Asia-Pacific Securitisation

The way ahead in 2021

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Balance sheet management

Efficient management of bank balance sheets is going to be a theme which continues to echo in 2021. Central bank concern over the rising levels of Covid-19 NPLs and general market pressure on profitability will put a strong focus on shoring up levels of capital and ensuring banks' funding costs are competitive.

- The interest and prevalence of covered bonds in the region will continue to grow given the low cost of using this source of funding and growing international investor interest. We may see some covered bonds in new Asia-Pacific jurisdictions this year and it will be interesting to see whether the local regulators implement measures to permit ECBC Covered Bond Labels to be awarded to these covered bonds.
- A number of Asia-Pacific jurisdictions, such as Hong Kong and Singapore have synthetic securitisation rules, but, as yet, no such transactions have been seen. As pressure on profitability sees the desire to manage balance sheets more efficiently, and guard against future losses, grow, our view is that synthetic securitisation transactions will become more common, with regional deals being done for the first time, possibly, in 2021.
- We have seen a number of regional banks, including in Australia, Hong Kong and Singapore package up illiquid assets into rated securitisation bonds, which are eligible for use in central bank funding schemes to enhance their liquidity position and adjust their LCR and NSFR requirements. We see this trend continuing.
- In addition to banks, a growing number of securitisation investment opportunities are likely to be tailor makde for insurance companies with risk-based capital requirements, such as Solvency II.

China ABS

The interest of international investors is continuing to grow and our view is that a number of the existing cross-border funding channels, such as the QFII regime and Bond Connect, will become increasingly popular. In particular, Hong Kong, as an international financial centre within the Greater Bay Area, is well positioned as an interface for international investors to use to take exposure to China ABS. We hope that regulations will be updated, in both Mainland China and Hong Kong, to boost connections with international investors.

Trade

The involvement of banks in the finance of trade in the region continued to diminish throughout 2020 and this is piquing the interest of a lot of people in the private credit space. There are a variety of ways for private credit investors to take exposure to trade flows, such as taking buyer risk, supplier risk, risk on bank letters of credit or pooled risk. Where scale can be achieved, giving a strong diversification to a pool of trade-based exposures (particularly if they can be rated), this will interest a wide range of international investors seeking short and medium term diversified exposures. The availability of data will be key to providing an open and transparent picture of deals to investors and the growing involvement of technology firms in this arena is exciting, allowing very detailed analytics to be performed on the pool.

If that data science can be precise enough (particularly in terms of matching receivable-by-receivable cash flows with specific investments), we may, in the future, see ABCP-style platforms in the region.

Warehouse funding

The attraction of warehouse funding, to fund growing businesses of non-bank lenders, will become increasingly common and prevalent. For ambitious originators, warehouses can be cost effective and provide flexibility to increase their portfolios on an accelerated basis. From the funder's perspective warehouse lines can give steady returns with a high degree of control over the contents of the portfolio.

Policy driven securitisation

Governments in the West have increasingly been using securitisation as a tool to push forward their policy agenda – using government guarantees to support warehouse funding for non-bank lenders to SMEs, synthetic securitisation to help banks turbocharge SME lending and giving ABS bonds preferential treatment in central bank liquidity schemes are some of the examples we've seen in the US, UK and EU.

There has also been a growing sentiment among Western regulators to use securitisation as a tool to reduce bank exposures to NPLs, with proposed amendments to the EU Securitisation Regulation explicitly contemplating this. Regulators in Mainland China and India and other jurisdictions should take note.

And with some ambitious regional policy objectives – like the Greater Bay Area, regional infrastructure, filling the SME funding gap and, most recently, the dual-circulation economic theory in Mainland China – the opportunity to use securitisation, a tried and tested funding option for implementing these policies, has never been greater.