YANN GÉRARDIN *Agenda*

The head of corporate and institutional banking at BNP Paribas speaks with Danielle Myles about preparing a full-scale corporate and investment banking model for disintermediation, acting from a position of strength and the early success of the lender's transformation plan.

BNP Paribas is an anomaly in the world of European investment banking. In 2016, return on equity (ROE) at its corporate and institutional banking (CIB) business was 13.3% compared with a regional average of 8.7%. Data firm Coalition places it among the two fastest growing CIBs (by revenue) in the Americas, a notoriously difficult market to crack. And between 2013 and 2016, its share of the global CIB market rose from 3.8% to 4.5%.

While many of its European peers have retrenched from certain markets to boost lowly profits, the French bank's CIB has not had to restructure, nor cut business lines, nor set up a 'bad bank' to offload non-performing assets. For any client rattled by their lender's lack of commitment to certain business lines, BNP Paribas appears a reliable alternative.

This is helping BNP Paribas's CIB achieve its goal of increasing the number of clients that view it as their preferred long-term partner. "What's very important to me is that clients, both institutional investors and corporates, are talking to us in a completely different way to five years ago," says Yann Gérardin, the bank's CIB head.

Its penetration of European corporate banking has grown seven percentage points since 2012, while anecdotal evidence suggests its success in the US has strong momentum. "Take a typical US client," says Mr Gérardin. "In their bank portfolio they are generally happy to have two or three large US names, but they also need one or two European banks and one Asian bank. We are now one of those two European banks."

ON THE FRONT FOOT

Much of this success is rooted in BNP Paribas management's prudent risk policy, its foresight when making cost and investment decisions, and its goal of generating shareholder return year on year. This means it was not in bad shape when the global downturn started, and gave it a head-start over many competitors post-crisis. This is reinforced by the CIB's track record of pre-empting changes in its operating environment.

"We've always tried to anticipate and be in a position where we act out of strength, not react out of weakness. That's always my fear as once you are on the back foot it's extremely difficult to get out of a vicious circle," says Mr Gérardin. "We have never waited for the very last moment, or for a miracle to save us. So while many of our competitors had to solve difficult issues from the past, we've used all our energy to prepare the future."

The best example of this is the post-crisis regulatory overhaul. As a group, BNP Paribas started deleveraging in 2011 and was one of the first to adapt to Basel III. Within equity derivatives, a business Mr Gérardin oversaw when the crisis hit, the response was even quicker. In 2009 he started cutting risk-weighted assets (RWAs) and adjusting the cost base, knowing that onerous new rules were inevitable.

CLIENTS OF THE FUTURE

This same philosophy underpins BNP Paribas's commitment to not only keep but also build bridges between its different divisions. It is part of the dwindling pool of universal banks with a strong CIB, an arrangement Mr Gérardin believes works only if the CIB is part of a fully integrated, group-wide business model.

"One of my big philosophies is that post-crisis it is no longer possible to have a standalone CIB strategy," says the 30-year BNP Paribas veteran. "It's too expensive." It also does not account for the fact that in Europe, where more business borrowers are being urged to access the capital markets, the CIB client base is changing.

Mr Gérardin explains the significance of this with reference to BNP Paribas's retail operations. "The future of financing the European economy is more about markets and less about bank balance sheets. So if we want to keep funding the small- and mid-caps in our large continental retail network, we obviously need a CIB," he says. "We need a markets business and the full suite of products to be sure that in five to 10 years we are in a position to help an Italian or German mid-cap to issue its first high-yield bond."

LONG LIVE THE FULL-SCALE CIB

This disintermediation mentality has also prompted changes within BNP Paribas's CIB, including the 2014 decision to change the 'I' in CIB from 'investment' to 'institutional', and bringing securities services under its umbrella. To Mr Gérardin, the significance of having a strong post-trade business sitting alongside the products it offers to institutional investors is akin to its cash management platform for its other suite of clients.

