Adopting smarter go-to market strategies with FX White Label Services

As new firms enter the FX market, their need for technology, infrastructure and expertise is encouraging them to buy into the white label service model. Nicholas Pratt examines what they should look for from a potential provider.

There are two very clear reasons why the white label is emerging as the preferred option for FX brokers, says Jakob Zublacki, managing director of X Open Hub, a cloud-based white label FX trading service. "It is very easy and relatively cheap. There are an increasing number of banks and brokers entering the FX market without much prior experience and a white label provides a lot of those duties."

However, as with anything that is supposedly easy and relatively cheap, there are a number of additional issues that potential customers should consider before choosing one. "The biggest issue to consider is how big the FX business of that white label provider is, the potential for more growth and the level of flexibility it can offer. Some white label offerings are very cheap but they are not very flexible and the potential for growth is very small," says Zublacki.

Brokers should also look at the level of profit-sharing that is offered and the level of support it provides, as well as the standing that the white label provider has with the market participants, says Zublacki. "A lot of brokers are providing white label services but what is their reputation in the market – even with retail traders."

WL BUSINESS MODELS

In terms of business models, there are three main categories within the white label market – the old one where the WL taker sends all flow to the white label provider and gets a rebate back; the pure profit sharing model where the white label provider takes a share of the profit from the main broker or the hybrid model where the white label provider gets a mixture of fees and shared profit.

The pure white label offerings have a well-established reputation in the market and offer the entire service on a profit-share basis but the flexibility is limited, says Zublacki. "If you are using a pure white label, then you are limited to their solution and limited to taking their liquidity. There are other ways to go and that is what we are banking on with our cloud-based white label service. We create a truly open environment so when the broker wants to add a new service – social trading, risk management, aggregation – they can do that. We think that flexibility is very important.

"Mostly brokers are divided between pure STP and internalising the flow for the latter, risk management is very important. In our solution we give them the option to intelligently manage their flow and internalise some of it. This something that pure white labels are seeing but do not have the right tools or experience for internalising flow or aggregating liquidity. We are also looking to add additional services like binary trading for example," states Zublacki.

SOCIAL INTERACTION

One of the reasons that white label technology has become so prevalent in the FX market is that there are so many new entrants short on experience and trading tools and reliant on the offerings of more seasoned practitioners who have, in effect, become the masters of the FX universe. This opportunity has also led more FX firms to consider opening their own FX brokerage and offering their own white label service.

However, says Luis Sanchez, vice-president, Head Institutional Sales Europe & America, at Dukascopy Bank, there are two things for brokers to consider. "If you want to enter the FX business through a white label, it is not just about the technology. There is also the social interaction."

In particular, Sanchez says it is important that brokers employ a white label service that is able to offer an FX community to its traders. A perfect example of this can be seen in how the brokers' webpage is used, says Sanchez. "When a client goes to the broker for the first time, it will go to the webpage, download a demo and then, when the client feels more comfortable, it will open a live account, download a trading platform onto their own desktop and start trading."

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Luis Sanchez

Unfortunately for the broker, they will rarely go back to the website. But if the broker was to provide a dedicated web TV channel with trading tutorials, chat facilities and a genuine FX community, traders would go back to that website on a daily basis to read news, gain insights into new trading strategies and to debate ideas with fellow community members.

“It takes the relationship between brokers and their clients to the next level. Without that community and the social interaction, the client is simply trading and that is the bare minimum that a white labelled service should provide.” Other services to be considered include mobile trading tools, says Sanchez. “For a number of years they have used mobile devices to track their positions but now they must have mobile applications that are reliable enough to trade on.”

Another important issue to consider when selecting a white label provider is whether they will be a true partner or a potential competitor, says Sanchez. For example, the provider might supply a white labelled service to a broker in a far flung country with little FX business. A year later, once that broker has developed an FX market, the white label provider opens an office there and becomes a competitor to its partner.

“A white label provider should be transparent and neutral. It should have a business model that means it only makes money when the broker makes money. If it charges a flat fee every month, it will be very hard for new starters to focus on developing on their business without thinking of the invoice they have to pay every month to their white label provider,” he states.

