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# White Label Partnerships: the key to speedier FX growth strategies



Heather McLean

Interest in White Label partnerships is growing amongst brokers and financial institutions (FI's) looking to quickly break into the FX industry, and in particular for those targeting the retail FX sector. When time, cost and opportunity to trade efficiently and fairly are weighed up, White Labelling seems to come out on top. Heather McLean explores why it is increasingly the correct choice over other options.

In order for FI's to be successful in the FX industry, they need to have trading volume, says Bart Res, managing director at Nexaweb Europe. He remarks that without volume going through the books, banks will have a far less interesting trading proposition and will compete with specialised brokers and traders without competitive advantage. Since the late 1990's specialists and analysts have been saying that ultimately there will be seven to 10 banks globally that successfully operate in FX trading, dividing 80% or more of the trading among them, adds Res. "The reason for this consolidation of business is that the market is so transparent and liquid, that trading in most currency pairs or yield curves is virtually done at no bid-ask spread.

“Tapping into retail and SME business is tapping into where the volume growth is,” continues Res. “Research shows that retail and small to medium sized businesses are expected to be the fastest growing number of users of currency and interest rate management products over the next years. At the same time FX is not a high interest product for these clients; they are unlikely to change banks over an FX proposition, so partnering with banks that have existing trading infrastructures and client relations is key to reaching these markets.”

“From the point of view of smaller banks partnering makes sense too. These banks are investing in client relations more than they do in product development. As setting up a typical trading activity is costly and in some ways impossible (due to an inability to manage new risk management, remuneration structures, IT and other overheads), there is value in White Label partnering for them.”



**Bart Res**

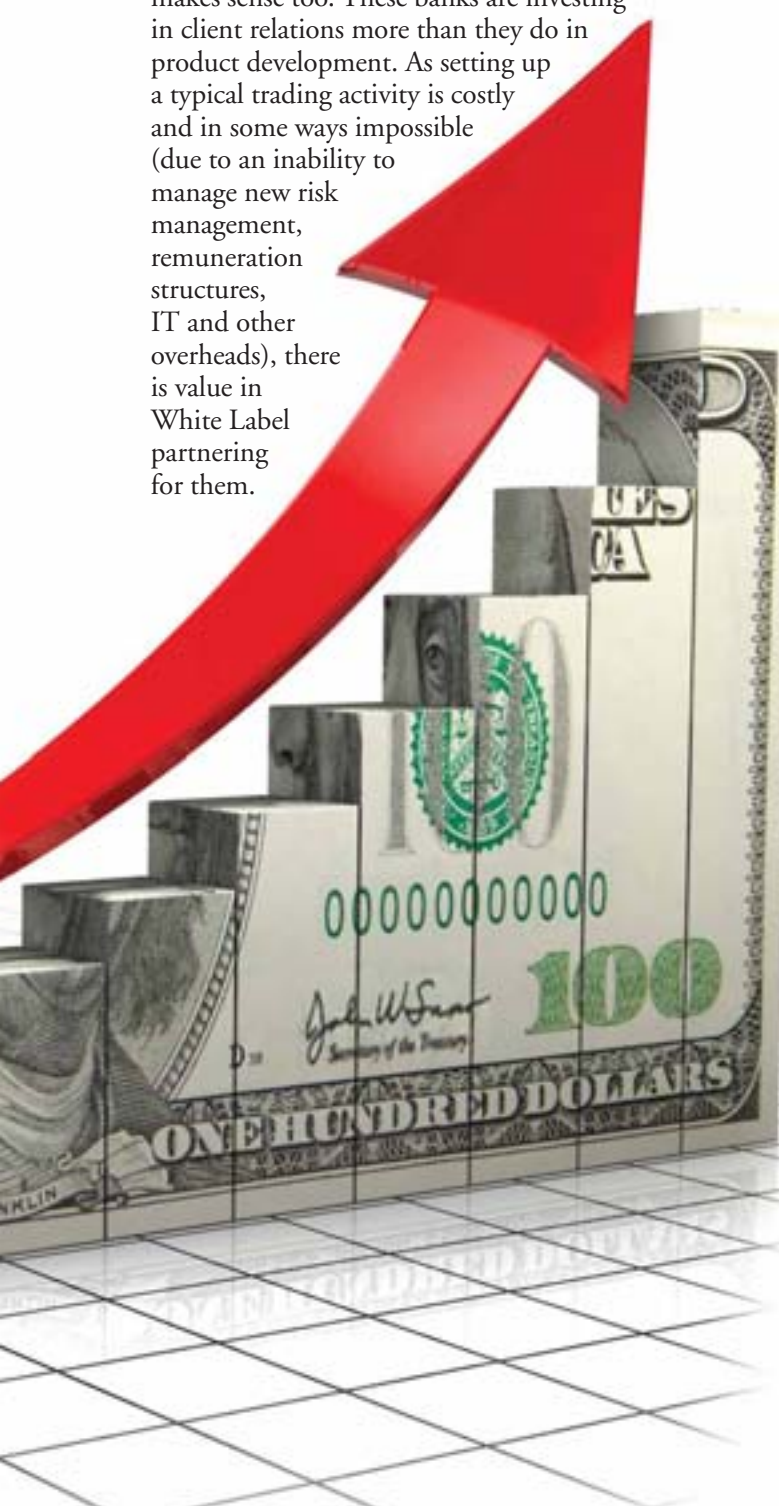
*“Research shows that retail and small to medium sized businesses are expected to be the fastest growing number of users of currency and interest rate management products over the next years.”*

