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EDITOR'S INTERVIEW

Serious fun

Dukascopy's Andre Duka and
Alain Broyon explain how social
technology is changing the
face of trading



Setting the benchmark for retail FX

Dukascopy Bank founder Dr Andrey Duka and Chief Executive Officer Alain Broyon tell FX-MM editor Peter Garnham what it takes to stay ahead of the game in the fast-growing retail currency sector.

There is no secret to providing the tight spreads necessary to become a serious player in the retail FX business, but it is not enough to put you ahead of the field, according to Dukascopy Bank founder Andrey Duka.

For that a firm needs to create a community, to use technology to empower its clients and to get them interacting not just with their bank, but with each other – and having fun.

“As clients spend so much time in front of their computers, we want them to have fun in our community, we want clients to love us and stay with us. This is the reason why we invest big resources in the development of what we believe will be the biggest financial social community” says Dr Duka.

“Can you imagine how boring the life of a trader would be if they just spent 10 hours a day in front of a computer? You have to be able to live, to have a human life – and that is what we provide our traders.”

Indeed, Alain Broyon, Chief Executive Officer at Dukascopy Bank, concurs that tight spreads are not enough to be competitive nowadays.

“We are putting a lot of focus on additional features around our platform and how we develop our community,” he says. “We realised clients need to have fun and entertainment, and we are entertaining our clients in this community.”

Going social

The bank, which prides itself on its commitment to investing in technology – and which develops that technology in house thanks to its 200-strong IT team – has more than 50,000 individuals interacting in its online community. The firm has created virtual rooms where investors can chat with one another about different trading ideas, take part in social trading and copy trading and exchange opinions about the market, or indeed just chat about anything that they want.

“We encourage our clients to trade, but also to get information so that they can understand the market better,” says Mr Broyon.

Dukascopy Bank has also created webinar-style television where investors can explain their ideas to one another and has a 24 hour-a-day news channel where all aspects of the market – from market news and trading styles to customer experience – are up for discussion.

The bank is also launching an instant secured messenger, Dukascopy Connect, which is based on the technology behind Viber and Whatsapp. That will allow investors to be fully connected within the bank's virtual environment and communicate with one another, and in the near future allow them to make payments via SMS.

“We have created a community in which you can talk about any topic, like a financial Facebook, so people can chat and call for free,” says Mr Broyon.

Levelling the playing field

He says in the past to be a successful trader, it was an advantage to sit in the dealing room of a major bank, but now with increased access to information and the falling cost of communication, the playing field is more level

Now, according to Alain Broyon, more and more investors are using mobile devices to access the bank's community to access market information and interact with other investors. The value of community has not gone unnoticed, with more than 10 brokers wanting this community on a white-label basis for their brand, to deliver the same level of interaction to their clients.

As Mr Broyon puts it: “The added value we can bring to clients in execution is clear, but added value in other ways – in the technology that we have built around our platform – is also our unique



selling point. It is a big difference and what makes us really different to our competitors."

Engineering tight spreads

That is not to say that the Swiss bank, which started life as project of physicists headed by Andrey Duka in 1998, is not proud of the tight spreads that its technology can deliver to its clients – it offers two-way prices in major currencies pairs such as EURUSD in just 0.2 of a pip.

"It is a subject of pride that we provide average EURUSD spread to our clients in 0.2 pips, not 2 pips like 10 year ago," says Dr Duka. "There is no secret on how to get tight spreads for your clients: a great level of technology and the concept of the ECN, or electronic communication network."

The firm has about 30 different liquidity providers in its ECN.

A foundation of transparency

Transparency is one of the principles upon which Dukascopy Bank is built, and the firm makes every tick of price that it provides for its clients publicly available online, so traders can consult as to what the level was at any particular moment in time.

This, says Andrey Duka, is not just for investors that want to study the market and create trading strategies and automated trading strategies from the data, but also a way for the company to be able to say that it treats every customer the same way and is not able to manipulate the market against any particular client.

Five or 10 years ago, notes Dr Duka, there were forex brokers that hunted for the orders and stop losses that their clients left them, one of the reasons why the retail FX sector had a bad reputation in the past.

"Right from the beginning, from the creation of Dukascopy, we

chose an approach that is absolutely transparent and we published all our data," he says. "And every client can consult to this open source of information to ensure that he was treated in a proper way, in accordance that every client gets access to equal data."

An increasingly sophisticated asset class

Clients are increasingly using that data to back test their own strategies, and the firm offers customers tools to create their own automated trading methods even if they do not have programming expertise by using drag and drop functions via Visual JForex. This, the firm says, has proved very popular among clients, showing that investors have become more curious about whether their trading strategies worked well in the past. That demonstrates that participants in retail FX are increasingly acting like investors in other asset classes and are becoming more and more sophisticated in the way they trade.

Indeed, Andrey Duka notes that investment ideas are now verified automatically by the majority of traders.

