

Winners of the Central Banking Awards

The Monetary Authority of Singapore took the Central Bank of the Year award by demonstrating not only its sound track record in monetary and financial stability, but also by establishing itself as a fintech pioneer. “We would not have been able to achieve what we have without the strong partnership and support of the financial industry in Singapore, which has maintained high standards of prudence while pushing the boundaries of innovation,” says MAS managing director Ravi Menon.



Governor of the Year was Karnit Flug. She fought for and ultimately delivered the creation of a financial stability committee, headed by the Bank of Israel governor, and achieved important banking reforms. Flug says the period was “very challenging” and “satisfying”, noting that the task of achieving stability often requires “unpopular measures, which sometimes create frictions with the political system”.



Zhou Xiaochuan received the Lifetime Achievement award after having spent 15 eventful years at the head of the People’s Bank of China. IMF managing director Christine Lagarde tells *Central Banking* that Zhou “successfully steered” monetary policy “while structural transformation was in full swing”. Zhou was instrumental in delivering bold exchange rate, interest rate and financial reforms.

In two new categories, IMF veteran Warren Coats received an award for his Outstanding Contribution for Capacity Building, while the Federal Reserve Bank of St Louis was the debut winner of the Financial Inclusion Initiative award. Greg Kaplan, Benjamin Moll and Gianluca Violante won the Economics award.



Other victors were: the Bank of Mexico (Reserve Manager); the Saudi Arabian Monetary Authority (Risk Manager); the National Bank of Ukraine (Transparency); Sveriges Riksbank (Website); the Bank of Israel (Currency Manager); the Reserve Bank of Australia (Payments and Market Infrastructure Development); and the Reserve Bank of New Zealand’s Financial Strength Dashboard (Initiative).

In the market practitioner categories, State Street Global Advisors won the Asset Manager award, BNP Paribas Asset Management the Innovation in Reserve Management, HSBC the Global Markets, De La Rue the currency services, Deutsche Bank the Specialised Lending Initiative, Vermeg the Risk Management Technology and the World Gold Council the Professional Services Initiative award. Other winners comprised Ion Treasury (Treasury Systems Initiative), Citi (Custody Initiative), Deloitte (Advisory Services), Giesecke+Devrient Currency App (Currency Innovation), Vizor Software (Data Services) and ParFX (Financial Market Infrastructure Services). □



Images: OECD, IFF, Warren Coats

The Central Banking Awards were written by Christopher Jeffery, Daniel Hinge, Dan Hardie, Rachael King, Victor Mendez-Barreira, Joel Clark, William Towning and Tristan Carlyle

From top: Ravi Menon, Karnit Flug, Zhou Xiaochuan, Warren Coats

BNP Paribas Asset Management



Image: BNP Paribas

Johanna Lasker, BNP Paribas

BNP Paribas Asset Management contributed to the development of new fixed income strategies in 2018, which central bankers say facilitated higher returns and lower volatility. Additionally, it continued to offer training as a key factor allowing clients to increase their exposure to assets such as US agency mortgage-backed securities (MBS). These strategies have contributed to increase the asset manager's portfolio. In 2018, 40% of its sovereign clients increased the assets that the firm manages for them.

BNP Paribas Asset Management has served the central bank community since 1975. It currently works with more than 60 official institutions, including 23 central banks, managing €22.5 billion (\$25.7 billion) across 30 portfolios.

In a bid to increase returns in the protracted low-yield environment, BNP Paribas Asset Management has been involved in developing two important new fixed income products.

In particular, the Europe-headquartered asset manager has supported a central bank in its launch of an absolute return strategy, which secured a \$300 million contract in 2017/18. The mandate allows BNP Paribas Asset Management to invest the portfolio in eligible fixed-income assets and currencies without being subject to a benchmark portfolio.

The funding of the mandate was in 2017, but it was last year when the absolute return product came of age. "BNP Paribas Asset Management has actively modified the risk factors to which the portfolio has been exposed, exploiting the flexibility of the absolute return mandate, which allowed it to generate a positive return for the central bank. Indeed, within the guidelines that we have provided to BNP Paribas Asset Management, it has managed to find opportunities in most asset classes and currencies," says an official at the reserves department of the central bank.

The official explains how BNP Paribas Asset Management has in effect repositioned part of the central bank's sovereign bond portfolio by using active duration management. In particular, BNP Paribas Asset Management maintained a portfolio with a negative duration during some periods of 2018, a strategy that cannot be implemented by the central bank in its internally managed portfolio and that contributes to capital preservation and return enhancement during periods of rising interest rates.

"BNP Paribas Asset Management has fulfilled the primary objectives of the absolute return mandate by generating a positive risk-adjusted return while flagging new potential investment strategies, and contributing to the training and knowledge transfer to our staff," says the central bank official.

Absolute return strategies such as this may help central bank reserve managers to secure additional return versus their traditional benchmarks, while adding diversification benefits to their portfolios. The central bank that engaged BNP Paribas Asset Management in the roll-out of its absolute return approach says the programme has exceeded its expectations, and it plans to increase its investment in absolute return mandates in the future.

Another product that is innovative for some central bank customers is its quantitative multi-factor fixed income strategy, which aims to allow central banks to diversify their bond investments. This strategy assesses indicators from equity, credit markets and company balance sheets that are viewed as the main drivers of corporate bond returns. During the past year, one of BNP Paribas Asset Management's existing clients allocated \$400 million to this strategy.

"Long-term investors in traditional fixed income are adding these strategies against their traditional allocation as a way to test the market, as a way of introducing quantitative strategies," says Johanna Lasker, head of official institutions for BNP Paribas Asset Management. "And it's also a way of testing whether this is the long-term move. Should they permanently move from judgement-based strategies into more quantitative strategies?"

Another key service to support innovation in sovereign portfolios is training. For instance, BNP Paribas Asset Management runs back-office operations seminars with a focus on US agency mortgage-backed securities (MBS) – a sector that permits diversification in a liquid and high-credit quality environment.

The Central Bank of Hungary is involved in this asset class. It started working with BNP Paribas Asset Management in 2012 with the aim of increasing its exposure to US agency MBS. "We lacked the internal knowledge to manage in-house the risks associated with the US mortgage market," says Róbert Rékási, head of foreign exchange reserve management at the central bank.

BNP Paribas Asset Management's training helps central banks to learn how to manage risk. "From the back-office perspective, it is one of the more challenging markets," says Lasker. "The processing side [and] the settlement side are complicated, and there's a lot of room to make mistakes."

The Hungarian central bank has harnessed these capabilities, and awarded BNP Paribas Asset Management another mortgage mandate in 2018, says Rékási, and BNP Paribas Asset Management is supporting the transition.

The official at the central bank deploying the \$300 million absolute return strategy also praised the numerous topics covered by BNP Paribas Asset Management's training, as well as the variety of levels of expertise at which it can be imparted: "BNP Paribas Asset Management offers a wide variety of courses that have helped the central bank to enhance the training for the front-, middle- and back-office staff. In addition, the knowledge transfer regarding asset management and financial asset classes has been relevant for the investment decisions of the reserves department." □