginning. In the 1990s, SG developed and sustained an excellent equity derivatives products franchise, mostly in continental Europe. This group has stayed pretty strong, with people staying together and developing new ideas. Then, in 2000, came a new raft of products, which has now been consolidated and developed into a culture with structured products and innovation embedded into the DNA of the bank.

What are the key phases and big themes that we've been through since 2002?

Marc El Asmar: We started with the development of warrants and listed products. Over time, there was the creation of the 'mountain range' products – linked to several stocks, underlyings or indices – on the investment side. In 2002/2003 came the internet bubble, which burst. Following that, we saw newcomers investing heavily in the structured products market as it moved and morphed from Continental retail to institutional distribution. This evolution continued until the defining moment of the 2007/2008 financial crisis.

What is the philosophy of risk management that supports your business?

Hubert Le Liepvre: There's a risk perception attached to structured products. If you look at the real figures and stress test them, the stress is considerably reduced, so much so that, now, it's a strength. We can show investors the very strong risk management culture in structured products at SG. The expertise is not only in creating new ideas or payoffs, it's also in how we make sure there is a proper assessment of the risk embedded in these products.

So, risk management is part of the story of your success – what other factors can you attribute this to?

Marc El Asmar: The first key differentiator for SG – especially when compared to the other French banks – is its staff, and their expertise and stability over time. The second is client orientation through our financial engineering teams.

Hubert Le Liepvre: For client orientation we created a cross-asset group, which I think SG was the first to implement, in 2009. The traditional investor



Marc El Asmar (left), Global Head of Sales, Cross Asset Solutions, Societe Generale Corporate & Investment Banking
Hubert Le Liepvre (right), Global Head of Financial Engineering, Cross Asset Solutions, Societe Generale Corporate & Investment Banking

has a target in terms of return, maturity, but is pretty agnostic about what drives the performance. It could be equity, credit or a combination including interest rates, anything really. I'm in charge of the financial engineering, and I have people that are specifically focused on distribution and on corporate derivatives, and others specifically focusing on institutional clients.

You mentioned the mountain range products taking us up to the crisis, after which there was a swing away from complexity and the importance of credit risk rose. Where do you see retail investor appetite now?

Marc El Asmar: There has been a shift since 2008 in regulator and investor preferences for less complex payoffs. There is still a strong demand for yield, given low interest rates and tightening credit spreads, although uncertainty remains over the equity markets despite rebounds recently in Europe. As well as yield, there is a desire for products that pay coupons. Complex products are things of the past for retail, although tailor-made suits the various risk profiles of institutional investors.

What will be the impact of rising interest rates?

Hubert Le Liepvre: I think there is a level of interest rate where you can develop a capital-guaranteed coupon that appeals to retail. So, for example, an interest rate between 3% and 7% may be the sweet spot for these kind of products, for retail. With interest rates eventually rising,

capital-guaranteed products will be redeveloped, with exposure to the latest stories, such as European equity, credit and combinations thereof. An additional trend is the return of products linked to baskets of stocks, after years of equity derivatives based on indices.

On the institutional side – your insurance clients, for example – what are they looking for?

Marc El Asmar: The creation of the Cross Asset Solutions division in 2009 was mostly to address the demands of institutional investors, who don't really care whether they're talking to somebody who is equity or fixed-income orientated. Insurance companies are looking to address their longevity exposure, and we have developed a couple of solutions for this type of institutional investor. At the same time, they have exposure to the equity markets and they need to hedge or actively manage it, so they're entering vanilla transactions to hedge or manage these risks. On top of that, they historically had allocation to fixed income and, with the future rise of interest rates, there have been fears about how to cash in on current returns and how to gain exposure to rising interest rates.

In terms of the product delivery platforms, are your investment priorities focused on technology or people?

Hubert Le Liepvre: Both. We have our own platform for structured products, Alpha SP, where people can play around and customise products in terms of maturity, return and risk profile. The trend in technology development is spreading, mostly from private banking and small institutions, to other types of investors.

Is it going to reach down to retail?

Hubert Le Liepvre: Timing is more the question. More and more clients are looking into it, testing them, and we'll have more people that will use their smartphones to see what's available. It's convenient to provide both the flexibility to design your product and to plug in the views of research on asset classes and specific sectors.

People – to go back to your question – it's a constant investment in the expertise on a specific client need. Marc will develop on the sales side but, on the engineering side, we need people with a combination of skills where they are not only able to design, manufacture or even fine-tune the payoff of a product, but they also need to really understand what the client needs are, and why the client is looking for this.

Regulation is driving product development much more. Is that seen as an opportunity?

Hubert Le Liepvre: Yes, it's clearly a constraint and an opportunity. It's a constraint because regulators are imposing new rules that you have to pay attention to. And it's a cost, but it makes the market safer and that's where the opportunity for us lies. We all have to remember that, in the first place, structured products can be capital-guaranteed products, to protect the investment of a number of people. Hence, with a clear framework designed by regulators, we believe there is a strong case for structured products to provide a good lifespan as well as a good perspective on investment.

How do you see the competitive environment? A number of financial institutions have pulled out of structured products, as they have pulled back from investment banking in general. Has that changed the pricing dynamics of the market, and has it changed things for SG?

Marc El Asmar: We've consistently been present in the structured products market, but it takes time to develop. It takes time to hire the right people, to develop the platform, and so on. We've managed to weather the various difficulties in the market and, occasionally, by being contrarian, so hiring or investing when everybody else was pulling out of the market. In 2008 and 2009, the name of the game was flow derivatives rather than structured products. If you remember, structured products' image was quite tarnished, and everybody was talking about how much that industry was going to drop, be halved and so on. We took that opportunity to create our division and to invest and constantly develop. Despite the fraud, despite all of the crises, and so on, the management of the bank was behind the investment and the strategic orientation. That's what has allowed us to be here today to talk about growth and development areas.

With the exit of competitors, we probably gained some market share but, on top of that, we're consistently thinking about the future – new areas of innovation and development that we could be going after. Some of them could be private equity related, while others could be in the longevity space. Others would be in credit, where it's usually on the banking side rather than on the market side, for example, trade receivables. We're constantly in the mode of thinking, innovation and potential growth, building new products with the right frameworks to serve our clients' interests.

Taking something like private equity, would that be a way for investors who cannot invest in that market to now gain access? Or would you see that more as a hedging opportunity perhaps for investors, or both?

Marc El Asmar: We have investors in that market who need liquidity over an asset class that seems to be, from the outside, somehow illiquid. So you can address this type of issue, effectively by providing liquidity for their holdings. It could be the development of access products based on private equity.

What trends will we see over the next couple of years? Will structured products continue to develop?

Hubert Le Liepvre: The main trend will be the shift from products to clients. Organising with a cross-asset offer, specific by client, is one trend that is going to continue, and we will have a more segmented offer, maybe structured, maybe not. But the trend is to have a client orientation that is developing, but not only with structured products.

View the full proceedings of the *Structured Products* 10th Anniversary interview with Societe Generale's Marc El Asmar and Hubert Le Liepvre at www.risk.net/2353254