They can still book the sales margins, and the traded volume is transferred to the partner leaving no market risk,” says Res.

### Growing interest

Res adds that the reason this development has taken off recently is twofold. The first reason is big banks understand that even they can't do everything. To some degree they have to focus on what they do best, and if being among the successful FX trading centres is one of their ambitions, they need to look beyond their current clientele. The second reason is the growing interest of retail and SME's in FX and MM services which is rooted in the fact that they have been hit by the volatility in interest (credits) and exchange rates over the last few years. Combined with the challenges that the overall economy and consumer spending in particular present, they can not afford to not manage that risk going forward, Res states.

Michael Markarian, president at Divisa Capital, comments: “I believe there are several reasons why we have seen increased interest in White Label partnering.





**Michael Markarian**

*"...a White Label partner can be approved and rolled out to a broker's client base in a matter of a few weeks without any interruption of the existing services."*

First, FX is a natural extension of the existing suite of products already being offered by brokers and FI's. Clients that already have a basic understanding of markets and trading find that adding FX to their repertoire is very straightforward.

"Second, a White Label partner can be approved and rolled out to a broker's client base in a matter of a few weeks without any interruption of the existing services. This is paramount as a broker or FI does not want to jeopardise the revenue stream from their existing trading operations. Third, and most important to FI's and brokers, FX in most cases will offer the largest profit margins of all the products (equities, futures, options, etc.) that they offer to their clients.

"This is especially true in today's environment where leverage is being dialled back and commissions on all other products are squeezed, as trading is increasingly being commoditised. In short, a White Label partner offers a broker or FI the ability to offer their clients a relevant product and generate higher profit margins, all while maintaining their brand identity without having to specialise in retail FX," concludes Markarian.

### Why White Label?

When a broker or a financial institution decides to

start up its own brand as a new broker it is usually looking at three main obstacles, says Lior Shmuely, vice president of business development at Leverage. These obstacles are: cost in setting up the brokerage and initial running expenses; time to market; and the level of expertise necessary for its personnel.

"A White Label solution allows the new broker to enter the market with minimum set up costs and lower running costs, the shortest possible time to market and with a lower level of expertise across the dealing and IT departments," comments Shmuely. "In short this is an easy start for a new broker. With these advantages, it's no wonder that the White Label solution has become such a popular method to enter into the FX retail brokerage market."

While John Stead, business development manager at First Derivatives, comments: "The common reasons for choosing a White Label partner still very much hold true, such as time to market and testing the water with your value proposition with minimal investment. However, the previous alternative of developing one's own platform has become increasingly complex from a business and technical point of view.



**Lior Shmuely**

*"A White Label solution allows the new broker to enter the market with minimum set up costs and lower running costs, the shortest possible time to market and with a lower level of expertise across the dealing and IT departments,"*

“Potential broker or FI entrants to the market are now finding more and more that their prospective clients are demanding ever increasing functionality from trading platforms, including advanced orders and graphing capability, back testing strategies, reporting and trade analysis tools, and API access,” adds Stead. “Developing such technology is an expensive and a time consuming endeavour, especially when the platform I must also be stable, scalable and user friendly.

