

Minimising costs, Maximising opportunities – taking the best route towards an FX White Labelling solution



Caroline Henshaw discovers more about, how, in the competitive world of forex today, more and more hard-pressed brokers are choosing to concentrate their resources on areas where they can add value and outsourcing the rest to sophisticated white label service providers that can not only help start-ups enter the market but enhance existing businesses.

Daily currency trading volumes have more than tripled in the last 10 years to \$5.3 trillion a day, drawing in a growing number of institutional and individual traders. But while the markets have grown in size, they have also grown in complexity, meaning brokers now have to deal with an increasingly varied and sophisticated set of clients.

Catering to those needs is expensive, putting pressure on budgets at a time when brokers are already struggling to preserve their profits in the face of an increasingly fragmented market, the multiplication of trading platforms and the rise of electronic communication networks, or ECNs. Increased regulatory oversight has also heaped additional demands on brokers, driving up the cost of doing business just as tepid trading conditions have made it even harder for them to safeguard their margins.

Experts say many FX brokers are looking to diversify as a result. As Nick Mortimer, Head of Prime Brokerage and Clearing at CFH Clearing explains: "The lack of volatility in the market at back end of 2013 and most of 2014 has been a catalyst for brokers to look at other asset classes as revenue opportunities."

Peter Brooks, Head of e-FX at Sucden Financial agreed, adding: "Although volumes improved in the last quarter, the quest for growth has been tricky for many retail FX brokers this year. As a result, we have seen many brokers looking to diversify into new product ranges."

"Moving into the institutional broker space seems to be the current flavour of the month, with a surge of brokers in particular offering a Prime of Prime FX service. The new entrants are split between those

who have sourced their own Prime Broker and those who are just white labelling another broker's API."

Some are also seeking to push into forex for the first time from other asset classes, and are bringing their own expertise and expectations when they do.

Peter Bondesen, FX Sales Manager EMEA, at FlexTrade explains: "Clients who have historically traded other asset classes are more often than before trading FX as part of a wider portfolio of instruments. Even though FX remains an isolated asset class for many traders, a lot of functionality has been brought forward from other instruments to improve the offering when trading FX."

"For the tools that are very particular to FX distribution and trading, all brokers are looking to stand out in an ever more competitive crowd,

especially due to the sheer number of brokers, the squeezed spreads and the general increase in electronic trading versus voice. With voice trades being under scrutiny, the trend should continue, although this should not be a race to zero."

WHITE LABELS OFFER FULL SOLUTIONS

These changes mean brokers now need to be able to offer their clients state-of-the-art technology, broad and deep liquidity pools and products that are constantly evolving to meet changing market conditions and regulatory standards.

The problem is that developing such products can cost hundreds of millions of dollars, take several years and require a large team of highly qualified personnel to run and develop.

So, instead of going through the complex and expensive process of building new technologies in-house, more and more are choosing to outsource to third-parties to provide the additional functionality that their clients demand.

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Nick Mortimer

"In today's market dynamic, brokers must strategically reduce their operational costs, while becoming even more responsive to escalating and diversifying client needs and expectations," explains Luis Sanchez, Chief Executive of BMFN. "Toward such a combination of objectives, many leaders in the field are finding high impact in exploring and implementing 'white label' solutions."

"An innovative broker can configure a robust white label solution to offer a spectrum of possibilities, ranging from one ultra-focused line of products to multiple and diverse product offerings and types associated with multiple providers," says Sanchez.

"Many clients in 2014-15, especially in the retail markets, value a very wide array of trading options, rather than only an option to trade FX in isolation. As the knowledge and awareness of many clients continues

to grow and advance, brokers who offer several trading instruments will embody a clear competitive advantage."

White label solutions are particularly gaining popularity because they benefit both the buyer and seller of these tech-enabled products. For product-makers, selling their software and platforms provides them with additional steady income without having to worry about marketing their product to traders.

For brokers, white labelling means they have a solution customised to their needs available in a fraction of the time for a fraction of the price – a particularly important consideration given that experts estimate industry players may have to reduce costs by 20-30% in the coming years to meet regulations and please clients.

The demand for the white label services is also diversifying. Once dominated by erstwhile market makers and FX broker specialists, such solutions are now being sought by banks as well and, as a result, competition amongst providers is heating up.

