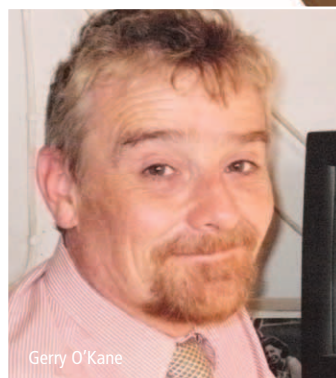


Capturing new business opportunities with FX White Labelling



Gerry O'Kane

Gerry O'Kane examines what factors should influence a brokers choice of FX White Label solution and strategic licensing partner to work with and in what ways WL partnerships can help trading firms to grow their market share and take advantage of fast evolving regional business growth opportunities in FX.

White-Label (WL) solutions for financial trading applications have been around for many years and for those companies in the business who have patiently and diligently been designing WL solutions for the FX market, their investment of time, money and expertise is now starting to pay off.

The evolution of the WL business has not been without its obstacles, although the lessons learned have brought richer solutions

and opportunities to both those providing White Labels and those seeking them. "Ten years ago, there was limited interest from mainstream financial institutions in White Labelling. But, over the past several years we've definitely seen an uptick in white label partnerships between established FX firms and broker/dealers, banks and other financial services firms," reveals Muhammad Rasoul, Chief Product Officer at Gain Capital.

Indeed it is no secret that at many of the big Retail FX players there was initial scepticism that platform provision to competing brokers and adding commission on trades would be a successful model. However as the technological landscape changed,

particularly with the migration to internet trading, and regulatory concerns drew more attention, the White Label model came into its own.

A White Label system is an application or platform provided by a third party, generally offering technical solutions and services that can range right across the brokerage's front, middle and back office operations. The most common cost structure is to offer a White Label system with no up-front cost with the provider generating revenue by taking a cut of the trades that pass through the WL system – the amount or percentage being dictated by the sophistication of the solution and the volumes involved.

Ideally it offers a fast-track, cost-effective, efficient and ready-made business solution to generate new revenue opportunities, while addressing brokers' resource constraints such as IT development budgets, staffing limitations and experience.

Choosing a solution

Deciding which WL solution may be most appropriate for a particular brokerage however is not necessarily just about issues such as the IT capabilities and functionality of the platform.

"In my view when the process starts in choosing a WL solution, liquidity is ultimately the most important thing a broker looks for. He'll sell his services on a better Euro/Dollar spread and that's the real issue," says Jonathan Brewer, head of eFX sales at Sucden Financial. "The speculative end of the market



Muhammad Rasoul

"..over the past several years we've seen an uptick in white label partnerships between established FX firms and broker/dealers, banks and other financial services firms."

we're servicing will be in the most actively traded pairs like Yen/Dollar. They're the cheapest to trade and they move a lot. Having deep pools of liquidity helps to lower trading costs." Interestingly, while the provision of access to emerging market currencies is nice to have, it may not be the game-winner so often thought. "As we do a lot of business in the Far East we thought having CNH/Dollar as a currency pair through our White Label would produce a lot of business. In practice volumes are negligible and major currency pair trading continues to dominate," he observes. While he admits Turkey's retail trading

of the lira might be the current exception, in general 'obscure' currency pairs are not critical. "But I do think that'll change, so you do need to be prepared," he adds.

Partnerships

While the wish-list of new brokers can be expansive, industry experts argue that the best White Labelling solutions involve more than just a technical product.

Like others in the sector, Artur Filipowicz, a White Label specialist and relationship manager at Dukascopy Bank, argues that those banks or brokers seeking a White Label, should look beyond the IT systems: "In some cases we've seen firms offering what they call a White Label solution and who just leave the client with the technology and walk away. It's also critical to create a synergy with your partners and that's how the relationship should be regarded – a partnership."

"Our view is that we want to help them go to market with their new FX product range and they often need help in knowing how to position themselves in the market. For example a Swiss private bank might have different requirements than a retail Japanese FX operation. The partnership is not just about provision of a solution," advises Filipowicz.

"There's certainly a need to work as partners, rather than as client/service provider. For example, we often collaborate with our partners to define and customize their FX offering based on the profile of their existing customer base.

