Why buy-side IT needs to pivot to **Low-Code**

bton financial

2020

INTRODUCTION

The rise of outsourcing

2017 was a bumper year for asset management: for the one trillion dollars of revenue generated by capital markets, 90% of the economic profit came from the buy-side.

» Almost a case of: if it ain't broke don't fix it.

The introduction in 2018 of the EU Markets in Financial Instruments Directive (MiFID II) changed the landscape. By shifting the responsibility for best execution firmly to the buy-side, it pulled focus and resources away from what asset managers are hired to do: create alpha.

Technology spend had to be diverted from mitigating legacy and keeping up with the Joneses to ensuring compliance to MiFID II, an effort that is estimated to be swallowing up 80% of buy-side technology budgets.

Firms need that resource and that focus to help them preserve margins, already under pressure from competition and frenzied technological change.

Many asset managers are reaching a tipping point where what would make them critically more competitive is outsourced trading.

Of course, this tipping point is different for every firm. Some asset managers have already moved to outsource all their execution; others outsource for emerging markets or for a particular asset class – or for an inconvenient time zone.

It is partly a matter of sums, but only partly – and never an exact science. The cost of operating a three-strong trading desk is put at $1.5m a year. Outsourcing is estimated to typically shave 3 basis points off a trade (from 8 for an in-house trade to 5 for outsourced).

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-Accenture, 2017

Another expert view tells us that it is 40% cheaper for small to medium-sized fund firms to outsource trading than employ two in-house traders. Whatever the numbers, outsourcing undoubtedly saves money in a lot of scenarios, yet straightforward ROI may not be the main impulse to outsource.

Asset managers need access to innovative, sophisticated technology that does not undermine their trading strategies. All firms struggle with legacy, but small to medium-sized firms have less firepower to overcome it.

Outsourcing takes away the tech burden, allowing portfolio managers to concentrate on what they do best: generate value for investors.

There is an "all for one and one for all" aspect to outsourcing that pools data from all firms and deploys Machine Learning techniques to optimize trades across the board, driving down costs even further.

Data analysis is one of the key capabilities of BTON, the independent outsourced dealing desk for asset managers. BTON Financial was set up "just before the inflexion point of MiFID II" as founder Daniel Shepherd describes the opportunity. Shepherd realized MiFID II would accelerate the demand for outsourcing. "The asset management industry has had to radically rethink how they run their dealing desks in response to changes in market structure," he says. Shepherd's vision for BTON is to help firms put that rethink into practice.

The BTON solution was developed with a radical advance on the Low-Code Platform model – one designed specifically for financial markets.

We shall examine below how Shepherd's vision combined with Low-Code to create a unique product.

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>
> - Dan Shepherd, BTON

The BTON solution

The beating heart of the BTON outsourced dealing desk is the Smart Broker Router, a best-of-breed buy-side trade routing solution. We shall look at its range and functionalities in more detail below but the first point to make is that the tool is broker-agnostic.

For each trade, BTON takes you to the most appropriate executing broker; this can be one of the brokers with whom the asset manager has an existing relationship or one that specializes in a particular stock, French mid-caps for example. The aim is always to improve execution outcomes and returns for the end investor.

"We remain broker-neutral," says Shepherd, "our interests are aligned with that of our asset management clients. Our prop book or brokerage arm won't benefit from your flow, because we don't have one, and never will."

The effort to improve execution is continuous, cumulative, and transparent.

BTON consolidates execution data across the platform and uses post-trade analytics to enhance its existing routing logic. More importantly, it can anonymize and share consolidated data sets to evaluate broker performance. This means portfolio managers are able to check if a trade was executed at best price compared with all the other trading venues at exactly that moment in time. And make changes where necessary.