"Cash management is the anchor of the relationship between BNP Paribas and a corporate," he says. "We do much more business with a firm when we have this relationship, as it creates a lot of trust. There is no greater commitment than asking a bank to make all your payments." Securities services can provide the basis for a similar relationship with, for instance, asset managers for whom the bank acts as custodian, clearer and collateral manager. It presents an opportunity to generate more business for its global markets

> CLIENTS, BOTH INSTITUTIONAL INVESTORS AND CORPORATES, ARE TALKING TO US IN A COMPLETELY DIFFERENT WAY TO FIVE YEARS AGO
>
> *Yann Gérardin*

franchise, while also being less capital-intensive than other areas of CIB.

This integrated business model is at odds with the mushrooming number of direct lending firms, advisory boutiques and independent electronic trading platforms that promise to be more effective than traditional firms. But BNP Paribas's decision to continue its full-service CIB offering is well informed. In preparation for its 2016-19 CIB transformation plan, every client was asked how they imagined they wanted to be served in 10 to 15 years' time. The outcome was a victory for the full-scale CIB model.

"They still believed they would need a full-fledged CIB in 2025-30 because they need a firm they can trust long term," says Mr Gérardin. "They want to be sure of the strength of their partner's financial ratios, to know they can provide capital and funding during the good and bad times."

GROWING FOOTPRINT

In terms of growth, BNP Paribas's CIB wants to boost its profile as an equity house – including by leveraging its partnership with French equities broker Exane – and further cement its footprint in the US and Asia-Pacific. Its strategy for Asia, which has a particular focus on China's liberalisation and cross-selling with the wealth management business, comes at a time when many European and US banks are retreating. Yet in 2016 alone, the region generated more than €3bn in group revenues (up 50% from 2012) and 21% of CIB revenues.

Mr Gérardin's division has been able to expand in Asia because it is ahead of the pack in terms of ROE, meaning it has not faced pressure to shrink businesses or dramatically improve returns like some of its rivals. "It means we've had the opportunity to gain market share as others have significantly reduced their presence in Asia," he says. "But even without their retrenching, our plan would have been an expansion one. Industry revenues are growing and we have a strong franchise there."

That said, Mr Gérardin is still looking to rationalise the division's cost base. Via the CIB Transformation Plan – originally created in 2016 and updated earlier this year to align with the group's Business Development Plan 2017-20 – he has spearheaded a series of changes including €1bn of cost cuts and reducing RWAs by €20bn. When the four-year plan was originally announced, some deemed these financial targets overly ambitious. Yet after just 12 months, 30% of the cost target and 42% of the RWA target have been achieved, something for which Mr Gérardin credits the hard work of his team.

PLANNING AHEAD

In line with BNP Paribas's focus on anticipating the future operating environment, digitisation and sustainability are two of CIB's key tenets. It is an industry leader of the latter.

The bank's corporate social responsibility (CSR) commitment is second to none. By 2020 it has pledged to double its financing of renewable power (compared with 2014 figures) and invest €100m in start-ups that accelerate the energy transition. In terms of client work, it has a growing suite of responsible investment indices and has structured pioneering deals for the World Bank, including its equity-linked Green Growth Bond programme and the first bond linked to the UN Sustainable Development Goals.

These two streams of sustainability – the bank's commitments as a business and its work for clients – foster one another, Mr Gérardin says. Furthermore, every CIB coverage banker must be able to speak with their clients, be it corporates or institutional investors, about sustainability; a conversation that usually occurs with someone outside of the finance department. This effectively adds a third pillar to CIB's sustainability efforts. "Not only do we connect with the bank's CSR arm and deliver sustainable finance solutions to the client, we are also making the connection between clients' chief financial officers and sustainability officers," says Mr Gérardin.

For Mr Gérardin, his overarching goal is simple: to steer the business such that it becomes the best European-headquartered CIB, both during and after his time at the helm. The true measure of success is building something that performs under new leadership. Legacy, he says, is about continuity, viability and sustainability. "It's important as a leader to build something strong and long-lasting," he says. "To that end, it is vital to help develop the next generation of leaders, to maintain the quality of our CIB and to continue delivering value to our shareholders." TB

Career history
Yann Gérardin

2014	Head of corporate and institutional banking, BNP Paribas
2005	Global head of equities and commodity derivatives, BNP Paribas
2000	Global head of equity derivatives, BNP Paribas
1987	Head of equity derivatives, BNP