BNP Paribas meets Asia-Pac targets a year ahead of schedule

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THE Asia-Pacific operations of BNP Paribas have hit targets on returns and revenue a year ahead of schedule, a top executive said, but like all banks, is now working through a directionless market.

The better-than-expected performance in 2015 was thanks in part to a jump in revenues out of Singapore – the hub for BNP's South-east Asia business – of over 20 per cent from a year ago, and a boost in cash management clients from a unique referral agreement from RBS as the UK bank exits the business in this region.

The French bank had set out to grow its revenue in Asia-Pacific to three billion euros (S$4.6 billion) by 2016. The bank also, as a group, had to meet a return on equity of more than 10 per cent by the end of this year. As it is, its 2015 Asia-Pacific revenue stood at 3.2 billion euros, up 6.2 per cent from a year ago – making up just under 10 per cent of group revenue. In Singapore, the bank also boosted headcount by more than 10 per cent in 2015, with more than 2,000 staff based here.

Performance out of the region grew in double-digit terms compared to 2014, said Pierre Veyres, regional head for South-east Asia and chief executive officer of BNP Paribas Singapore. Half of the gain came from the natural growth of the market, and the rest from gaining market share, he told *The Business Times,* adding that this is likely to continue.

"What I see are clients looking at their banking partners, and trying to figure out, given what's happening in the industry, who can be their long-time partners. We believe we are benefitting from the evolution in the industry," he said.

"The long-term trend has been a rebalancing between global banks and regional banks. But not every bank can be competitive, which is a matter of scale in general."

BNP also took in about 900 former RBS cash-management clients under an exclusive referral agreement with the UK bank, with a good part of them in Asia, said Mr Veyres.

The French bank has made adjustments to its oil trading business, partly reflecting the change in regulations that was taking aim at excessive risk, as well as specific rules such as embargoes on countries. Energy prices were also easing, said Mr Veyres.

"Our exposure in the oil trading business has been rightsized since 2013. We did that in a very orderly manner, and we are in a position to support our clients in that space," he said. At the group level, the bank's oil-and-gas exposure represents around 2 per cent of its global exposure. About 75 per cent of the companies are investment grade, and exposures are largely below two years.

"It's important to keep the agility. So it means that businesses that are consuming a fair bit of equity, they are constantly reassessed."

BNP this year also engaged global electronic brokerage Instinet to have the bank run on Instinet's system for its electronic cash equities technology platform in Asia. The bank sees it as a way to improve efficiency, but declined to comment on headcount.

Mr Veyres noted that this year's market conditions are very different.

"As you've seen since the first week of January, the level of activity in the economy is a little bit softer. Clients are, to some extent, in a wait-and-see mode. There's no direction when you look at the markets."

Mr Veyres said the bank has made adjustments to its oil trading business, partly reflecting the change in regulations.

Still, he sees demand for products such as covered bonds, for which BNP is the leading house in Europe. Covered bonds are most comparable to mortgage-backed securities. Banks package assets such as mortgages into securities that yield a cash payment, which are then sold to investors. The yield would reflect the credit quality of the underlying assets.

Singapore is a bit ahead of some of the countries in the Asia-Pacific, he noted, given that it has put in place the necessary regulations for covered bonds. BNP worked on UOB's first euro-denominated covered bond deal. He also sees some Asian demand for euro-denominated bonds, which have been tightly priced, meaning cheaper funding for issuers. But demand can be limited by the extent of European presence of Asian companies, since that determines the need for euros by Asian firms.

BNP is gunning for double-digit organic growth in its wealth management business, hoping that its strength in capital-market services would be attractive to wealthy clients, said Mr Veyres. "If you don't have that, whether you can support your clients efficiently, I'm not sure," he said, when asked about banks that have trimmed their capital-market offerings for private banking clients. "I can only comment on what we do. And it's very important."

With banks taking a sharper look at technology, Mr Veyres noted that it is still some time away from trade finance going digital. "We see some push from some institutions. But it takes time because not all stakeholders are aligned yet. The right way we do trade finance is not necessarily adopted by all. With the regulatory rules, embargoes, sanctions and so on, at some point you need to have some manual checks done. The reality of today's banking world is that there are a number of controls that need to be performed by humans."

But the bank, at the global level, has done some experiments on blockchain, and Mr Veyres sees it as a potential game-changer. Blockchain allows banks to put physical copies of invoices into a digital and distributed ledger that all participating banks can access, while preserving client confidentiality. This is meant, in part, to prevent duplicate financing of the same invoice by different banks

"All the regulations are looking at products which are at the intersection of banking and non-banking world. And that challenge has increased over the past few years, because technology has brought more possibilities in terms of product development. If there is regulation applied across the industries in banking and non-banking, we think it will be positive," said Mr Veyres.