“This has the effect of raising the barriers to entry of new participants who have in the past simply developed an inhouse trading platform,” Stead continues.

Peg Reed, managing director, global partnerships, Interbank FX, states that by becoming a White Label partner, a firm is able to add revenue to their existing sources of income, but without the extensive technology development, licensing, and protocols that would be required to do it in-house. “Furthermore, starting up as an FX broker in-house requires significant capital and significant start up costs that

would not be required as a White Label partner. Firms are able to mitigate much of the risk by becoming a partner with a White Label partner.”

On how the value proposition and advantages of White Labelling compare to buying in the relevant expertise or developing online FX trading operations in-house, Res notes that a bank with limited FX volumes will not be able to set up an FX trading operation that is cost neutral. It will end up spending money on hedging the sales trades, compared to transferring the volume at inter-banking prices to a larger operation, which may weigh against the bigger control over the ultimate offering to the client in terms of products and the way they are delivered to clients, he states.

“The main disadvantage is that setting up a trading operation takes a typical sales-oriented bank out of their comfort zone. It requires new levels of risk management, human resources, marketing and IT investments. Setting up an individual trader will cost around \$1 million, just in subscriptions and IT structure, exclusive of risk management and compliance expenditure,” Res warns.

### Build versus buy

Stead agrees that taking a White Label partner solution will give a broker or FI an off the peg trading solution from day one. He says: “This is an appealing prospect, especially for new entrants to the market who want to establish themselves quickly with minimal investment.”

Yet Stead adds that buying a platform is a viable alternative to using a White Label partnership, which may have limitations for some users. He explains: “As a broker grows more established and sophisticated, it will often look to its pricing and deal flow as ways of maximising revenue and gaining a competitive advantage in terms of pricing offered to clients. Here, the restrictions of a White Label partner can become apparent, with the broker locked into one source of liquidity and having minimum choice in how deal flow is processed. It may also be apparent that the provider of the White Label partnership is also a possible competitor for the same client base, which can lead to potential conflicts of interest. Developing an in house platform is at first an attractive proposition as it can be made to meet the exact perceived requirements, will have a unique look and feel and the broker will have complete control over all aspects of future development,” notes Stead. “However as clients grow more demanding and knowledgeable the kind of platform that would need to be



**Peg Reed**

*“The main disadvantage is that setting up a trading operation takes a typical sales-oriented bank out of their comfort zone. It requires new levels of risk management, human resources, marketing and IT investments.”*

# DON'T BE LEFT OUT IN THE DARK TURNKEY SOLUTIONS FOR YOUR BROKERAGE



developed to compete in the market is ever more sophisticated and difficult to develop.”

Stead adds: “A good middle ground is to buy a platform from a technology provider. This has the benefit that the broker can still obtain a proven platform but one which has been developed by a company whose focus and expertise would be geared to trading technology not acting as a potential competitor in the market place. By buying in a platform the broker has the option to choose their sources of liquidity to match their value proposition, for example specific currency pairs or depths of market. Liquidity may well be available at preferential rates by the broker establishing the relation directly with the market making bank themselves (via prime brokers), with brokers free to choose which liquidity providers used they can be sure that the rates offer to clients will be the best in the market.”

However, on how the value proposition and advantages of White Label partnerships compare to buying in the relevant expertise or developing online FX trading operations in-house, Markarian says that while it is possible to bring in the relevant expertise or develop online trading operations in-house, many firms do not want to invest the time and resources required to develop an offering that may not be well received by market participants.

“There are numerous stories about large institutions that invested millions of dollars to develop a trading platform or back office solution, only to have it fail to reach critical mass in the marketplace,” he explains. “The old adage, ‘Don’t try to reinvent the wheel’ has held very true in the world of FX. One only has to look at the success enjoyed by MetaQuotes and its MetaTrader 4, MT4, platform in the retail space, or Currenex for institutional traders.

