

A low-angle, black and white photograph of several modern skyscrapers reaching towards a light sky. The buildings feature glass facades and grid-like window patterns. The perspective is from the ground looking up, creating a sense of height and scale.

Decoding the Future: A Comprehensive Look at Structured Investment Products

lpa_



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Executive summary

This report explores the world of structured products, discussing their future in the era of automation and disruptive technologies. It gathers insights from the forefront of RegTech implementation and analyses distinctions between structured products markets in Europe and Asia.

In the dynamic realm of AI and machine learning, embracing digitization is crucial for structured product issuers and distributors. While PRIIPs KID regulations currently require a “durable” format, the focus should shift to rule-based digital outputs, not just PDFs. A vision for a digital KID involves an electronic, layered format, paving the way for a fully digital advisory process. This technological foundation streamlines client interactions, product comparisons, and regulatory compliance, facilitating the transition to AI-driven solutions.

AI's transformative impact on finance is evident, with automation reshaping operations and enhancing efficiency. However, achieving AI success requires groundwork, emphasizing process digitalization and a robust data foundation. As the structured products market advances towards AI-driven innovation, recognizing the significance of this groundwork becomes crucial, marking a strategic imperative for a more efficient and innovative financial landscape.

The interview with Navin Sangtani, a Client Delivery Consultant at LPA in Madrid, provides

insights into the evolving landscape of financial technology. It emphasizes the importance of diverse skills, adaptability, and collaborative approaches in navigating the complexities of client installations and financial products at the forefront of technological innovation. Navin stresses the importance of staying updated on market trends and learning about new financial products through collaboration with colleagues and clients and sheds light on the challenges of timely project deliveries.

Digital assets and blockchain are reshaping the world of structured products. Despite acknowledged risks, structured products are finding a new home in decentralized finance (DeFi). Blockchain's promise lies in enhanced transparency and efficiency, yet slow adoption and regulatory compliance challenges may lead to a coexistence with traditional finance. The integration of blockchain in structured products is nascent, with tokenized instruments emerging.

Structured products play a pivotal role in dynamic financial markets, with Asia's millionaire count surging, showcasing significant growth potential. Europe dominates issuance, while Asia leads in sales volume, displaying different product preferences, investment horizons, and payout structures. Ongoing innovations, automation, and regulatory changes further shape the evolving landscape of structured products in both regions.

Solving the Paradox Between AI Aspirations and Persistent Paper Requirements in Financial Documentation

The current buzzwords for progress AI and machine learning are everywhere promising a bright future. At the same time, for the latest PRIIPs KID update some of our clients included printing as part of their acceptance tests. To date, the current regulation still requires a “durable” format and presents a document made for printing. So why wait for the AI miracle instead of paving the way and moving forward with actual digitization? In our opinion, a digital document is not just a PDF, but an output that looks good in the whole digital world of websites and mobile phones that most of us already live in. Why not make all these outputs rule-based so that when we have the smart technology to take over, they can be done on a digital basis and we do not have to train robots to scrapbook paper-based documents?