"In previous years, FX trading was mostly emotional, but it is becoming more and more based on some calculation and testing," he

says. "It looks more and more like the results of engineering."

That increasing level of sophistication feeds through to the bank's view that the retail FX market, which currently generates volumes of \$325 billion a day, will continue to grow.

For its part, Dukascopy Bank believes the future opening of a Japanese subsidiary, as well as the launch of binary trading products and a new platform that will combine FX and CFD trading on one platform will help to drive growth at the firm.

The screenshot displays the Dukascopy website interface. At the top, there are banners for opening different types of accounts: 'Open Current Account with CHF 1000 Swiss', 'Open Demo FX Account with 100,000 Swiss', and 'Open Live FX Account with 200,000 Swiss'. Below this is a navigation bar with links to 'Community', 'Trading Contests', 'Analytic Contests', 'Fun Contests', and 'Help'. The main content area features a large banner for a 'Total Annual Prize Fund' of '\$1 000 000' with the text 'Forex Trading can be fun and social!'. Below this is a section titled 'Join Dukascopy community' with a 'Register' button. Further down, there are four contest cards: 'Trader Contest' (prize \$16,000 monthly), 'Signal Provider Grand Prix' (prize \$11,500 quarterly), 'Social Trading Contest' (prize \$2,000 monthly), and 'Strategy Contest' (prize \$15,000 monthly). The bottom of the page shows a 'Random question' section with a question about the Dukascopy FX Article Contest, and a 'Price Prediction' section with a question about the forecast for Gold three months from now.

"So it is nothing special, we just carefully add different liquidity providers, different banks on our network, and competition between them creates better conditions for customers," says Dr Duka.

"We don't differentiate when we provide liquidity to any client: institutional or retail, big or small, they get access to exactly the same liquidity pool. They then are able to put in their own liquidity, to add and increase the liquidity of our ECN with their own bids and offers."

From a broader perspective, Alain Broyon believes the market will continue to grow at the speed it has achieved in the last few years.

The benefits of regulation

"It will really become, from our point of view, a truly alternative asset class to the traditional ones," he says. "We really believe now that FX has become more mature. And regulators are taking steps to protect clients' investments in the same way as in other markets."

As a Swiss bank, that regulation means Dukascopy Bank's clients funds are guaranteed up to SFr100,000 and that the firm itself is subject to tight controls regarding its operating systems and how it manages its own and its clients' funds.

Alain Broyon is not concerned by these controls and considers them a good trend, however. It provides, he says, not just protection for the client but also the market, and enhances its reputation.

"If FX develops as it is now and becomes more and more regulated, there will be more possibilities for our bank to develop in this market."

Andrey Duka concurs that regulators currently are sophisticated and effective in FX, offering

sufficient protection to clients, although he notes that they are currently more concerned about the regulation of regulated brokers than those that are non-regulated.

More should be done, Dr Duka believes, to bring currently unregulated brokers under control.

"They should use the legal methods at their disposal to restrict the activity of unregulated brokers," he says. "It is not so difficult to reach them. There are various ways to control the internet and it is possible to investigate them and freeze their assets."

FX an increasing obligation for large banks

That said, the firm believes more sophisticated regulation is enhancing the reputation of the industry, so much so that the world's largest banks are now entering the market and offering FX to their own clients as a result of the regulatory clean-up of the industry.

"It improves the reputation of the industry, which is very promising. It is becoming almost an obligation for all banks to offer FX alongside the other assets they provide to their clients," says Andrey Duka.

"Every bank in the near future will be obliged to do the same just because of competition. It will be considered an ordinary service."

That will provide Dukascopy Bank with an opportunity as banks attempt to adapt to the new technology necessary to

provide an effective retail FX offering. As Andrey Duka notes, independent of the size of a bank, developing its own technology in-house is a difficult proposition, even for the largest of financial institutions.

"This is why we consider the supply of technology as one of our strengths," he says. "We position our brand as a technology supplier."

Dukascopy Bank already has white label or custodian relationships with a number of banks, from Switzerland, to Japan and Australia, and



Alain Broyon believes Dukascopy's status as a bank itself is an advantage as financial institutions look to scale the high barriers of entry necessary to develop a competitive retail FX offering.

"We think they prefer to rely more on technology providers who have the background of a bank – for stability and the regulatory advantages of a bank environment – rather than those who are purely a tech company," he says.

The power of technology

For the future, Dukascopy Bank believes its technological expertise is the key, and the way to remain relevant and to beat the competition is through intensive investment in a wide range of different technologies.

The bank says it re-invests all its resources and positive cashflow into its own technology that is all developed in house. Indeed, during the last 10 years, no profits were distributed to shareholders, with everything reinvested in the company.

As Andrey Duka states: "The main ambition is for Dukascopy Bank to continue to remain a reference point in the industry; to remain the benchmark in retail FX."

For further information: www.dukascopy.com