

ASIAN PRIVATE BANKER 

2017 Structured Products Report

(Executive Summary)

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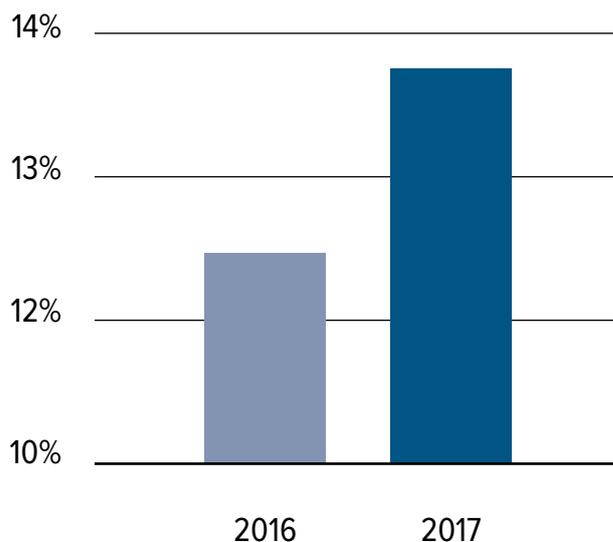
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Asian Private Banker’s 2017 Structured Products Report provides a comprehensive breakdown of the structured products markets in Hong Kong and Singapore, using a combination of quantitative and qualitative research.

The basic source of primary data was a 6-tier survey with 41 questions that addressed private banks in Hong Kong and Singapore. Our data sample covers approximately 73.5% of the Asian market in terms of AUM and the questionnaire was distributed to 62 leaders across 33 private banks. In addition to questionnaires, the research team conducted 24 semi-structured interviews, at three different stages, with representatives of private banking, investment banking as well as law and FinTech specialists.

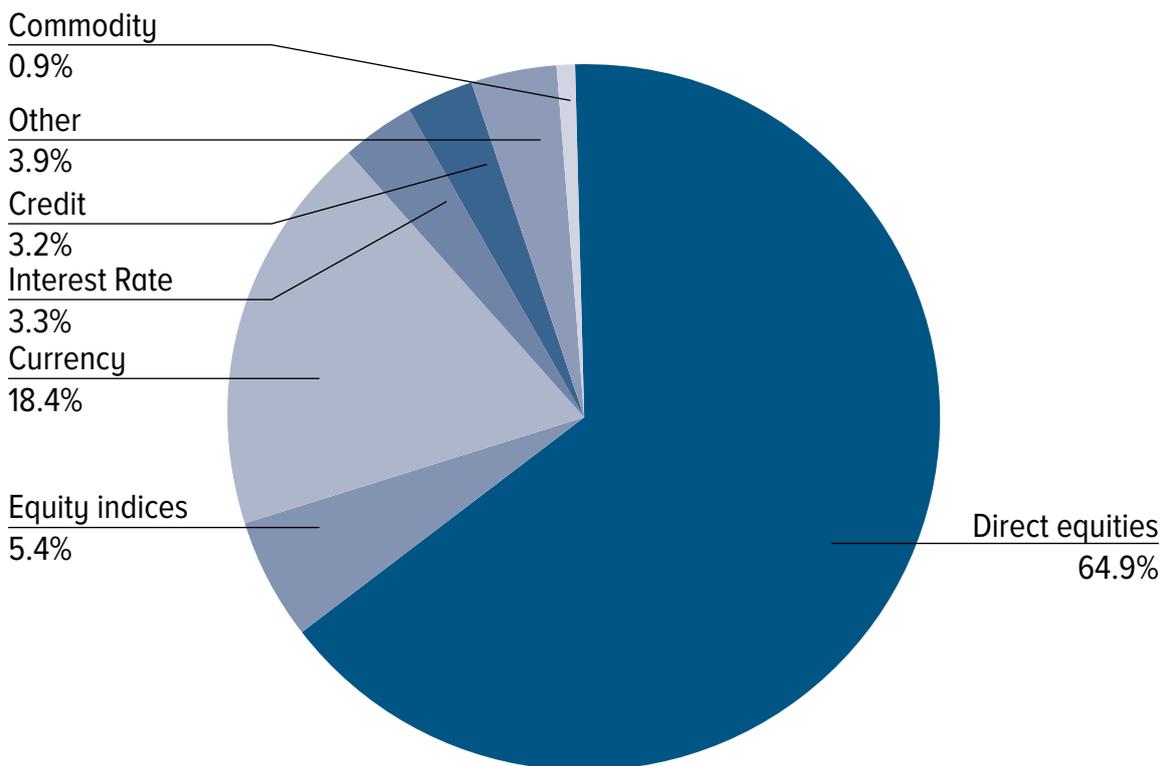
Chart 1: Percentage of RMs’ Total Private Banking Revenue in Asia Attributable to Structured Products