Digital KID explained

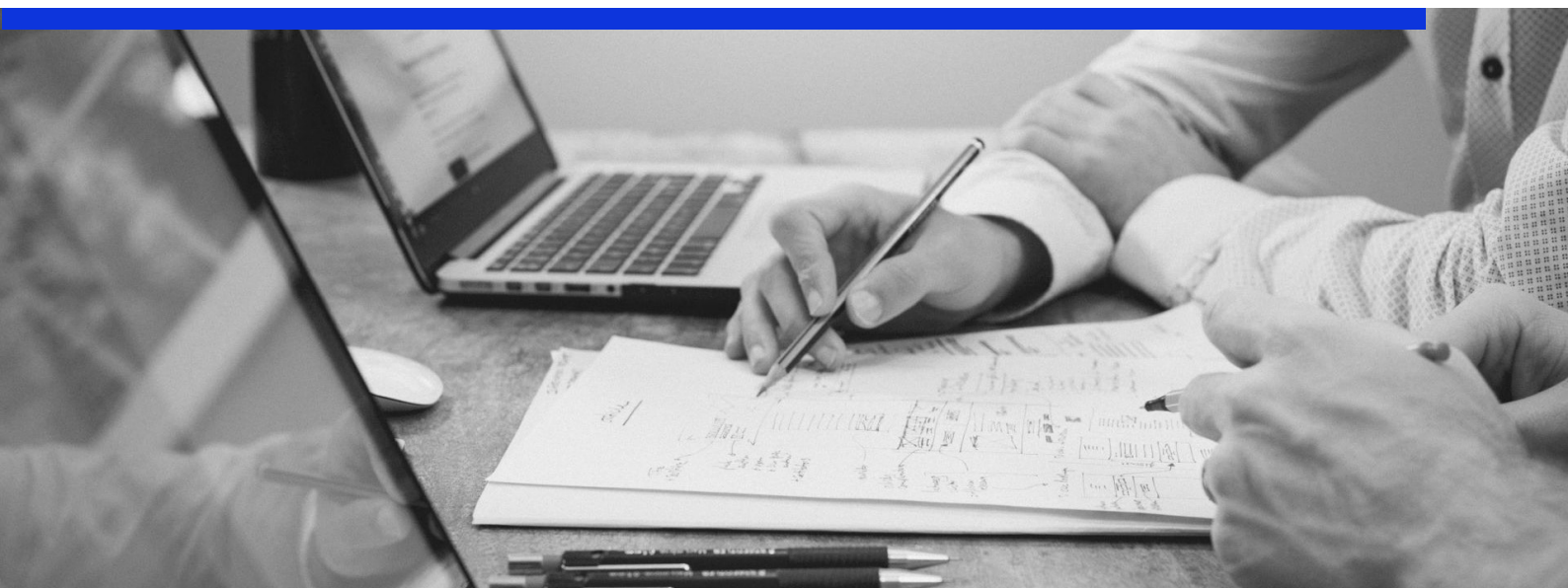
In the current discussions about RIS (Retail Investment Strategy), the KID is being discussed not as a physical document, but in an electronic format and even in a layered format. So, the vision is that a KID can be presented on a website with a nicer navigation to focus on the different parts. Even the ability for a retail customer to change certain parameters and see the results immediately is being discussed. This finally moves this regulatory issue into a truly digital future. While the intention of the KIDs is to be clear, precise, not misleading and to make

products comparable, from a technological point of view we are still far away. Of course, a common layout and structure will allow these documents to be printed, hung on a wall, and the descriptions, risks, etc. compared. But any other retailer, for example for mobile phones, already allows this in a much more convenient way. Side-by-side, showing only the differences, allowing true comparability. This is how we see the future of documents at LPA.

Possibility

When regulators finally realize that an electronic, layered format is the way to go, it opens the possibility of a completely digital advisory process. Everything from the questionnaire to extract a client’s investment needs and knowledge to the presentation of the product from a marketing and regulatory perspective can be pulled together into one process. This allows for various use cases such as self-advising, product comparison, improving your sales process and the client’s user experience. Even other regulatory requirements for documenting the customer’s decision-making process can be met. Therefore, you can use the tedium of a document to your advantage in financial education, allowing more clients to access complicated structures. Finally, when AI can take over, the technology base is already there.

Author: Sophia Pfannes





Navigating the Future of the Structured Products Market

Unleashing the Power of Digitalization and Automation as Prerequisites for Harnessing the Full Potential of Artificial Intelligence

AI is not just a distant promise; its impact is already transforming the financial industry. Concrete cases of automation are reshaping operations, mitigating risks, and improving overall efficiency. However, before the anticipated AI boom, a strategic and meticulous groundwork is imperative, challenging the notion of AI as a magical cure-all. This comprehensive preparation involves addressing two critical components: the digitalization of processes and the establishment of a robust data foundation.