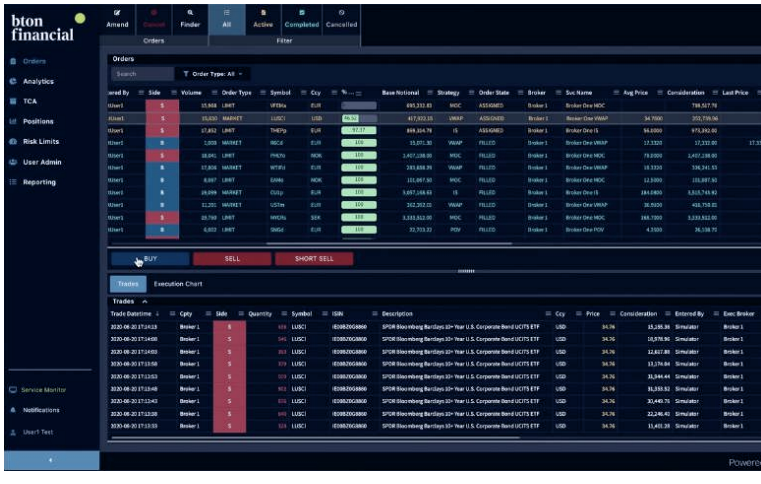
BTON's Smart Broker Router is on a constant path of improvement because the Machine Learning component is constantly receiving new data with which to improve decision-making and asset manager performance. Firms using an in-house trading tool are limited to in-house data – that is to say, to a much narrower cohort from which to judge performance or draw statistical inferences.

Broker-execution is an area of performance that is often overlooked. A recent study showed that "only 11% of fund managers assess how all their brokers are actually performing despite having formal broker review processes in place".

The following scenario plays out very often. A firm wants to trade French mid-caps but has not traded in these stocks for three months. Without extensive data for this type of trade, how do you choose your executing broker? Most firms would go for the broker they used last time – three months ago.

By enabling clients to access anonymized data from across its platform to evaluate broker performance, BTON takes guesswork and human bias out of the equation.

What is the value of "control" over your trades if it leads you to make poor decisions?



The development of BTON

Low-code development platforms have been around for years, but their use cases were limited mostly to simple Business Process Management solutions – and definitely did not extend to the more complex environment of financial markets.

Genesis built its Low-Code Application Platform from the ground up to accelerate development for financial market use cases. The BTON Smart Broker Router was built in a matter of a few months. This would have been impossible using traditional paths to development.

"Agile development was important for us," says Shepherd. "And by using the genesis Low Code Application Platform, we were able to build our Smart Broker Router quickly without having to write substantial lines of code. And crucially, it will be easier to support in future."

The outsourced trading desk application built for BTON is a back-to-front solution that offers connectivity to buy-side trading applications and the executing brokers.

The key technology attributes required for the BTON solution were:

Performance

One of the key requirements in building any trading application is a resilient, secure, and performant IT architecture. The BTON Outsourced Trading Desk solution called for low-latency and high throughput, inherent features of the genesis core LCAP platform technology.

Integration and connectivity

The first tranche of integration is the connectivity to the buy and sell-side for which genesis leveraged its integrated FIX services. The second tranche of integration required was to third-party systems, such as SFTP integration to an Open Source TCA provider and also to brokers for restricted list management.

Workflow event and transaction management

The BTON solution required complex transaction and workflow management, including event handling, order state management, and dynamic rule-based routing capabilities, catered for in the genesis LCAP with a suite of microservices.

Permissioning

Another critical requirement for the BTON build was a granular level of controls and user permissions to support a multi-tenanted platform which is an essential compliance

and risk requirement. The genesis platform includes a sophisticated user per-missioning framework that supports both functional and data-permission levels.

Analytics

Analytics is a key pillar to understanding trade cost and performance, or in plain words measuring best execution – for which the genesis LCAP has a sweet spot due to its data handling and visualization tools.

The BTON Smart Order Router is a best-of-breed application, giving asset managers access to the most advanced technology, which can be adapted, extended, updated, and maintained easily because of its low-code framework.

The main functionalities of the router are Orders, Analytics, Transaction Cost Analysis, Positions, Risk Limits, User Admin, and Reporting.

To get an idea of the user-friendliness and virtuosity of the solution built with the genesis LCAP, we invite you to watch a short demo.

Conclusion

As the global economy emerges from lockdown, markets are still trying to find their feet as they adjust to "the new normal" – or get a sense of what that new normal might look like post-COVID.

The pandemic has forefronted what asset managers knew already: that technology is the key differentiator.

Outsourcing is part of a widespread move away from end-to-end monolithic systems (so often: legacy systems) to an agile approach that puts financial services institutions in touch with the innovative mindset of fintechs. The Low-Code development environment is a response to that trend.

Often, just to get the trade right is part of buy-side innovation. Leaving the confines of your own data universe to leverage data from across the industry to do even better – that is a huge leap forward.