Case study

How a Middle Eastern bank added bespoke investments to its retail product range

Futora partnered with a large international bank-which has requested to remain anonymous- in 2020 to deliver personalized investments to its retail customers. In this case study, we explore the challenge the client was facing, a common one for many well-established banks that have lost out to tech-savvy challengers. We also explain how Futora's platform addressed these challenges by leveraging automation and ultimately helped the client increase market share and improve customer satisfaction.

The client

The client in question is headquartered in the Middle East and has a presence in many of the world's financial hubs including London, Zurich and New York. It reported total assets worth nearly $170 billion in 2021 and generated annual revenue of just short of $11 billion. It employs over eight thousand people.

The client is mainly retail-focused, although it regularly participates in local and global loan syndicates. It has also built up a sizeable private bank so already had experience of bespoke investments with its high net worth (HNW) clients. However, its capital markets division is relatively small, so the client acted as an intermediary, distributing products created by sell-side institutions rather than issuing its own.

The challenge

Like many incumbents, this client has seen its market share eroded by newer, more agile 'challengers' that leverage technology to attract digitally-savvy customers who have become accustomed to the experience delivered by the latest generation of apps. To the credit of the leadership team, they recognized the bank had to evolve or it would get left behind, so they started investing heavily in innovation a couple of years ago. They also overhauled the bank's branding.

The client wanted to differentiate from its competitors in the minds of its retail customers, and it understood bespoke investments would help achieve this goal. It had experience of issuing private placements for HNW clients as well as campaign-based products, pooled investments which allow retail customers to access a similar risk/reward profile but with a much smaller degree of personalization.

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The client didn't believe that issuing fully bespoke investments to retail customers was possible. It lacked the capability to automate the process, from sourcing quotes from the sell-side to distributing the products to customers and then lifecycle management. Issuing bespoke investments to HNW clients was largely manual and involved high fixed costs and overheads, so the bank assumed it couldn't scale the offering to meet the needs of the mass market.

Why Futora?

One of the main reasons this client chose to work with Futora was our team’s track record **over 14 years of successfully delivering tech projects designed to support structured products.**

Futora has this expertise in-house, which provides clients with both savings and peace of mind

Futora spun out of Modelity Technologies, a leading provider of structured products and regulatory solutions, which has developed risk and performance models for European banks that manufacture complex financial products. After a private equity fund acquired Modelity in 2019, senior executives including founder Ayal Leibowitz launched Futora, bringing with them a seasoned team and cutting-edge technology.

Banks issuing bespoke investment must adhere to two EU regulations designed to protect Investors: **Packaged Retail and Insurance-based Investment Products (PRIIPs) and the Markets in Financial Instruments Directive (MiFID)**. Discussing these regulations is outside the scope of this case study, but you can learn more in our recently published report, **A Step-by-Step Guide to Offering Bespoke Investment Products to Retail Clients**.

To make sure they stick to the rules, banks typically hire regulatory consultants from one of the ‘big four’ accounting firms at a significant cost. But thanks to our team’s experience at Modelity, Futora has this expertise in-house, which provides clients with both savings and peace of mind.

Futora's solution

During the implementation phase, our team met with the client's various internal stakeholders and identified three pain points our platform could address:

Price discovery

One of the barriers to scaling bespoke investments was the amount of manual work required to manage relationships with multiple sell-side institutions in an effort to source the best deal for a customer. Our platform solved this problem by connecting the client directly to the sell-side by leveraging Application Programming Interfaces (APIs). The client also benefited from a central repository to store quotes and responses.

Meeting the needs of the mass market

The manual work involved in creating bespoke investments meant the bank could only justify offering them to HNW clients. By automating the process, our platform allowed it to reduce the minimum investment to just $5,000 and still make a profit.

Managing the product lifecycle

Banks must support a bespoke investment after issuing it, which involves maintaining an accurate valuation, processing any payments if it generates an income and settling the trade if the customer earns a return. Our platform automated these processes for the client and provided tools to calculate risk/reward to meet MiFID requirements and forecast the potential performance of each investment.

Futora's platform is web-based, meaning it doesn't need to be integrated into legacy systems. That kept capital and operating expenditure to a minimum for the client. To ensure a seamless implementation, we assigned a member of our team to sit within the bank's IT department while they deployed the solution.

The results

Futora's platform allowed the client to issue its own bespoke investments to private and retail customers for the first time, with a minimum investment of just $5,000. It went live in 2020, and the offering was gradually introduced across the branch network. In the future, the client plans to add direct distribution channels, such as online and mobile.

The client reported the following key performance indicators:

35% Increase in the number of retail customers accessing bespoke investments

13% Increase in market share

x 2 Doubled the volume of transactions in branches using the platform

37% Improvement in customer satisfaction

70% Decrease in time required to service clients

Our platform also broadened the universe of assets available to customers and issued shorter and simpler investments:

- Nearly half of the products offered exposure to a single underlying asset rather than a basket of assets
- 50% of products had a time horizon of between one and two years
- 78% of deposits were fully capital protected, with a maximum of 5% at risk for the other 22%

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