Before the Boom

In the intricate landscape of the structured products market, opportunities for automation and digitalization are conspicuous. Digitalization involves not only streamlining client interactions but also automating the creation of regulatory and client documentation. This not only lays the groundwork for a solid infrastructure but also establishes a foundation conducive to the seamless integration of AI.

A crucial prerequisite for effective AI implementation is the cultivation of a well-established data basis. The structured products market must persist in investing in high-quality, standardized databases. These datasets serve as the lifeblood of AI algorithms, enabling them to learn and make informed decisions. Therefore, maintaining a comprehensive and clean data foundation is imperative for AI to thrive and provide meaningful insights.

The Path to Automation

While the structured products market holds the promise of AI-driven innovation, success hinges on meticulous preparation. The initial steps involve digitalizing processes and fortifying the data infrastructure. This foundational work sets the stage for subsequent phases of AI integration. With a robust digital infrastructure and a reliable data foundation in place, the structured products market can transition to implementing AI. Automation of complex decision-making processes becomes feasible, marking a pivotal stride towards a more sophisticated and efficient financial landscape.

In essence, the structured products market's journey towards AI-driven innovation necessitates recognizing the importance of groundwork. Digitalizing processes and establishing a robust data foundation lay the groundwork for the ongoing integration of AI. This transformative journey demands commitment and investment, yet the dividends in terms of efficiency, risk reduction, and innovation make it a strategic imperative for the structured products market. As we navigate towards a future enhanced by AI, the role of digitalization and automation stands out as a prerequisite for unlocking the full potential of this transformative technology.

Author: Sahak Artazyan



At the forefront of RegTech:
a chat with **Navin Sangtani,**
LPA's Client Delivery expert



In this edition, we bring you an insightful interview with **Navin Sangtani, a Client Delivery Consultant**, based in our Madrid office. With a background in aerospace engineering and a passion for the financial world, Navin shares his academic and professional journey, shedding light on his role, experiences, and the dynamic nature of his work at LPA.



Can you tell us a bit about your academic and professional journey that led you to your role as a client delivery consultant at LPA?

Navin: I studied aerospace engineering at the University of Sheffield due to my interest in math, science, and a fascination with understanding how machines, especially planes, work. Despite pursuing a Ph.D., academia was never my forte, and I aimed to transition into the “real world.” Intrigued by the financial world during my studies, I focused my employment search on financial companies. Discovering LPA aligned perfectly with my goals, allowing me to be a Client Delivery Consultant, where I engage directly with clients, learn about financial institutions, and contribute to building efficient digital solutions.

What motivated you to pursue a Ph.D., and how has it influenced your approach to your work?

Navin: My motivation for a Ph.D. stemmed from intellectual curiosity and the desire to work independently. The ability to set out a plan, define tasks, and critically analyse information during a Ph.D. is directly transferable to my role at LPA. It has enhanced my skills in project planning, problem-solving, and systematic approaches, crucial for addressing errors in client systems.

Having been with LPA for more than two years now, what do you most enjoy about working here and how has your role evolved over this time?

Navin: The camaraderie and trust within LPA, especially in teams like Southics, are rewarding. Despite our smaller teams, there’s immense trust in our abilities to get the job done. From day one, I felt part of the team, and this approachability has allowed my responsibilities to grow rapidly. I’ve even had the opportunity to collaborate with senior colleagues and provide training to new team members.

How has your role evolved since you joined, and what aspects of client installations and our financial products do you find most intriguing?

Navin: Since joining LPA, my responsibilities have expanded significantly. Primarily working

with Capmatix for structured products, I find its flexibility intriguing. It serves as a central tool for smaller banks to monitor products manually, while in larger institutions, it integrates into the network to process various requests. My role involves being both a project executor, implementing tasks, and a “detective,” troubleshooting and providing support when things go awry.

What exactly does a Client Delivery consultant do? How does a typical project in which you are involved look?