“We feel Divisa Capital (DCFX) is well positioned since we offer both products to our retail traders and institutional partners alike. Establishing a White Label partner with DCFX offers an institution a complete turnkey FX solution including a WL of Currenex and/or MT4, plus a comprehensive back office software solution and access to liquidity from several top tier banks that stream executable prices via our Currenex hub,” adds Markarian.

### Time and cost

When a broker or a financial institution creates its own brand and attracts its own clients, it has to



**John Stead**

*“A good middle ground is to buy a platform from a technology provider.”*

develop multiple platforms that will accommodate the business, from the trading platform to the STP bridge, to a risk management platform, CRM systems and clearing, says Shmuelly.

Shmuelly adds: “The broker will decide which of the above systems it needs in operation on day one of its business. The more complete its solutions, the more scalable the business will become; however time and cost are always the enemy and the broker must decide which of the above solutions is a must have, before it commences operation.

“The one item the broker cannot be without is the trading platform,” Shmuelly continues. “There are three options available to the broker when selecting which route to take in order to acquire a trading platform: develop one’s own systems; licence your own platform; White Label an existing platform and/or facilities from an existing licence company.

On developing one’s own system, Shmuelly says this is usually a very expensive route, taking the broker into a major development project. The second option, for the broker to licence its own platform, is a much simpler solution and much cheaper than the first option, with drastically reduced time to market. However, he adds the disadvantage with option two is that the

broker must have a serious IT infrastructure as the platform on its own is not sufficient; there are support and hosting issues as well as integration into risk management, CRM, mobile trading and other systems that have to be addressed.

The third option, based around White Labelling, provides a main advantage for the broker, states Shmueli. He says brokers receive a hosted solution that limits the IT expenditure and the know how required in order to start a brokerage, while also reducing time to market.

He adds that within the White Label option there are two routes for the broker to take: from a broker; and White Labelling from an independent IT specialist. “The advantage of White Labelling from an existing broker is cost. It is usually free or very close to zero. Other advantages are that the broker will often support its White label’s in all sorts of ways including other systems. The disadvantages to White Labelling from an existing broker are numerous.

“The most significant disadvantage is that the broker is a direct competitor of the new White Label; this usually means that the flow the White Label receives actually belongs to the main broker, which means the main broker has a direct interest in what occurs with the White Label trades,” warns Shmueli. “Often funds deposited by the White Label are passed onto the main broker. Control is essentially passed onto the main broker. There is a lack of control of risk management policies on the White Label side that directly influence its revenues. For these reasons most new brokers choose not to take this route since the old saying, ‘What is free is often the most expensive in the end’ falls true in this case. Essentially, White Labelling from a broker is more like becoming an advanced affiliate.”

Shmueli continues: “The advantage of taking a White Label from an IT specialist is that you generally get all of the advantages of the White Label from a broker, without the disadvantages. Time to market is at a minimum in this case, another significant advantage is that the IT company does not compete with its White Label broker. The disadvantage to White Labelling from an IT company is the cost. As the IT company does not profit from the flow of the White Label, there will usually be other associated costs that are less than licensing a solution, but more than a broker solution.”

### Choosing your provider

Markarian says it is important for the client to consider a number of variables before choosing

a White Label partnering provider, including cost, time to market, company expertise, customer support, liquidity solutions, and technology, to name a few. He adds there are also the intangibles that many overlook in the evaluation phase, such as establishing rapport and feeling comfortable with the White Label partnering provider.

“Clients need to remember that they are trusting the White Label provider to deliver a superior product and trading experience to their

customers. This is essential in order to develop a long lasting, profitable relationship with their client base. We recommend that clients have multiple calls with a potential White Label partnering provider and if possible, meet in person,” Markarian states.

Reed agrees: “Potential clients need to consider the reputation of the White Label partner. They need to protect their own reputational risk by partnering with a brokerage that will serve them and their clients well. It is also essential for any clients to drill down and grasp an understanding of the core values and business ethics that the White Label partnering provider withholds.”



On the key steps involved in setting up a White Label partnering agreement, Reed notes that first, the entity needs to be licensed by their local regulatory body to offer FX and hold customer funds. She says the next step is determining the exact solution that the firm would like to provide to their clients, including desired platform, type of rate feed, tools, spreads, rebates, etc. Next is signing the agreement. Integration can then begin and can be fully operational in as little as two weeks, Reed says. During the integration process a lot of White Label partnering will provide training on software and trading tools so that each partner will have a successful launch, she remarks.

