



THOMSON REUTERS AND DIRECT FX

POST TRADE SERVICES CASE STUDY

ELECTRIFYING THE VOICE MARKET

Faced with increasingly difficult market conditions, a leading Asia Pacific FX voice broker decided to use technology to create radically improved service levels for its customers. The technology it turned to was Reuters Trade Notification Service (RTNS), and the company, Direct FX (www.directfx.com.au), believes RTNS has made its future prospects significantly more positive.

"Five years ago, we were just a New Zealand based company," recalls Andrew Isbister, Managing Director of Direct FX. "We felt that we were at a crossroads. We either looked for improvement and growth or we faced decline. The voice brokerage business was going backwards at a million miles-per-hour."

With the spread of technology in the interbank FX markets, voice brokerage was too slow to compete effectively. "We decided that we needed to expand the business into Australia and reach out into Asia. Once we achieved that, we looked at what technologies were available to us to enhance our service," says Isbister. The business principle was very simple; "we wanted to make it easy for traders to deal with us and we had to somehow add value as well."

At that time, voice brokerage relied on manual ticket entry. "We were competing against electronic pricing portals with STP systems," explains Isbister. "Fewer traders were being asked to do more and more, so there was less and less time for manual ticket filling. Automation was vital."

With RTNS, the broker enters the trade details and these are sent immediately to each party to the transaction. So the deal details can be verified and captured accurately in real time. This means that traders no longer have to enter their details manually (although they still can if they want to). "Instead of manually entering trade details, the trader instantly sees the deal details from Direct FX," says Isbister. "One click agrees or rejects the details."

MINIMIZING RISK

As well as making the customers' job easier, fast and accurate deal capture opens the door to all the advantages of STP (straight-through processing).

"The other reason it was important to us was to minimize risk," explains Isbister. "With manual systems, the voice business is error-prone. We would enter a trade on our system and wait." Far too often, the wait was long and the result unpalatable. "It could happen that, two days later, we get a call from a back office on the other side of the world saying 'we don't have this trade'."

This is the type of problem that was driving voice brokerage towards the precipice. In a fundamentally manual business, all kinds of mundane office issues can get in the way. "Traders don't like doing end-of-day trade checks verbally," Isbister points out. "For us, it was quite normal to have up to 20 percent of trades unchecked. Sometimes a guy leaves the office early and the other people can't see his trades. In extreme cases, we ended up with 50 percent of business unchecked."

And, of course, the broker's clients suffer during these periods of uncertainty. "Unless you have STP, there's always room for leakage," agrees Isbister.

Now, with RTNS capturing details immediately for 80 percent of Direct FX customers, the error rate and resultant uncertainty has been significantly reduced. Every day they have powerful evidence that Direct FX is offering them greater reliability and a speedier service that enables them to have greater control over risk and lower trade-processing costs. And the service is giving Direct FX exactly what they asked for. Real-time electronic agreement on trade details has dramatically reduced disputes by addressing them at source. "On the whole, the service has been fantastic," enthuses Isbister. "Now that it's bedded in, 99% of traders are using it for all trades and you can see the trades flowing through. You can see affirmations and rejections in real time."

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BOOSTING THE MARKET

That's a great boost for the voice market. "It's easier for the people who are connected to do business with us now, and some are doing more as a result," Isbister observes. "They're more comfortable dealing with us than before. Hopefully we have also gained some kudos by installing this service; so overall it's been really, really successful."

Direct FX had looked at an alternative solution, but found the cost was prohibitive. "The supplier had no market penetration in this region. They couldn't get our clients interested in sufficient numbers and the cost model was never going to work," Isbister reveals. "With RTNS, however, we bear the cost – it's a much easier proposition to take to a client and get their buy-in."

TICK, TEST AND CONNECT

As clients have signed up, RTNS has become a market standard amongst the banks who are Direct FX's customers. The growth in awareness has made it increasingly easier to make the next connection.

"If you're a bank and you're RTNS enabled, it's now easy to make a new connection; you can just tick a form and do a little testing and you're away," notes Isbister. He believes that further growth will be much easier in the future. The service is known and appreciated for what it brings to the market. "Now if any new publisher comes along, they'll find that nearly everyone's connected," he adds. "They'll have a ready way of doing business and they won't face the issues we had to contend with."

That's indicative of success all round. Direct FX has helped to change its market for the better, whilst removing much of the risk and errors that are a constant concern for any sized company. Meanwhile, its customers enjoy lower costs and STP. "A few years back, we realized that this was quickly going to be a deal-qualifier, rather than a value-add service," Isbister sums up. "We could see that, sooner or later, everyone would have to work this way. Whilst we realized initially it would be hard to push a new system, it was an easy decision to make, so we just got on with it. And we're very pleased with the outcome."

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