TYPES OF PARTNERSHIP

There are three main forms of white

label arrangements that brokers can use. Each offers varying amounts of service, gives brokers varying amounts of control over their product and comes with a different price tag.

Arguably the most common set-up is retail broker white labels. Retail trading accounts for around \$85 billion of daily FX volumes, according to the latest BIS figures, of which an estimated 50% was warehoused inside brokers. But, at only 3.5% of the market, that figure is set to grow rapidly in the coming years.

"Quite regularly, the successful career of a retail broker starts from the WL/IB relationship with an established brand," said Stanislav Stolyar, Vice President FX Products at Devexperts.

"From the technology point of view, in this case the 'parent' company provides pretty much everything from website landing pages, back-office and reporting to trading platforms and even marketing advice."



Peter Brooks

"A white label is much harder to switch than a liquidity provider and so brokers should be certain that they are dealing with someone that has a long established business, with a good reputation, strong balance sheet and experienced personnel."

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All brokers are looking to stand out in an ever more competitive crowd

Retail solutions often mean brokers outsource not just technology but business activities to a white label provider. In some instances, a third party provides the vast majority of the resources required to build the retail FX business, with the broker or bank just providing their brand and marketing resources to the venture.

The advantage is that these pure white label offerings have an established reputation in the market and offer the entire service on a profit-share basis. However, they can limit clients to using their solutions and their liquidity, making them less flexible than other options which is an increasingly important consideration.

“Ultimately the decision on whether you acquire a platform or take a white label is a control versus resources equation which can be balanced differently depending on each broker’s unique situation,” said Brooks.

“Obviously, we would all like more control of our business. However, the flexibility to switch liquidity provider, for example, is a very powerful driving force for many brokers who choose to pass on the white label option. Many of the clients Sucden Financial provides white labels to, however, are more focused on minimising resource requirements in the early stage of their business.”

FLEXIBILITY AND ADAPTABILITY

The quest for flexibility means more banks and brokers are choosing partnerships where a technology provider offers a branded front and back end trading systems, while they are left to choose liquidity, data, and risk management procedures and deal with regulatory concerns.

As Stolyar explains: “At some point each ambitious retail broker white label partner starts thinking about independence and, well, reaches out to a technology vendor for a solution. The advantage of this is flexibility in making your own decisions in every possible sphere of the business: marketing, retention, risk management, payments processing and others.”

Then there are hybrid models, which are generally provided by institutional firms that don’t deal directly with retail clients. In these, the white label is still responsible for all compliance and regulatory issues and may or may not offer risk management.

Solutions used by institutional firms don’t need to be tailored to handle large numbers of users –perhaps a few thousand per broker – but instead must be able to handle large trading volumes from those clients. They can also take far longer to implement as they require integration into client’s often complex reporting systems which frequently cover multiple different areas.

“Retail solutions often have decent charting capabilities as the



Peter Bondesen

“Depending on the target group of clients, a broker will look for the best and most exciting technology offering. We are not just talking about the skinning of the GUI, which is the most basic differentiator, but more so the solution that befits the demand of the network of clients in which a broker might cater.”

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clients might not have access to sophisticated news and analytic tools. Institutional platforms also strip away unnecessary noise as clients are looking for intuitive and easy to use platforms,” explains Bondesen.

“Where many retail traders are happy to trade top of book, institutional traders need tradeable depth-of-market to cater for bigger orders. As retail orders are generally much smaller, the liquidity streams will also differ in size, and the liquidity providers will want to know what type of clients are going live – and on which streams – to be able to handle the risk more effectively.”

TIME IS MONEY

For the myriad new brokers on the scene, the key consideration when choosing a white label solution is

often speed: time is money, and so the length of time it takes to get to market is of the essence. Today white label providers can create a systems in weeks, days or even minutes, helping to get start-ups straight to market.

Some, like BMFN, have developed products aimed at new entrants that can create partial white labels for IBs in less than 5 minutes, with a branded platform, reports, a built-in back office for demo and a CRM. This has helped BMFN to attract over 4000 white label-IBs.

“The white label technology we pioneer at BMFN is designed expressly with the needs of our clients—and their clients—in mind,” said Sanchez. “So, our white label service empowers brokers with the kind of functionality, tools, resources, and service quality that

these brokers’ own clients will, in turn, value highly and regularly.” “Innovation plus incorporating best practices from across white label solution-providers—plus adaptability—are key factors that drive the development of successful white label maturation at the company and industry level.”