Navin: In our team, a Client Delivery Consultant must fulfil two roles. The first one is project executor, in this role you are given a series of tasks (or goals and you define the tasks) which need to be implemented. These types of projects can be mundane or quite interesting depending on the types of process or document that you are trying to automate. The second role is that of a “detective”, since we also offer a measure of support to our clients there come times when things break or do not work as expected, in these situations it can be a bit exciting because no two situations are alike, but you have to be very systematic in debugging the source of the error. These are also the more stressful situations because it usually involves the production systems where our clients are generating their business, so not resolving the issue in time costs them money.

In your experience, what are some common challenges you face in ensuring timely project deliveries, and how do you typically address them?

Navin: Underestimating the scope is a common challenge. This can happen due to unclear requirements or constant client requests for changes. Early detection is crucial, and proactive communication with the client about potential delays is key. Being transparent and managing expectations helps build trust and ensures successful project deliveries.

Can you share an example of a particularly challenging project and how your expertise contributed to a successful outcome?

Navin: The implementation of new Regulatory Technical Standards (RTS) for PRIIP Key Information Document (KID) posed challenges due to a

tight deadline and the complexity of PRIIPs regulation language. With a hard deadline on New Year's Day 2023, the project required generating documentation under the old RTS specification until the deadline, then swiftly transitioning to the new version. Despite the regulatory intricacies and being responsible for a large high street bank's implementation, success was achieved. The project served as a reference for colleagues and was smoothly translated to smaller clients, demonstrating the team's ability to deploy everything on time, with minor hiccups promptly resolved post-launch.

As someone working at the forefront of projects, what insights can you provide into the dynamic nature of your role?

Navin: Learn to prioritise. Clients by their nature always want things done but you have to learn to recognise which tasks are of greater priority over others. To excel at this job, you need to be able to switch from one task to another and then be able to retake the previous task efficiently, so keeping track of what is done and what is left to do is important. Also remember that you are part of a team, so delegation wherever you can is key. Each person in our team has their own strengths and weaknesses, a good member of the team will recognise these and know if they are unable to do any given task whom the next best person for that task should be.

How do you stay updated on the latest trends and developments in client installations and financial products?

Navin: On the one hand there is the natural learning that occurs by simply being immersed in this field. You can naturally see market trends by the priorities clients give you as you are executing different projects, this sort of information is what tells you how different banks expect the market to evolve in the future. As to learning about new financial products, nothing beats talking to your colleagues about this. Being part of a team with like-minded, curious people is a golden resource especially to get their particular perspective on how said financial products work.

Collaboration is crucial in our line of work. How do you foster effective communication and collaboration within your team and across different departments?

Navin: Having an "open door policy" from day one, I always try to make time to help out my colleagues. Reaching out and asking questions is encouraged at LPA, so there isn't anything in particular that do different to other team members. Humans are social beings, and when we work as part of a team, we tend to mirror the behaviour of others, if enough people act in a certain way, then that behaviour becomes common practice.

How do you continue to enhance your skills and knowledge in an ever-evolving industry?

Navin: Knowledge is easy: ask questions constantly.

I always take the opportunity if given to ask "How" and "Why" questions, be that to a client or another colleague. Skills are harder but exposure and repetition is key. Theory only takes you so far and you are never going to be perfect the first time around. Getting better at any skill is an iterative process, so each time you have the opportunity try and see in what way you were better than last time. Also learning from colleagues is very important their experience invaluable to guide you along the right path, although there is benefit from learning what works best for you, a shortcut here or there can be a big boost to your morale when learning something new.

In this interview, Navin Sangtani provides a glimpse into the multifaceted world of a Client Delivery Consultant at LPA. From academic pursuits in aerospace engineering to navigating complex financial projects, Navin's journey exemplifies the fusion of engineering roots with a dynamic role in the financial technology landscape. As he continues to evolve professionally, Navin's insights offer a valuable perspective on collaboration, challenges, and the ongoing pursuit of excellence in the ever-evolving industry.

We extend our gratitude to Navin for sharing his experiences and contributing to the awesome talent pool at LPA!

