Leonteq refocuses on Asian growth path

After the most challenging period in its 10-year history, the company's leadership is adamant that its Asia strategy is not only on track, but also likely to lead the charge as this established fintech sets its sights on getting back on the front foot.

Leonteq has clearly felt the pressure of its transaction-oriented model across its global business over the past 12 months.

Its challenges have been well-documented; there have even been misguided rumours of it pulling out of Asia, despite making a big splash in recent years with impressive new premises and hiring sprees in Hong Kong and Singapore.

The heart of the problem was that this Swiss-based fintech had overstretched its spending budget at a time when revenue was subdued during difficult market conditions. In turn, investor confidence tumbled, as did the company's share price.

But now, in its 10th year, the firm has a refreshed focus that it believes will guide it back to profitability and smoother waters in the coming years.

"As Asia is the fastest-growing region, it remains key for Leonteq."

REFOCUSED ON PRIORITIES

A key goal as part of Leonteq's 2020 vision is to bring its cost-income ratio back to 65% (it had risen to 92%).

This certainly won't be the result of any sort of retreat from Asia; in fact, the region is core to existing and future plans. "Of course, as Asia is the fastest-growing region, it remains key for Leonteq with its ambition for further

JAN SCHOCH
Leonteq

DAVID SCHMID
Leonteq

growth," urges Jan Schoch, the firm's chief executive officer.

Year to date, a significant part of Leonteq's revenue has come from Asia, which maps closely to last year, when the figure was 14% for the whole of 2016.

Indeed, Asia was the main growth market for the firm in 2016, confirms David Schmid, global head of investment and banking solutions. "While we saw an overall contraction in client activity last year, our revenues in Asia grew by nearly 20%."

STICKING WITH ASIA

More of the same is expected. "These markets will, in the mid-term, materially contribute to the overall operating income of the firm," adds Schmid.

This has been driving recent efforts to continue to invest and expand into the region, such as the hiring in 2016 of a four-person sales team in Hong Kong with a specific mandate to service Japan.

Schoch says the Leonteq initiative in Japan has been a success so far, with the firm executing a two digit number of trades within the first few weeks after its start already.

The process of obtaining a securities license in Japan is also underway, to enable Leonteq to have a physical presence onshore in future.

It hasn't wanted to rush things, however, given the need to meet the high expectations of Japanese customers.

As a result, thorough stress-testing has been required, in terms of ensuring timely settlements, documentation and notifications throughout the entire lifecycle of the product.

Elsewhere in Asia, Hong Kong presents another exciting emerging opportunity for the firm in terms of the burgeoning independent asset management (IAM) community.

This segment, explains Schmid, was previously under-developed compared with Singapore.

Now, with an industry association for these firms in place coupled with market forces lending a hand as private bankers leave larger institutions, IAMs are growing both in number and their openness to using structured products.

"IAMs are important to us, given the growth in this segment, and the fact that our ability to offer smaller ticket sizes, pricing flexibility and speed marries with what these types of clients look for," adds Lee Long, CEO for Leonteq in Hong Kong.

SANDRO DORIGO
Leonteq

STICKING TO THE CORE

In general, the firm's strategy will continue to be rooted in its three main business divisions – investment solutions, banking solutions, and insurance & wealth planning solutions.

The largest of these – production and distribution of financial products to B2B clients – accounts for about 78% of the firm's total revenue.

In addition to competitive pricing, other distinguishing features that Schmid says have led to such success include the speed of its responsiveness to pricing requests, the variety of its pay-offs and innovation, especially in market environments where there is a need to adapt. Constructor, the firm's online processing tool, is a clear example of this focus on speed, efficiency and automation.

When it comes to the banking part of the offering, meanwhile, this is where

JEREMY NG
Leonteq

the firm looks to provide its platform to a partner institution – which essentially white-labels the Leonteq financial products engine.

This is an important part of the Leonteq business as the banks with their large balance sheets have a lot of potential to distribute structured products.

This gives added comfort to the investor in a structured note, for instance, that they are taking on the credit risk of the bank as the issuer – plus getting the associated brand name. Leonteq effectively plays the role of a manufacturer, explains Jeremy Ng, CEO in Singapore.