In 2017, 13.7% of private banks’ revenues were attributable to structured products, up from 12.6 in 2016. This can be attributed to the prolonged rise of stock markets as well as to the fact that market volatility and the 2015 battering of the financial markets led clients to take a more prudent approach opting for products, such as FCNs and autocallables that could help them hedge against risks.

When compared to 2015, we observe an important decrease of currency-linked structured products from 38.1% to 18.4% along with a concurrent increase of equity-linked products by almost the same percentage from 47.5% to 64.9%. This is due to the ongoing stock market rally that has resulted in equities becoming more attractive for investors as well as to the increasing demand for index-linked underlying assets due to the clients' interest in esoteric exposure such as diversified thematic equities.

Chart 2: Percentage Breakdown of Structured Products by Underlying Assets



Among a wide variety of payoff structures, fixed coupon notes have a share of 32.2%, followed by accumulators which account for 16.4% and ELNs/KO ELNs which account for 10.2%. Furthermore, in a relation to credit-linked structured products, investment grade bonds account for 72.5% of the market, down from 82.5% in 2013. Stabilisation of commodities, robust global economic growth and strong profitability of emerging market companies have been major driving forces behind increasing demand for emerging market bonds. In parallel, emerging market bonds denominated in local currencies have become increasingly attractive as a result of the US\$ drop which has increased the purchasing power of other currencies.

In addition, approximately 85% of structured products have a maturity of less than a year, with the percentage of those with maturity between zero to three months being 37.5% in 2016 and 39% in 2017. The increase at the two ends of the maturity axis is the result of clients' low risk appetite which results in higher demand for either short-dated products to avoid medium-term risk or for longer-term products to take advantage of the active management component and a diversified basket, through AMC's and fund-linked notes with maturities of three or more years.

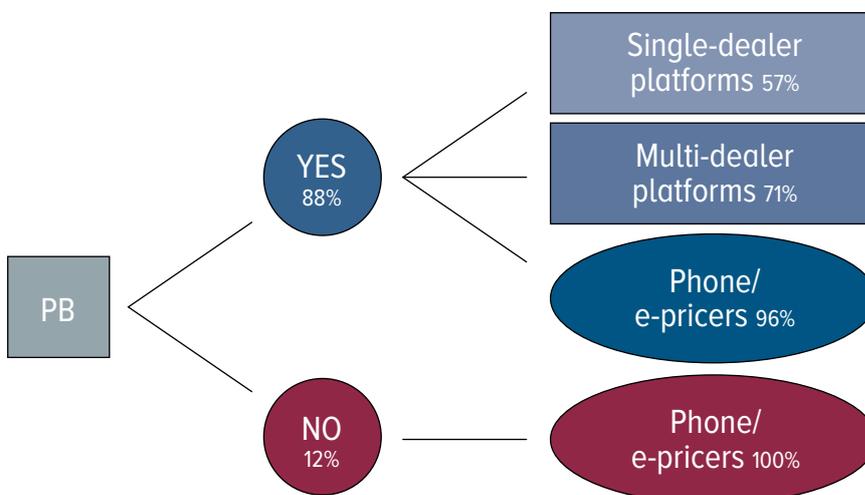
Table 1: 2016, 2017 Maturity Buckets of Structured Products

2016	Percentage (%)	2017	Percentage (%)
0-3 months	37.5	0-3 months	39.0
3-6 months	18.8	3-6 months	18.1
6-12 months	30.2	6-12 months	27.1
1-2 years	10.1	1-2 years	8.8
2-3 years	2.2	2-3 years	4.9
more than 3 years	1.2	more than 3 years	2.1

In 2017, private banks approved close to four new structures and one new structured product provider each on average. The approval process takes 4.4 months for new structures and 6.7 months for new providers.