Often we find that WL partners don't really know what they should expect to be getting out of the business and our expertise is invaluable," explains Rasoul.

"Anyone taking a White Label solution has to have confidence and one hundred percent trust in the relationship because of the reliance they have on the solution. You neither want the system or provider messing with clients' trades in any way. Today, firms have got the choice to go elsewhere if they are not completely happy with the solution or service," warns Brewer.

And in his opinion, two factors that really matter in that security of service guarantee is a White Label provider that doesn't take market positions and open themselves to trading risk and whose own operations transparently comply with

both the detail and spirit of good governance. "We've seen it recently with brokers whose collapse has left companies who depended on them with seriously damaged business models. While you might not want a company solely dependent on one marketplace, you certainly don't want one running a big proprietary trading book when the risk goes against them," argues Brewer.

Indeed another facet of many White Label products is that rather than simply putting the house brand on it, companies will allow co-branding, like Dukascopy Bank, which gives clients a further reassurance of corporate solidity.

Influence of traders

The importance of transparency and governance is not lost on the clients of brokers either and this too influences what a White Label solution should provide. According to Vladimir Kisyov, a director at DF Markets, as retail traders have become more discerning, they're also expecting a service that provides them with the tools to follow execution



Jonathan Brewer

"In my view when the process starts in choosing a WL solution, liquidity is ultimately the most important thing a broker looks for. He'll sell his services on a better Euro/\$ spread and that's the real issue,"

of trades and provide analysis of things like slippage. "So on the technical side, provision of straight through processing (STP) in a WL solution is fundamental," he argues.

"Certainly the retail investor is taking a greater interest in the technology in as much as they want to know where their trades are going to be executed – if you click on buy, how is that message dealt with and executed, is it auto hedged, or is the white label provider trading against your clients?" says Brewer.



The issue of regulation in a global context should also give prospective WL clients food for thought. “It’s very important that you have the deep pockets and skills to update the platforms and customise the solutions for the local market,” observes Filipowicz. “For example the Japanese FX market is very strictly regulated and we’ve had to develop components for post-trade data, calculating how much risk they offer clients. It’s very important to have a customisable solution especially suited for different jurisdictions,” he adds.

Growth and new markets

The expansion of FX trading is creating more challenges for White Label providers. New markets like Asia are expanding. Established players suited to the US market are seeking new opportunities in Europe, as leverage rules become stricter at home. Large institutions are seeing staff leave to set up small operations, using the low-cost structure of a White Label to set up new businesses. Banks are looking to the retail FX markets they once spurned for healthy new revenue streams, while traditional investment plays trudge nowhere.

That new customers are seeking White Label solutions is without contention. While figures specific to the sector are hard to come by, individual operators are reporting big gains in business. “Over the last year and on a rough estimate, I’d say our White Label business has increased by about 40%, certainly boosted by financial operators looking for new sources

of revenues. With equity and bond markets generating almost negative returns, they’re looking for something new and highly transparent to drive profit,” reveals Filipowicz.

The Retail FX trading marketplace is seeing rapid growth. Figures from Aite Consulting show that trading in all FX instruments in 2010 hit US\$3,981 billion, of which spot FX accounted for US\$1,490. Retail spot trading is now US\$313 billion or 7.9% of total spot trading, nearly doubling from 2007 when it stood at US\$136 billion.

It is not just the larger well-known names in the WL sector that are reaping the rewards. Companies such as Dukascopy Bank, FX Solutions, FXCM, Gain Capital, GFT, Interbank FX, MIG BANK, OANDA Corporation and Saxo Bank dominate the White Labelling market but new players like DF Markets are seeing its growing potential and are hoping to break into it.

They face a tough battle, however, as factors which influence brokers in choosing White Labels can go against any newcomer. “We know it’s a tough marketplace and although DF Markets is a young company, we’re owned by broker Deltastock, which has been in the FX business since 1998 providing proprietary trading technology and we think this expertise gives us an edge in the provision of White Label services,” says Kisiov, a director at DF Markets and also business development manager at Deltastock.