MINIMISED RISK

Going for a white label offering allows banks and brokers to develop a proper eFX business whilst minimising risks in terms of business and technical integration as well as time to market, says Olivier Virzi, chief operating officer of Olfa Trade. “Investment and operational costs to operate a white label are easily measurable allowing for a simple ROI calculation and, as a result, the genuine added value of this service for a company.”

Opting for a white label solution gives the opportunity for a firm to focus on its core business and to delegate back office operations and responsibilities to the chosen white label partner, says Virzi. “The level of granularity the broker needs in its eFX business will lead him towards the white label partner offering the matching level of service, support and transparency he will need for its own clients. In such a rapidly evolving market though, brokers will logically look towards quick and flexible partners on top of being robust and competitive.”

White label providers can also help brokers to grow their market share and take advantage of new regional business growth opportunities. “There is undoubtedly a strong co-linearity between brokerage firms’ business growth around the world on one hand and the white label solutions providers’ infrastructures growth on the other hand,” says Virzi. “The white label provider, in order to provide those brokers with a quality service wherever they wish


Jakob Zaublacki

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to develop their business, needs to have a good knowledge of these regions. Let's say for instance that if a broker want's to tackle new markets in Russia or Asia, this brokerage firm should definitely go for a white label partner with, at least, a local technical presence in these regions in order to avoid a strong rejection rate."

FRONT-TO-BACK TECHNOLOGY

The main benefit of using a white label solution is that a company does not need to invest money up-front to fulfil their technology requirements, says Jonathan Brewer, head of e-FX Business Development at Sucden Financial. "A white label provides front-to-back-technology "out of the box", enabling the licensee to focus 100% of their efforts on sales and customer service. There are a number of reasons why a company might choose this as an option. They might not have the capital to invest up front in expensive technology and they might not have the expertise in house to manage and support the software and hardware. This is critical, as poorly implemented technology will always result in a deterioration in the end client's experience. Furthermore, they will want to launch the platform as quickly as possible. A good white label should essentially be a very fast and low cost entry point into the FX market for a new participant."

Despite the increasing regulatory requirements and the potential to capture new business opportunities, there is a conspicuous lack of development in some areas of the white label market, says Brewer. "I would contend that many of the major white label offerings have not evolved very much in the last few years. The main players in this industry offer largely the same structure and systems that they have offered for some time."

For other white label providers there is a large focus in the market on trying to offer more product types to an increasingly demanding client base, says Brewer who adds that Sucden Financial is currently working on a product to fulfil this exact demand. "The key point here is that many established multi-product white label providers market-make the flow that they receive, thereby taking the lion's share of the profitability. We see this as a key weakness in the white label market, which we have addressed with a fully STP multi-product white label offering."

The process by which a firm should select a white label provider is absolutely critical to the profitability and longevity of their business, says Brewer. "There are so many hidden pitfalls in this selection process and there a number of questions that a broker should ask of a potential

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provider." The first of these relates to the risk of disintermediation if the white labeller services the same client base that the customer is targeting. "If this is the case, then you run the risk of losing your clients as they can go direct to the white label provider. Sucden Financial does not offer its white label systems to clients who are individuals, specifically to avoid this conflict."

The broker also has to assess the terms offered by the white labeller. "Are they market making the flow? Do you want a white label provider who is trading against your clients? Are they offering me an omnibus account? This is very important as it will have a material impact on your swap and financing revenue. How much flexibility do they provide in terms of the pricing, commissions and account types that I can offer to my clients? Is the white label provider already active in my principle jurisdiction? There have been many cases where a white label provider uses a client as a 'test case' to prove the potential in a given jurisdiction and then, if the white label is successful, opens an office there to take advantage of the market directly."

White label services can also be leveraged to give FX providers access to a wider range of trading applications, says Brewer. "There are many white label platforms that specialise in particular areas, such as binary, social, mobile or automated trading. Many of the major white label providers have been offering the same product for some time now, with some minor tweaks, for example mobile trading. We try to be nimble in response to client demand, which is why we are looking to launch a multi-product STP white label later this year, along with a mirror trading white label solution as well. We specialise in providing our white label clients with the core ingredients they need to grow their business such as tight pricing, good execution, reliable systems and 24-hour support. These elements may seem obvious, but you can offer all the bells and whistles you like; they will count for very little if you get the basics wrong."