Author: Gonzalo Plana



A Beginner's Guide to Crypto and Blockchain in Structured Products

In the dynamic landscape of financial markets, the transformative influence of digital assets and blockchain technology is challenging traditional norms. Despite the risks and volatility associated with cryptocurrencies, the potential for disrupting financial markets remains undeniable. The integration of cryptocurrencies has opened the opportunity for major developments in all kinds of investment products. Structured products, which were previously limited to traditional wealth management, have now found a new home in the decentralized financial space. To strategically position themselves for the future, issuers and distributors of structured products must actively build their expertise and infrastructure in the area of digital assets.

Role of Distributed Ledger Technology in Financial Revolution

At the core of this financial revolution lies Distributed Ledger Technology (DLT) with its two most prominent applications: blockchain and cryptocurrencies. Blockchain technology, in particular, holds the promise of revolutionizing various financial functions by offering advantages such as enhanced transparency, seamless reconciliation, security, and operational efficiency. Processes like trade execution, monitoring, settlement, and clearing would benefit from implementing blockchain through the implementation of smart contracts. This not only accelerates transaction speed but also significantly reduced operational costs by decreasing the need for intermediaries. This evolution also democratizes access, inviting a more diverse range of participants into trading.

However, the technology is being developed and implemented at a very slow pace due to its significant challenges. These include regulatory uncertainties, vulnerabilities in smart contracts, cybersecurity threats, and a lack of standardized market practices. Given the increasing instances of hacking exploits, the instability of cryptocurrencies, an underdeveloped regulatory landscape, entrenched legacy systems in banks, and long maturing periods for certain financial products, there is a likelihood that Decentralized Finance (DeFi) will not disrupt but transition towards Traditional Finance (TradFi). This suggests a forthcoming coexistence of structured products issued in both traditional and blockchain formats.

Decentralized Finance (DeFi) Options: A Paradigm Shift in Trading

Unlike traditional exchanges, Decentralized Finance (DeFi) operates without restrictions for retail users trading cryptocurrency futures. This creates a unique space for innovative investment strategies that were previously unavailable on centralized platforms. DeFi options (DOVs) represent the first steps into the world of crypto-structured products within DeFi.

One of the key differentiators of DeFi options is their operation without intermediaries. Traditional options trading often involves multiple intermediaries, such as brokers and clearinghouses. In contrast, DeFi options leverage smart contracts, cutting out the middlemen and allowing for direct peer-to-peer transactions. This not only streamlines the trading process but also enhances transparency by removing potential points of manipulation.

Additionally, DeFi options redefine the concept of market hours by operating 24/7. Unlike traditional markets that follow specific time zones and trading hours, DeFi options leverage algorithmically updated prices, ensuring continuous trading opportunities. Moreover, the decentralized nature of these options often eliminates the need for a Know Your Customer (KYC) process, making them accessible globally to anyone with a crypto wallet. This democratization of access opens the world of options trading to a broader and more diverse range of participants. Another feature of DeFi options is their resemblance to American options in traditional finance. These options are exercisable at any time during their lifespan, providing traders with increased flexibility. This contrasts with European options, which can only be exercised at expiration. The ability to exercise options at any point adds an extra layer of strategic decision-making for traders in the DeFi space.

The advent of DeFi options marks a significant step towards a more transparent, accessible, and flexible financial ecosystem. Operating without intermediaries, available around the clock, and with a unique exercisability feature, these options offer a paradigm shift in the world of trading. As the DeFi space continues to evolve, the allure of decentralized options trading is likely to grow, attracting both seasoned and novice traders looking for a more inclusive and innovative way to engage with financial markets.

Blockchain and crypto in structured products

While some banks have begun introducing blockchain technology in structured products, this initiative is still in its nascent stages. For instance, tokenized structured products have emerged as a transformative force, reshaping investment management. Notable instances include the first issuances of structured products by banks in Asia with the support of global institutions such as UBS. In Europe, traditional banks like SG and digital platforms like Taurus actively develop their infrastructure to facilitate the issuance of tokenized financial instruments in the upcoming future.