### Choosing your product

Chip Lowry, chief operating officer at Currenex, also notes: “You need to determine what levels of customisation are available from the White Label provider.”

The Currenex fully hosted package of modules can be customised, or taken in whole. Those include: Currenex liquidity; Currenex trading interface; Currenex intelligent pricing service; Currenex margin management module; Currenex book and records.

Lowry adds: “Although the most needed functionality is available in the base offering, many clients need specialised reports or other functionality that is specific to them. For example, a branded mobile trading capability is very popular in the retail FX business. Working with a White Label provider, brokers can quickly customise the product to their own needs.”

White Label providers can offer detailed branded marketing materials tailored to specific needs and markets, comments Lowry. They can also provide outsourced help desk and administration functions as well, he adds. “In a market where trading happens from 5pm Sunday in New York to 5pm on Friday without interruption, and where the language support requirements change with time zones, a solid and tested client support function is paramount to any offering.”

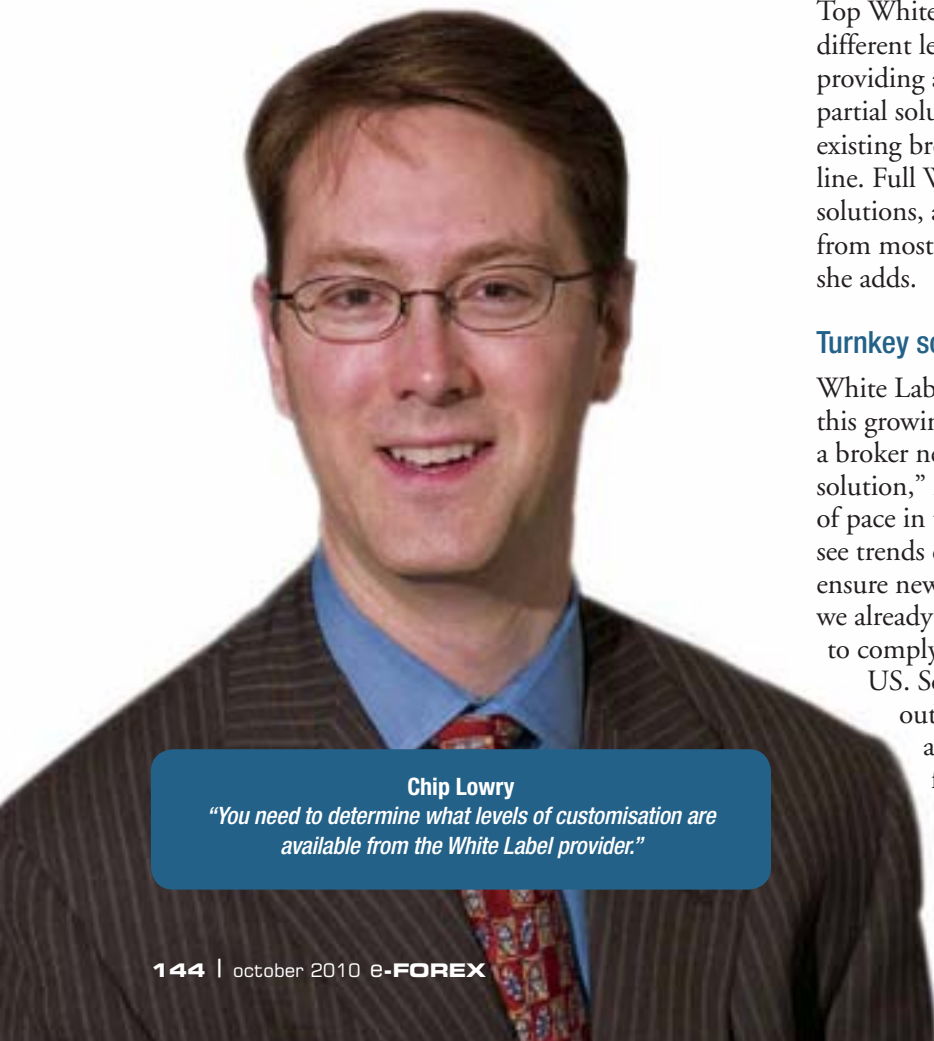
In addition to performance, scalability, risk management and extensibility, clients should consider the ability of the White Label partnering to provide access to liquidity, remarks Lowry. “At Currenex, we are already connected to over 60 liquidity providers and have our own pool of anonymous liquidity which we can offer to our White Label clients.”