Others, like Sucden Financial, which only provide a trading platform white label, work with companies like Shift Forex and APIFX that offer complete one stop solutions, including incorporation, licensing, marketing and HR, says Brooks.

Others still are also offering consulting services for new brokers who often rely heavily on the technical expertise of WL providers, explains Stolyar: “They usually partner with respected technology vendors that offer their platforms that are accompanied with regulation, incorporation and other consulting services. This niche is growing, and looks like this type of partnership should be a good choice for start-ups”

Still, an important concern for the long-term is choosing an option that can adapt to a broker’s changing needs in today’s fast-changing markets.

“In the past, brokers had little choice other than opting for MT4 white labels. However, we can now not only get brokers up and running very quickly with an MT4 White Label but can also give them a choice of a web-based platform or proprietary platform and a wide choice of liquidity,” said Mortimer.

“Clients, even start-ups, have very different needs and differing business objectives. That’s why we offer both choice and flexibility, with the option of multiple front ends and a wide choice of liquidity. We can then tailor a solution which best suits their needs, helping them to get off the ground quickly.”



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MORE THAN JUST TECHNOLOGY

Experts say brokers are also increasingly aware that solutions should be more than just technical. The provider must not only be able to support the current business of the bank or broker but should also be able to carry, guide and then lead the development of their online trading business. This means the bank or broker must carefully evaluate whether the white label provider has the resources, skills, willingness and technologies to support the development of their business going forward when choosing who to work with.

"The optimal white label solutions and providers operate and deliver at the critical intersection of 'tailor made' and 'speed to implementation'," said Sanchez. "This is especially important with regard to understanding and complying with relevant regulations—including regulatory changes over time."

"Supporting clientele who are entering into a new market, for example, means that a reputable white label provider, such as BMFN, needs to develop an entire solution that will satisfy the regulatory and legal requirements of the regulators pertinent to each client's jurisdiction(s), for all white label functions and components, ranging from reporting to execution to servers. Such alignment can take up to a year of development."

"Alongside such precision and attentiveness to detail, this white label solution has to be agile enough to allow the broker to enter into the business as quickly as possible. The longer it takes for a provider to have a white label solution ready for a broker, the higher the direct costs or opportunity costs of implementation."

CUSTOMISATION IS KEY

Key to this flexibility is customisation. Brokers' wish-lists can be long when trying to decide between the different functionality on offer and their demands and will vary particularly according to their client base, meaning WL providers need to be able to tailor their solutions to their market.

"Customisation and white labelling don't often go hand in hand, so it is important to ensure whoever you choose can allow you to meet your

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target market's needs," said Brooks. "Sudden Financial helps our clients customise their offering as much as possible. It's not just about what products we put on their platform but how we manage the flow from the clients they have. Some of our clients, for example, have clients that trade in very large ticket sizes and so we tailor their trading platform and the liquidity they receive to better handle this business."

This can be particularly important when it comes to catering for complex, multi-asset systems. Stolyar says that providers can now customize the business workflow for any brokerage, including execution methods and order routing, various liquidity integrations, access to depth of market, multiple asset classes including spot FX and CFDs, single sign on to binaries platforms, integration with legacy and new back-office platforms and client portals.

Bondesen explains: "Depending on the target group of clients, a broker will look for the best and



Stanislav Stolyar

most exciting technology offering. We are not just talking about the skinning of the GUI, which is the most basic differentiator, but more so the solution that befits the demand of the network of clients in which a broker might cater. Binary options seems to have taken off in the retail space whereas we see much more demand than ever in NDF and forward outright trading. It is clear that the most important factor remains the price and therefore the opportunities available to the clients."

Social Investment Networks are now starting to attract interest from retail traders, so a new generation of WL services will need to deliver solutions for brokers who are interested in running their own social investing communities and offering their clients access to them.

Since the FX market is open 24 hours a day, providing functionality to improve social interaction, such as dedicated web TV channel with trading tutorials, chat facilities and a genuine FX community where traders can find insights into new trading strategies and connect with other community members can also be a key differentiator for brokers.

