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White Label partnerships: Taking the quick route to establishing an online FX business



Heather McLean

Whether dealing with retail individuals or institutional firms, building an FX system in-house can involve prohibitive costs and long time delays. The alternative is a white labelled solution from a third party provider. Heather McLean, examines how white label solutions can expedite entry into the burgeoning and lucrative FX market.

The retail FX industry has grown nearly tenfold in the past decade, and in 2010 was estimated to be at \$315 billion in average daily turnover. In addition, annual revenue of the retail FX brokerage industry is estimated to be at nearly \$10 billion, according to Aite Group. These provide compelling reasons for financial services and brokerage firms to enter this fast growing and lucrative market.

Deciding factors

Tom Levine, senior vice president for institutional sales at GAIN Capital, says "When considering any kind of strategic partnership, and in particular an FX white label partner, a firm needs to consider the fundamentals associated with both client facing and back office features". He notes: "Institutions should ask themselves questions like: Does this firm have a good reputation in the market? Is the firm going to provide a reliable and scalable service? How deep is this company's expertise and how will they be able to help me post product launch?"

Luis Sanchez white label specialist at Dukascopy Bank, notes: "A white label solution can help

a broker or bank to quickly offer comprehensive FX trading services to its clients, and thus generate additional growth and revenues for the broker. White labelling offers an opportunity to start a business from zero to up and running in one to two months, while designing a solution in-house could be expensive, and takes years to implement.”

While Hayel Abu Hamdan, Chief Operating Officer at Hantec Markets, says that for ways in which white label programmes can help trading firms to grow their market share and take advantage of new regional business growth opportunities, using an FX white label software as a service (SaaS) solution is the answer. “SaaS, whereby solutions and services are delivered on demand, provides partners with the opportunity to enter new markets quickly without having to own and operate any IT infrastructure. There is no system software to install, no migrations to plan, nothing. It’s very easy and effective,” he maintains.

Levine observes, “White labelling is advantageous for firms looking to grow market share and footprint. It can be an especially attractive opportunity for those firms that have a strong local or regional presence and want to take advantage of the growth in the retail forex industry. These firms should look at FX as an opportunity to cross-sell into their installed client base, as well as a way to gain market share by using their existing presence, marketing, regulatory licenses and reputation.”

“With respect to reputation and corporate stability, make sure the company being considered has solid financials, detailed risk management policies and procedures, strong corporate governance, a solid grasp on regulatory and compliance issues and the ability to provide partner references,” Levine warns.

He continues: "Service reliability will be instrumental in delivering an exceptional customer experience. Be sure the firms being evaluated can provide detailed statistics regarding system uptime, order execution rates and speed, and opportunities for price improvement. Also, an institution will want to be sure that the white label solution provider's technology, service and business can scale as their business grows with them and that they have a proven track record building successful white label partnerships. Lastly, the provider should be able to provide detailed information about their disaster recovery and business continuity plans."

In addition to reputation, reliability and scalability, Levine recommends looking for a company that has deep familiarity with the inner workings of online retail FX trading. He says "institutions will often rely on brokers to provide best practices pre- and post-launch. Their technology should be well tested, and the company should be at the forefront of product and service innovation, because once an offering goes live, it should continuously evolve and improve", Levine states.

On the deciding factors for choosing a white label partner, Jørgen Hauglund, senior vice president and head of institutional business at Saxo Bank, agrees a lot of areas must be taken into consideration. "First of all, the basic requirement is of course that the provider is able to offer a trading solution with the functionalities and qualities that are needed to support the current business needs of the bank or broker. Secondly, the bank or broker must carefully evaluate whether the white label provider has the resources, skills, willingness and technologies to support the development of the business going forward."

Hauglund continues: "To enter into a white label relationship is an important strategic decision. The provider must not only be able to support the current business of the bank and broker but should also be able to support, guide and then lead the development of the bank or broker's online trading business in the future".

"A good white label provider should be able to continuously present new business opportunities to the bank or broker, rather than locking the bank into an inflexible solution that may satisfy today's needs, but not tomorrow's. That is exactly what we



Luis Sanchez

Artur Filipowicz

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aim to achieve with our trading solutions for banks and brokers; to enable them to take advantage of new business opportunities and helping them remain competitive in times of fast changes in technology and markets," he adds.