The arrival of banks

The demand for the White Label services is also diversifying. Once dominated by demand from erstwhile market makers and FX broker specialists, WL solutions are now being sought by banks as well. “Banks are watching the growth in retail volumes and see a revenue opportunity for themselves. And the banks with wealth management businesses are responding to client demand for the service,” says Muhammad Rasoul at GAIN Capital.

This development in itself brings new challenges to the White Label market. CitiFx Pro (the retail forex trading division of Citibank) uses Saxo Bank’s platform, while HSBC uses



Artur Filipowicz

“It’s also critical to create a synergy with your partners and that’s how the relationship should be regarded – a partnership.”

Oanda's fxTrade platform and offers retail trading to its Hong Kong-based clients. Both Barclays Capital and UBS, once dismissive of retail FX, have also jumped on the bandwagon.

"In our experience, most retail FX initiatives inside banks are often driven by either their FX division or wealth management, neither of whom have a lot of experience marketing to or servicing retail brokerage clients online. For banks, White Label solutions are a good option," says Rasoul.

According to Kisiov, in these circumstances WL solutions can often become very complex. "Sometimes you can't generalise about the solution as it's specific to each company and being able to supply turnkey solutions on top of the White Label is important," he says. "Being able to take the most popular retail component like MetaTrader and connect that to the bank's own system requires a supplier with proprietary experience, producing application interfaces or bridges to their own risk management systems or the systems of the prime brokers providing the liquidity," Kisiov adds. According to Rasoul the banks may also be looking to offer the most sophisticated selection of FX products with a more institutional flavour: "They might want not only spot trading but forward contracts, NDFs and even currency derivatives and they feel it should be a more institutional and professional feel."

Do you need all the features?

But understanding your market is critical, as is whether you



Vladimir Kisiov

"Some firms are now offering two White Labelled solutions in order to offer different platforms and features, giving their clients more choice even if most of the financial instruments overlap,"

really need all the features a White Label could offer. "An experienced white label provider can provide custom solutions. This allows clients to focus on what's important to their target markets, whether that be specific currency pairs, custom tools like branded mobile apps, or automated trading capabilities. An off the shelf solution will not be successful – the retail FX market is too competitive," says Rasoul.

As that level of sophistication comes, so do a plethora of feature-rich White Label

solutions and not always for the better. "I think one of the mistakes companies make in the world of electronic trading is forgetting that trading itself is a relatively simple process. Clients want to buy and sell quickly and the vast majority want a platform that's simple. It's nice to have bells and whistles but a lot of it can simply be noise," warns Jonathan Brewer. "There's a whole industry built around MetaTrader plug ins. Some are good, some are complex and some are an accident waiting to happen and the brokers have to consider this risk," he adds.

Brewer also points to another issue brokers should consider: "The market is now aware of the elements like reliability, spreads, commissions and liquidity, but something that often gets overlooked when selecting a White Label provider is to consider whether they are competing with you in the retail market."

"Large players are offering systems to white label partners but then also providing the identical systems to their own retail customers. This means that they're directly competing with their white label clients. That seems pretty counter-intuitive as a business model to me and I am amazed that the broker taking the white label seems not to consider this as a primary factor in their selection process, it's a competitive enough market without having to compete with your broker," he says.

New developments

Not perhaps as a result of these competitive anomalies, but as the market structure becomes more complex and clients and



geographies have their own requirements, some companies have adopted multiple White Label agreements. "Some firms are now offering two White Labelled solutions in order to offer different platforms and features, giving their clients more choice even if most of the financial instruments overlap," says Kisiov.

It's important to also mention the impact that new delivery channels may have on the WL space.

Aite Consulting found the online FX market to be growing exponentially with the need for web-based solutions now being virtually ubiquitous. However as with other internet sectors,

the demand for mobility will inevitably rise. As a result, 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.

Social Investment Networks are also 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.

The most common argument for use of a White Label solution

is giving brokers fast entry to market and lower costs. But it is the intricacies of what Filipowicz describes as 'partnership' that creates the best business opportunities for all sides involved. While product-makers see the sales of their software and platforms providing them with additional income, it is no longer a process of simple IT sales.

The continual evolution of the FX market requires brokers to prepare themselves for future trends, while being fully cognizant of what's driving customers to them. White Labelling is therefore a powerful tool in helping brokers to meet these future challenges and remain competitive.