"Customisation is a key part of our offering and is absolutely critical for brokers and banks who are looking to differentiate themselves in this market," said Mortimer.

"We built our proprietary technology, ClearVision, as a modular system so that clients can select the whole package or specific individual modules – such as a risk dashboard or liquidity management tool – most suited to their individual needs."

REGIONAL VARIATIONS

Demands can also be different depending on the region where the client is operating, which have different regulatory regimes and distinct market practices according to the way FX and OTC markets in

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general have developed over time, said Stolyar.

"Some parts of the world have their leaders and long-time players. Brokerages competing with those leaders have to have specific marketing strategy, better and more modern platform may be one of the selling points. Also, the adoption of mobile platforms in some areas is higher than others due to the traders' habits."

Bondesen agrees, adding: "In Asia, most platforms need to have local currencies and liquidity to be successful, which is why NDFs sell so well in that area. New York was the first global FX nerve center, and now it seems London has taken over in terms of quality of execution and volume. A lot of the main ECNs still match only in New York, whereas others have split their matching into local centres instead."

Solutions also need to be tailored to the different language and other important local considerations,

such as being Sharia compliant. Currently this is not a priority for many brokers, but given that Islamic finance currently covers \$750 billion of assets of assets -- and it managed to maintain growth rates of upwards of 15% a year even during the depths of the financial crisis -- being able to adapt to its requirements is becoming increasingly important.

Often understanding different regional needs can extend beyond just a white label provider's technology into the type of support that they can offer. Many experts say the most important criterion for selecting a white label provider can often be whether there is a good match between the two organisations in terms of culture, values and strategy, so this can be crucial to building a successful partnership.

"Whilst our white labels themselves don't vary, we believe that the service levels across different regions may do. That's why it's important to ensure that your white label provider

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understands local requirements and offers service from people who speak the local language," said Mortimer.

Speed, cost, flexibility, customisability and service are therefore all important factors that should influence a retail broker or institutional trading firm when looking to choose a WL provider. Many also are looking for a tried and tested provider with both a global distribution and a local presence, as well as their own proprietary technology.

TRUST THE MOST IMPORTANT CRITERIA

But with all these different considerations, and all the different solutions in the market, Brooks said trust is the "most important criteria" for many brokers when choosing a provider.

"A white label is much harder to switch than a liquidity provider and so brokers should be certain that they are dealing with someone that has a long established business, with a good reputation, strong balance sheet and experienced personnel," he said.

"Going for the cheapest option could cost a lot more if you need to switch. In fact, it could completely destroy your new business. Brokers use our white label because they know Sucden Financial has been in business for over 40 years and is 100% STP, providing full post trade transparency."

Sanchez says that building trust can often boil down to just sitting down and talking to clients. He explained: "A white label provider is a true partner, in business and in perspective. BMFN employs a deeply consultative approach with each client: collaborating with each client-partner to make them feel—and truly be—a part of the initial and ongoing white label solution."

"What we are doing is: sitting with all our white label partners and listening to them, listening to what they need; listening to their comments and ideas as we co-create a white label solution. Our client-partners know best what their clients want and what needs to change or adapt in an evolving solution."

This emphasis on client feedback is starting to drive improvements across the white-label industry specific to the demands of different types of customer.

With institutional clients diversifying across asset classes, understanding their compliance needs is vital, whereas with retail, there is a push towards being better at monetising the flow, and having the functionality closer to the client owner rather than at a centralised hub, explains Bondesen.

From a liquidity point of view, locally based liquidity with lower latency and higher execution quality is a much discussed subject, as clients see the effect of locally sourced liquidity versus pricing and trading across the pond.

"We offer brokers the ability to white label our Integral and Currenex API and GUI, so that they too can target the institutional market. At the same time, we foresee that there may come a time when retail clients might start to either trade directly via an API, or via new applications that benefit from connecting to an API, without the need for a trading platform like MT4," said Brooks.

Another key growth area for the future is new technologies, and particularly those related to mobile solutions. According to Aite Consulting, many companies are already investing extensively in new technologies in order to provide clients with an advanced mobile trading platform and apps for their tablets and smartphones, so white label providers need to be able to keep up with this trend.

"Mobile and tablet-based trading still has room for improvement. It will keep growing with the new devices being released to the market," concludes Stolyar.