"Contrary to many other white label providers, we are able to provide a multi-asset platform," remarks Hauglund. "This enables the same platform to support the trading needs of the bank's or broker's customers if and when the bank or broker decides to add more products to the offering. According to many of Saxo Bank's white label clients, this multi-asset capability of the platform is one of the most important qualities of the offering."

Tick list

Hamdan says choosing a white label partner should be a process of answering many questions, including: How solid and reputable is the white label provider?

Where are they positioned in the market? Who is their offering targeted at (retail or institutional)? Is this in line with your target audience? (It would be disastrous to choose a white label solution that is not catered towards your target audience.) Who are their clients? Can you compete in that space? What will be your value proposition if several other major competitors are using the same white label solution? Is the white label solution scalable? What future upgrades or new features are in the pipeline, and what is the provider's roll out map? What are the costs involved? and What is the set up timeframe?

The choice of white label provider solution should be made based on a few important factors; the technology itself, its recognition, stability and the time frame of the implementation are of course all significant, says

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Artur Filipowicz, relationship manager and white label specialist at Dukascopy Bank. He adds that the setup and maintenance costs also represent key factors.

Another important factor is the risk, notes Filipowicz. He explains: "Operational risk (IT risk) and Market risk are things to consider carefully. The Operational risk is difficult to quantify. Nevertheless, one should determine what the security and stability level behind the service is, such as what the backup servers or redundancy lines are like. In regard to Market risk it is essential to identify how the hedging works, at what price and liquidity the execution takes place and whether the hedging executes automatically. Last but not least is the flexibility of the technology. What revenue model can be implemented such as commission based or markup? What level of customisation does the partner get access to?"

Core services

On core services necessary for a successful white label relationship, Levine says working with a firm that has a deep level of FX expertise will ensure that the financial institution is well supported during all phases of the white label relationship. "In most cases,



Jørgen Hauglund



FX is not the expertise of the institution and they will want to work with a company that can offer a turnkey white label solution that will include client services, marketing support, compliance, and dedicated development resources to build a customised trading platform and offering.”

“One of the options that GAIN provides its’ partners is the choice to outsource customer service in its entirety or in part”, says Levine. He adds that this allows partners to enter the market faster by saving many man-hours on training, testing and certification of support staff. “At a minimum, clients should be able to access live support 24 hours a day during FX market hours through phone, email and chat. If a firm is not prepared to do so, then their white label provider should be able to seamlessly step in and assist,” states Levine.

“Alternatively, should the firm choose to take on sales and support functions directly, the white label provider should have the facility to provide client service and industry training to get representatives up to speed as quickly as possible,” he adds.

“White label providers should supply a 24/7 support service”, says Hamdan. “Training programmes are also provided to partners to insure they are fully aware of the functionalities and features of the software. These, as well as a complete set of marketing literature, help with a smooth efficient client on-boarding process, as well as an enriching end user trading experience.”

On technical support, Hauglund says as part of the integrated front-to-back white label set up, Saxo Bank runs a number of operational services on behalf of its white label clients. The services are integrated into the trading applications and end-of-day files and can be extracted for further use into the white label client’s own back office system to support regulatory or management reporting.

All the back office processing at Saxo Bank is done using anonymous customer identities, ensuring the bank has no record of the white label client’s customer contact details. The back office system supports the following operations; end-of-day processing; account interest; FX rollovers; set up of asset classes; commission charges; corporate actions; market data services; transfer of securities free of payment; risk management; and margin handling.

Marketing support

Levine adds that pre and post launch marketing support is essential. The partner should have all the tools and resources to either create or help build a website that will attract, convert and capture customers on day one. This includes providing educational materials in the form of video tutorials, webinars, and reference guides. The white label partner should also provide marketing consultation services to provide insight on how to best spend marketing dollars.

Continuing, Levine notes: “As a core requirement, a dedicated development team will be critical to getting

a trading platform live as soon as possible and bug free. The technology itself should be able to support multiple languages and currencies with custom account settings including adjustable leverage, spreads, maintenance margin, and liquidation levels.”