The platform service is particularly relevant for those banks which either are not fully automated and therefore could only issue products with a larger notional to make the manual internal effort worth or even have taken the decision due to regulatory reasons – such as MiFID II – to shut down their own internal product manufacturing capabilities. Yet they still need to provide individual solutions to their clients preferable under their own branding.

“This is a 100% win-win situation because we can fill the individual gap of our partners,” adds founding partner Sandro Dorigo. “We always wanted to position ourselves as the engine so that the platform can be leveraged by our partners.”

This will become clear in Asia as soon as the envisaged partnership with Standard Chartered will see its ‘go-live’.

Two exciting examples where this partnership is working well already, is in Switzerland with Raiffeisen Bank, and globally which EFG International.

But not only retail and private banks are interested to scale up their issuance platform. Also investment houses such as Deutsche Bank and JP Morgan can be found on Leonteq’s partner list.

Yet talking bottom-line, despite this and the insurance part of Leonteq’s business contributing just 11% of total revenue, they remain strategically important going forward.

The main focus for the insurance offering for the time being is Switzerland. There, Leonteq is in discussions with different providers, albeit progress is a bit slower than on the banking side.

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Lessons learned

One of the key take-aways for Leonteq’s senior management from the past 12 months is to no longer rely on the impressive pace of growth at 30% year-on-year. “We were probably a bit spoilt from the success we had during our first eight years and underestimated the onboarding time of new partners,” admits Dorigo.

After shifting the business strategy in 2013 to become more of a platform partner, the onboarding of clients took a bit longer than the firm had estimated.

But this type of fully automated, scalable platform that is geared towards providing the type of service that banks and end-clients demand, remains crucial to Leonteq’s offering going forward – especially given the regulatory landscape that has led to investment banks seeking such a solution.

LEE LONG
Leonteq

This is to be expected, says Dorigo.

"It requires us to create life insurance products with guarantees over a lifetime of up to 50 years, so convincing the insurance company to use our platform to create capital-efficient policies requires a huge commitment from their side and therefore is obviously a bit more time-consuming."

STRUCTURED PRODUCTS A STAPLE

For the time being, penetration into private banks still seems the most likely way for Leonteq to grow quickest in Asia.

And the scope to onboard more of these clients is certainly there, adds Ng.

At the same time, offering new products with new pay-offs is also an important way that he and Schmid both believe the firm will enjoy success.

Although this is largely dictated by market sentiment and appetite, Leonteq has diversified from being almost solely focused on equity structured products to including FX, credit and more interest rate products into the mix.

This should prove effective as clients continue to hunt for yield but also want solutions, says Long.

"The low-volatility environment, for example, might also lead to them being more open to longer-dated maturities."

Fundamentally, investors need to diversify their income streams from traditional asset classes, which is where structured products come in to play.

Although there is clearly competition in this space, especially some of the investment banks themselves, Ng says.

Leonteq as a firm defines itself by being a structured solutions specialist.

"Because of this, the focus is on investing into this offering, which is important in today's resource-constrained world, especially in the structured products space where efficiency is getting more and more crucial from a technology standpoint."

At the same time, adds Dorigo, these same banks which might be competitors are also potential customers for Leonteq's platform business.

FLEXIBLE BUT FOCUSED

Leonteq has clearly proven in its relatively short history that it can successfully manufacture and distribute financial products. Indeed, since the business began, total revenue is over USD1 billion.

Innovation pipeline

New tools which Leonteq plans to launch in the future are focused on portfolio analytics, with the aim of making a customer relationship officer's life easier.

The firm will look at the entire portfolio of structured products, in a later stage probably even from all issuers, upon which Leonteq's application will then run analytics to determine the future expected cashflows, and when they are happening.

In addition to giving them quantitative as well as qualitative input, Leonteq says it will be able to then come up with customised roll-over products to improve the future expected cashflows from the existing products in the portfolio.

Setting it apart, in particular, believes Dorigo, is its flexibility.

"We are probably one of the best counterparties if it requires an individual investment solution to solve a specific financial issue of a client."

The next growth level, he says, depends on the scalable onboarding of new partners such as banks and insurers by providing them the full flexibility of Leonteq's pricing and issuance platform.

This is probably the biggest priority for the firm, he explains, as it looks to put the uncertainty over recent months behind it. ■