The revenue sharing, business models and customised partnerships adopted in white label service provision are also considerations for brokers. "Most white label consumers are trying to find a competitive advantage in an increasingly crowded industry. In light of this, it is very important for white label providers to be nimble and to help prospects customise their technology in line with their business model."

WIDE-RANGING SOLUTIONS

The core requirements of any white label solution are aggregation, liquidity and margin risk management and the granularity with which the broker can control these key elements, says James Colinders, vice president of sales and head of Currenex Private Label Solutions, State Street Global Exchange. "Brokers should look for integrated technology providers that offer the widest range of trading solutions. End clients look for the flexibility to place a

James Colinders

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wide range of orders, but also ask for a wide array of distribution capabilities. Solutions that natively support products such as pre-trade allocation tools, multi-language support, mobile trading platforms and an array of connectivity options will undoubtedly provide the most flexibility for a broker to adapt to ever changing client needs."

As important as this flexibility is, it is very difficult to predict the demands the world's FX brokers will face in the short-, medium- and long-term, says Colinders. "A broker that has no need to accommodate money managers with PAMM allocations today may find themselves with an urgent need to provide this functionality in a very short period of time. Moreover, a broker that only focuses on providing margin trading today, may find themselves needing to offer credit risk management tomorrow. Generally speaking, for a white label solution to be scalable, it must be broad and offer solutions across the full spectrum of FX market participants."

An effective white label partner can not only help FX brokers grow market share and facilitate fast entry into the market, but they can also help a broker take advantage of regional business opportunities, says Colinders. "Core aggregation services result in true exchange-style trading and deep liquidity for all types of brokers. Multiple products, from spot FX to precious metals to Forwards and NDFs help expand a broker's offering. Expansive and scalable infrastructure with maximum uptime gives comfort to a more professional base of clients. All of these elements may be more than is originally within initial scope for an individual broker, however knowing that the flexibility exists will provide the opportunity to capitalize on immediate and long-term growth. From a regional perspective, price sensitivity to various currency pairs can vary widely and the ability to tap into customizable pools will therefore yield an enhanced offering. Customized trading interfaces as well as granular controls around back/middle office tools with accompanying diverse liquidity pools will facilitate the highest level of regionally-focused service."

Firms should take many factors into consideration when choosing the appropriate partnership, says Colinders. "Some of the key factors include a fast but stable platform, comprehensive customer support and client services and broad industry acceptance. An industrial strength FX solution can offer the necessary resiliency, flexibility and liquidity to run a nimble and reliable business."

White label providers can also help brokers to grow their market share

Also critical to the evaluation process are the distribution capabilities of the white label provider, says Colinders. "A trading firm will be well off to partner with a technology provider that can offer many different distribution mechanisms including front end desktop trading interfaces, mobile trading solutions, connectivity to social trading systems, connectivity to stand alone systems as well as the ability to integrate with any new products that may arise in the market place. Having a solution that provides robust and flexible integration options will help to ensure that the trading firm has extensive distribution capabilities."

"Brokers should look for a partner that services a broad array of clients," adds Colinders. "This illustrates the foundations of a capable, scalable and technologically advanced solutions provider. The most critical requirement is the ability for the provider to create a custom ECN solution tailored specifically to the client's needs."

Finally, these customized solutions must be executed and rolled out smoothly, says Colinders, especially as a vast proportion of white label clients will be new entrants to the FX market and will be relying on their technology provider to make this entrance as seamless as possible. Consequently, an experienced provider may prove more alluring. "Many white label clients are making a first impression on new client bases or existing client bases. For these, any hiccups in deployment can be very costly. The more established white label providers have gone through hundreds of deployments and have the most experienced and capable client services teams to support the deployment effort. This experience is ultimately invaluable to clients."

Market entrants should look for technology partners who understand the multifaceted demands of an effective FX distribution model.