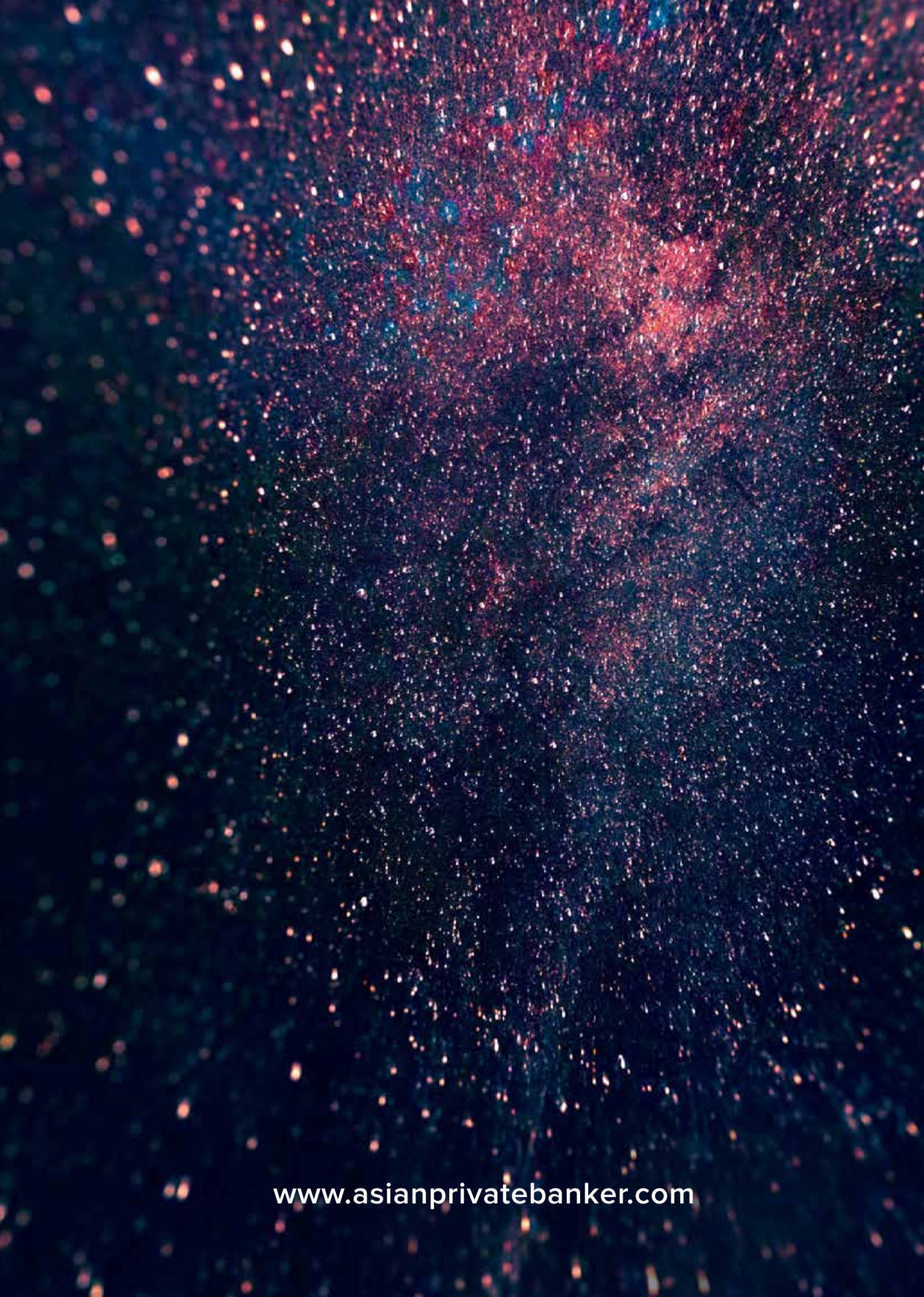
With respect to their distribution toolkit, it is common practice among private banks to initially use single-dealer and multi-dealer platforms and then conclude their transactions through e-pricers and telephone calls.

Chart 3: Do You Use Online Platforms for Structured Product Execution?



Regarding regulatory issues, private banks expect that MiFID II and 871(M) will have a rather negative impact on their structured product business, but at the same time it can pave the way to new business opportunities. Looking ahead to 2018 and notwithstanding existing challenges, most of our contributors expressed their optimism about the prospects of the structured products markets in Hong Kong and Singapore.

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