Part of the criteria for a successful white label solution is that the customisation is done as quick and smoothly as possible, says Hauglund. He says Saxo Bank’s trading platforms and the majority of its supporting tools are developed in-house, based on internal expertise and because of this they are easy to customise, he states. “The individual needs of the white label client can therefore effortlessly be incorporated, resulting in improved responsiveness and easier integration into the white label’s current system.”



Tom Levine

“White labelling can be an especially attractive opportunity for those firms that have a strong local or regional presence and want to take advantage of the growth in the retail forex industry”.

Timelines

With respect to timeframes that are typically involved in getting a white label partnership programme set up and the FX trading business running, Hamdan believes the typical set up time is about four weeks, although he adds this obviously depends on the complexity of the selected solution and how efficient the provider’s after sales support is.

Hamdan continues: “This would be followed by three to four weeks of stress testing to insure all the data feeds, liquidity bridges, back office integration, and latency issues, if any, are resolved. There is absolutely no advantage in cutting corners to go live as technical issues will come back to haunt you,” he warns. “And if you are trying to break into the market with an offering that does not offer the client an uninterrupted trading experience, you will not last very long in this competitive market space.”

While Hauglund remarks: “We have implemented more than 100 white label solutions with banks and brokers of all sizes in many countries. Because of that we have gained a lot of expertise in white label implementation. This means that the banks and brokers can expect a fast and efficient on-boarding process, handled by specialist staff with extensive experience. As a result, Saxo Bank can often implement a fully branded and customised white label trading solution with a bank or broker in only one month, although typically it will take longer due to decision making processes and commercial preparations prior to launch, and other factors.”

Under the hood

On what key features and functionality partners should look for in scalable integrated trading platforms from white label firms, for both retail and institutional FX markets, Sanchez notes: “The most important feature of any platform is its individuality and flexibility. Any bank or brokerage house client has different needs and the platform should be able to offer or propose a concrete solution for any client base. Platforms should provide manual and automatic trading, chart trading, and offer historical back testing using real data, with an intuitive interface.”

On revenue share models, Hauglund says: “For us, the most important aspect of the commercial model is to ensure that the model makes economic sense for both parties. It has also to create a strong incentive for the



Hayel Abu Hamdan

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bank or broker to expand the business, by providing a quality service to their underlying customers. This is achieved in many ways and we are always interested in discussing revenue sharing models that suits the strategy of our white label clients."

"Today, Saxo Bank's white label business is a major part of our overall business," continues Hauglund. "We launched our first white label solution in 2001 with a visionary Portuguese securities dealer with 150 years of market experience. I think the reason our white label business became so successful is that many financial institutions, not least since the financial crisis, have realised that it doesn't make sense to use a lot of money and try to build your own trading

platform when you can get a top notch white label solution."

Revenue sharing and channel partnerships

Filipowicz says popular revenue sharing models in white label partnerships include volume commission revenue models, since they are transparent towards clients. "With Dukascopy Bank's white label solution, the partner has the freedom to set up any commission level he wants, while Dukascopy Bank charges only \$3 per million USD traded. Some other white label solution providers may charge for the white label set up cost, plus a monthly or yearly maintenance fee, which nowadays is less popular."

The most commonly used revenue sharing programme is a rebate programme where white label partners are rebated a certain percentage of a pip, states Hamdan. Other models rebate a percentage of the commission charged. "There are however certain brokers who do not adopt a straight through processing model and instead generate their income from managing their exposure and risk and who would consider sharing their revenue with their white label partner," he says.

At GAIN Capital, channel partnerships represent a significant part of the business and are an important component of its long term growth strategy. In 2010, over 40% of GAIN's retail trading volume came from its indirect channel partners, including white labels, said Levine. "We work with a wide variety of partners, most of whom are using a strong regional presence and a loyal client base, including Zecco Forex in the US, Standard Bank of South Africa and Questrade in Canada. With such a diverse sampling of partners, we recognise the fact that not all partnerships are built the same way, and will tailor a partnership to meet the needs of our partners' specific business and technical requirements."

Conclusion

Hauglund sums up: "The single most important criterion for selecting a white label provider is whether there is a good match between the two organisations in terms of culture, values and strategy. We are proud of the fact that some of the largest banks in the world have chosen to work with us in developing their online trading businesses. Given the extensive due diligence and quality requirements demanded by such banks, we feel that these relationships serve as documentation of the quality of white label solutions offered by firms like ours."