Chaire ESSEC Finance

Summary of the first conference
-on the 25th November 2015-

«The evolution of the role of the banks and financiers: A fixed income perspective»

Mr. Guillaume Amblard is introduced by Pr Patrice Poncet and Mr. Gérard Bekerman (co-directors of ESSEC Finance Chaire).

Mr. Guillaume Amblard is currently investing in and advising start-ups in the fin tech industry in London, New York and Paris. He holds a master degree in electronic engineering from MIT (USA). He recently left banking after twenty-five years at BNP Paribas in London, New York and Tokyo. At BNP Paribas, he was most recently global head of the FX and Emerging Market business and global head of Fixed Income (interest rate, credit and FX) trading. You will find below the main topics of his presentation:

Plan

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The conference starts with: “More than ever there is a need for financing, investing, hedging, risk transfer liquidity global commerce and payment facilitators. Let us talk about what I have learnt during most of my career in Tokyo, London and New York”.

A global business education

1. Tokyo (90-92), center of innovation:

Innovation: Nikkei & real estate stress tests, product innovation (1st Quanto options, 1st Yield Curve options, Nikkei Knock Out options, currency Swaptions) => the motto is “Kaizen (constant perfecting, improving) and constant learning”

2. London (92-94), industrialization and global research:

Innovation: Term structure models, GRFN an intelligent pricer for quick tailor-made client solutions.

3. New York 94-96, center of industrialization:

Innovation: Structured products as flow products (liquidity premium, product influencing market dynamics, liquidity through diverse client bases (example of CAD option), Bankers Trust and PG gamble (compliance risk), 1994: Bear market (risk stemming from a market herd mentality).

Development of center of excellence in fast development derivatives market

The Pre Euro period

1) The LTCM debacle (1998) shows the importance of liquidity and the case where uncorrelated positions (hence well diversified) become correlated (hence insufficiently diversified) because of size and liquidity problems (see e.g. the Russian bond crisis).

2) DM-FRF spread option traders as market makers of DM FRF swap spread (Deutsch mark-French franc)

3) First stochastic volatility models (Heston, SABR) and corresponding arbitrage: model integrating parameters and market P&L dynamics; key to industrialization.

Inflation market development

1) Liaising with pension funds and issuers to create a market: creation of government inflation bond market indices across the world.

2) Integration of inflation government and credit bonds, flow derivatives and structured products: critical mass and liquidity through integration of all risks; Risk reduction and liquidity through diverse product and client bases.

3) Structural risk-taking key to develop a market and serving clients.

Other developments

- global centers of excellence in STIR (short term interest rates), swaps, inflation-related products, options, exotic and hybrids products
- relative value tools and multi-factor models taken as references for market making risk aggregation, electronification and industrialization of vanilla STIR, swaps, options
- culture of risk-aware entrepreneurship: Kaizen, stress tests, reserve, global/local macro hedging
- client-centric organization with client specific KPI (key performance indicator), solutions and structuring:
- Mid cap/retail, corporate, sovereign/agencies, central banks
- Bank ALM (Asset Liability Management), private banks, hedge funds
- Asset managers, insurance, pension funds
- Taxes, balance sheets, equities.

Creation of global IR/FX powerhouse:

Balancing the portfolio and making the whole more powerful than the sum of the parts in the crisis

⇨ In order to anticipate future problems while having a macro view

⇨ better risk controlling to avoid the situation of “too big to fail”

⇨ Active portfolio management

- Time basis: on a day, hour or second level etc.
- With products adapted to :

client needs, diversity of staff, risk types and horizons, regional presence (off and on shore), transversal management (teams and initiatives), depth and breadth of complementary type of client (diversification)

Adaptation to the regulation and compliance tsunami

- Regulation
  - Capital and cost bearing
  - Liquidity and leverage
  - Business model and reposting
  - Cost bearing
  - Scandals and permanent control
- Business adaptation
  - Business mix and business cost (capital integration, CVA (Credit Value Adjustment), charges and liquidity)
  - Management and control (active management and resources, detailed reports)
- Culture and values (ethic and compliance).

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Credit: adaptation to enhance disintermediation of the financing of the economy

- Flow credit revolution:
  - new agile trading
  - disintermediation of real economy financing (loan integration in the capital market, green bonds ("climate awareness"))
- Structured credit:
  - Bastion of credit innovation and technical rigor
  - Market portfolio consolidator
  - Having a global vision on all markets => very good advisors
  - Key to yield enhancement and cross asset solutions
- Securitization and associative derivatives
  - One of the cause of the crisis
  - Victim of subprime over reaction
  - Key of ECB strategy of funding of risky credit and job teasing

Big data Revolution and socialization of finance

The tech vision

- Steve Jobs understood the technology could change the way we live and work together
- Having a strong relationship with client is more than just having a pretty face (like George Clooney)

Electronization

- Electronization has reduced client hedging costs and helping businesses and real economy
- Automated pricing & risk
- Convenient client coverage with the convenient KPI (key performance indicators)
- Electronization has its own management, control and compliance tools
- The right flows and services with the right clients

Uberization or socialization of finance: birth of Fin Tech

- New form of disintermediation for smaller customers
- Broader, quicker, cheaper service to younger, poorer, riskier and more tech savvy customers and SMEs
  - The domain
    - Crowd funding/peer to peer lending
    - Socialized/digital payment
    - Automated investing
  - The drivers:
    - Exponential tech and big data
    - Cost and responsiveness

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The new world and the new actors

Local and global banks still at the heart of finance, but are increasingly sharing this role

- Fin-tech and the crowd
- Politicians & regulators
- Central banks and asset managers as market movers and stabilizers
- SEFs (Swap Execution Facilities) and exchanges
- Are CCPs (Central Counterparty Clearing Houses) the new too big to fail?

Conclusion:

This is a great time of change and opportunities for new joiners in finance, to shape the future.

Final Note:

Many thanks to our usual and faithful reporter, Mustapha Kadiri.