For investors seeking exposure to crypto through structured products, several ways already exist. These include crypto structured products linked to cryptocurrencies or crypto indices, as well as actively managed certificates. While the majority of available crypto structured products are leverage products, the market is witnessing an increase in the number of issued yield enhancement and capital protection products.

As the DeFi space continues to mature, navigating the world of crypto structured products requires a balance between embracing innovation and recognizing the responsibility associated with the absence of traditional safety nets. Compliance becomes a primary concern as regulatory frameworks are evolving at a slightly slower pace than technologies, creating a challenging environment for those interested into connecting structured products to crypto and blockchain.

Navigating Regulatory Challenges in DeFi

European Union has been developing the regulatory landscape for a new tokenised economy already for some time now. In 2024 a new Markets in Crypto-Assets Regulation (MiCAR) will come into force to regulate crypto assets. From March 2023 the DLT Pilot Regime, a regulatory sandbox, is on. Within DLT PR market participants can test DLT-based trading facilities and settlement for issuing, trading, and settling shares, bonds and funds. Currently MiFID II covers structured products linked to cryptocurrencies, but in the future it also should be applied to tokenized structured products.

At LPA, we have consistently been at the forefront of assisting financial institutions in adapting to the ever-changing regulatory landscape. For companies issuing structured products linked to crypto, we play a crucial role in producing the necessary regulatory documents. As the regulation updates comes into effect, we are committed to being pioneers in navigating financial institutions through the evolving regulatory landscape. LPA's commitment to automating regulatory compliance for banks ensures that we not only meet current needs but also anticipate and address the regulatory demands of the future.

Authors: Julie Bradini and Tatiana Karabatova

An aerial, black and white photograph of a dense urban skyline. The most prominent feature is a tall, slender skyscraper with a distinctive, spiraling, twisted design, which is the Shanghai Tower. It stands on the left side of the frame. To its right, another tall, rectangular skyscraper with a flat top is visible. The rest of the city is filled with numerous other high-rise buildings of varying heights and architectural styles. A river or waterway is visible in the middle ground, winding through the city. The overall scene is a high-angle, wide shot of a modern metropolis.

Comparing Structured Products in Europe and Asia

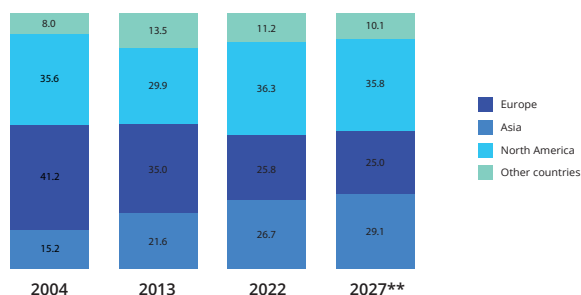
In the constantly changing financial markets, the utilization of structured products has become a pivotal strategy for investors seeking to optimize their portfolios. This article explores the intricate world of structured products, drawing a comparison between the European and Asian markets. As these markets continue to evolve, understanding the nuances of consumer behavior, market trends, and innovative financial solutions becomes imperative.

Consumer base takeaways

Wealth Growth and Market Potential

Since 2011, Asia has been experiencing double digit annual growth in overall wealth, and surpassed Western Europe in 2016. Asia's millionaire count grew by 45% in five years, reaching 4.4 million in 2015, and 6.2 million in 2023. Given structured products represent 4-5% of overall wealth investments in Asia, this signals substantial growth potential as this customer base grows.

The Rise of Asia's Super Rich Population
Share of ultra high net worth individuals, by region (in %)*



*UHNW is defined here as individuals with a net worth in excess of \$30 million
**Forecast

Source: Statista

Market Trends and Challenges

An examination of recent market dynamics unveils both opportunities and challenges:

South Korea experienced a 20.1% decline in structured product traded volume in 2021. UBS (China) introduced structured solutions to hedge local financial institutions' FX and interest rate exposures.