Top White Label partners offer solutions at many different levels, notes Reed. “A bridge solution, providing access to the pool of liquidity providers, is a partial solution that has become a popular solution for existing brokerages wanting to add FX to their product line. Full White Label solutions, Introducing Broker solutions, and MM solutions are all offerings available from most leading White Label partnering providers,” she adds.

### Turnkey solutions

White Label providers have a breadth of experience in this growing market, states Lowry. “Almost everything a broker needs is available as a turnkey White Label solution,” he comments. “Also, given the rapid change of pace in the market, a White Label provider can see trends coming from their entire client base and ensure new features are added quickly. For instance, we already help support clients in their requirements to comply with the new NFA rules on retail FX in the US. So, when a new customer comes to us for an out of the box solution, we have the experience already. This saves a lot of time and money for the customer.”

As a turnkey package to help FI’s achieve faster time to market, Nexaweb offers



**Chip Lowry**

*“You need to determine what levels of customisation are available from the White Label provider.”*

a distribution platform called the Nexaweb FX Accelerator, launched in May this year. The Nexaweb FX Accelerator is a pre-built set of software modules that delivers rich FX and MM services over the web.

Nexaweb FX Accelerator is an on-premise solution for FI's that already have FX and MM systems in place for internal use, and want to increase trading volume (and related income), and improve customer service and retention by making those services available to customers over the web. It includes out of the box, customisable functionality and capabilities specifically designed to support the labelled or White Labelled delivery of competitive FX and MM services.

"Our FX Accelerator is unique in that it can be easily customised to support multiple trading channels based on the role of the user, so for example, professionals can see click and trade and less experienced users will have a services-oriented, step by step support through the transaction," adds Res.

As a turnkey package, DCFX begins the roll out of its White Label solution by assigning a dedicated team to walk a new partner through the entire White Label partnering process. This team provides a checklist of all that is required for the White Label. "Our turnkey setup also comes integrated with multi-bank liquidity with Divisa Capital acting as the Prime Broker," notes Markarian. "Our technology company, TradeSpot FX, can even assist with the server setup, hosting and provide 24 hour technical support and connectivity monitoring if required. We also have an expert team available for custom programming projects and website content. In short, DCFX and our dedicated team of professionals can expedite the White Label partnering process and provide everything necessary to bring a FI's FX offering to market within one to four weeks."

Divisa Capital and TradeSpot FX have partnered with

Currenex and MetaQuotes to offer what it believes to be two of the most popular trading platforms in the FX market. Its MT4 platform is hosted in the same data centre as Currenex, and is integrated with its multi-bank liquidity via the official Currenex MT4 Bridge. "We provide fully hosted co-branding of MT4, Currenex Viking, Currenex Classic and FIX API platforms. We also provide custom branded website widgets for our partners along with consulting services related to launching their FX brokerage business," says Markarian.

## Conclusion

Customisation is key, remarks Reed. The Interbank FX Broker Ready Solution is a complete package to those

who are searching for a front end interface, or an alternative from the solution they currently provide, Reed states. "The Interbank FX platforms are customisable so that each partner feels unique with their own logo and offering," she comments. "We offer a whole arsenal of proprietary tools that make the service exclusive to each partner.

Interbank FX will host a unique marketing campaign to get each partner's business off the ground."

While Leverage offers an almost complete turnkey solution to brokers including training. The Leverage Private Label (White Label) package includes: a robust MT4 Manager platform; a fully branded demo and live MT4 Client Platform; the Leverage Feed; a fully branded MT4 compatible web trader; STP direct to multiple liquidity; and a lot more.

In short, Lowry sums up the essential reason why it is worth going for White Label partnership over other options: "By reinventing the wheel, brokers are going to make mistakes while increasing the amount of time to market." So all in all it's best to call the experts in.