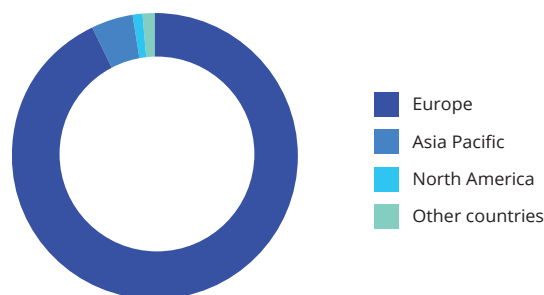
Singapore saw a rise in US market exposure through diverse trading strategies and products. Despite risks, Asian investors are more willing to take risks compared to European counterparts. The focus on regional stocks, US equities, and themes like RMB appreciation shapes Asian investment strategies.

Geographical Market Overview

North America, Asia Pacific, and Europe account for over 98% of structured product issuance.

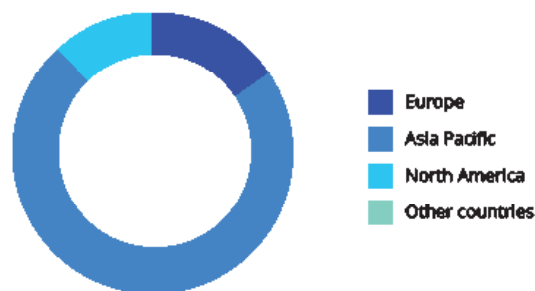
Europe dominates issuance, while Asia leads in sales volume, particularly in structured products.

Structured Product Issuance



Source: StructuredRetailProducts.com

Structured Product Sales Volume



Source: StructuredRetailProducts.com

Financial Products Insights

In Europe, 50% of products are in note format, and the OTC market accounts for 9%. In Asia, only 30% are in securitized format, with about 50% in deposits and an OTC format. Asian investors tend to focus regionally but show growing interest in Europe and global markets.

Investment Horizon and Payout Structures

European products have an average 2-3 year investment horizon, while Asian products have a shorter 6-month horizon. Europe supports a broader product range with 400 pay-off structures, while Asia has fewer, but this is expected to grow rapidly.

Product Preferences and Market Dynamics

In Europe, structured products account for around USD 800 billion outstanding through

3 million products. Asia ex-Japan has seen structured product volumes grow from USD 700 billion to nearly USD 800 billion. European investors favor equity-linked products (75%), while Asia's preference is more diversified: 40% equity-linked, 50% FX-linked.

Innovation & landscape developments

Banking practices innovations (2022)

Société Générale issued daily leverage certificates linked to the S&P 500 on the Singapore Exchange.

HSBC Global Private Banking launched online trading for structured products in Asia via mobile.

Maybank issued the first ever structured warrants on Hong Kong-listed stocks on Bursa Malaysia, reflecting market sales and volume growth.

Société Générale, for the first time, launched a batch of Callable bull/bear contracts (CBCBs) based on US indices in Hong Kong jurisdiction.

Automation and Solution to drive Growth (2022)

In Asia, European multi issuer platforms became

important actors to deliver tailored automated solutions for trading of products. Automation is a driver of competitiveness in the region, especially given the smaller size of transactions and growth journey of Asian financial institutions. Bespoke solutions, depending on growth ambitions of banks, are considered crucial for improving product offering and overall revenue.

Structured Products: A Changing Landscape

Recent regulatory changes in Hong Kong to boost market confidence in structured products. In 2021, JP Morgan issued its first ESG-linked structured note in Hong Kong jurisdiction. ESG becomes increasingly important in APAC, with amongst others, UOB, HSBC China, and JP Morgan actively participating.

As we navigate the ever-changing terrain of structured products, this comparative analysis provides insights into the unique trajectories of Europe and Asia. From wealth accumulation and market trends to innovation and regulatory shifts, understanding these dynamics is crucial for investors, financial institutions, and policymakers alike. Join us on this journey as we unravel the complexities and opportunities in the dynamic world of structured products.

Author: Charles Kim-Regnier



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Sp

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