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>> Whitepaper

The value of market connectivity

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How market connectivity impacts the reputation and performance of financial institutions

Inside Market Data Inside Reference Data Buy-Side Technology Sell-Side Technology
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Contents

Executive summary

Delays and glitches in connectivity are impacting trading desk revenues and client relationships across Europe, US and Asia. Could renewed focus on implementing faster and more reliable connectivity improve overall infrastructure and help financial institutions remain competitive?

Financial institutions are losing trading revenues through delays in connecting to clients and new markets and this is impacting profitability. An exclusive *WatersTechnology* survey of senior professionals in international financial institutions reveals that trading desks at investment banks can suffer from losses of approximately $5m every year as a result of delays in the set up of connections to new liquidity sources. This means connectivity services that take weeks or even months to install have a significant impact on an institution's ability to attract flows and access global market liquidity.

As firms are rapidly realizing, the technology that underpins trading strategy is about more than just achieving low latency; connectivity has become a key factor for improving trading operations and enhancing the customer experience. With fierce competition for attractive flows and pressure on margins, companies need to safeguard revenue streams and stop losses related to inefficient current market connections.

The focus for the IT teams must be on adopting strategies that allow the business to act more quickly. Adding or modifying access to new destinations after a firm is already connected to a provider should take a matter of days–not weeks or months, which unfortunately the *WatersTechnology* survey reveals is the reality for the majority of firms. To help institutions meet client expectations and protect revenues, there appears to be a need for more industry-wide collaboration with exchanges, vendors and institutions working together to ensure all market participants are aware of what can be done to avoid unnecessary delays in installations. In a fast-paced market where opportunities and priorities are constantly moving, trading desks with revenues often surpassing $100m per annum cannot afford to wait for connectivity to catch up with business requirements.

The global connectivity delay

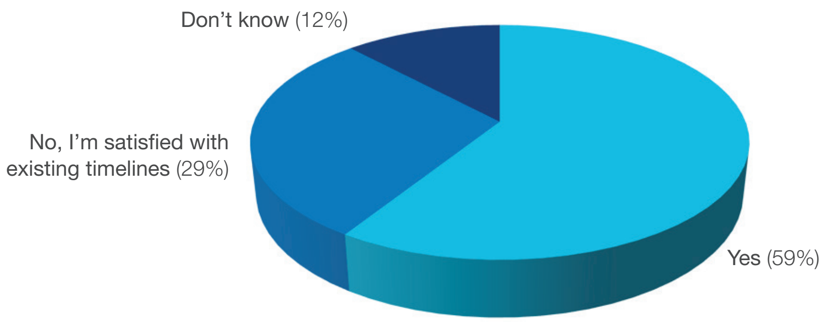
In recent years the race for low latency has been a key talking point in the financial technology industry, but as challenging conditions prevail, there is a growing recognition that the situation today is more complex. A connectivity strategy is about more than latency. Being able to deploy and modify connectivity quickly and easily is essential for ensuring fast access to new markets and minimizing delays to trading operations.

Connecting to new markets quickly is key to ensuring that an institution remains competitive and continues to generate revenues. These new markets may be asset-based or geographical, but in either case the speed with which they can be connected is a determining factor in whether the connection will contribute to profitability.

The reality is that trading desks miss out on opportunities entirely because connections are not in place. The issue is not necessarily that decisions are not made, but that it can take a long time from the business signing off on a project to the trading desk seeing any improvements.

An exclusive *WatersTechnology* survey of senior professionals within sales and trading positions in investment banks, proprietary trading firms, inter-dealer brokers, broker dealers, high-frequency trading houses, hedge funds and asset management firms conducted in 2015 reveals two-thirds of respondents think their desk should be able to establish access to new markets more quickly (Figure 1). It is not always possible to establish immediate connections, and in some situations it can take more than a month to make connections live. The immense pressure on trading desks to perform means delays in connections are a major cause of frustration and concern; connectivity strategy increasingly needs to be recognized as a key factor to succeed in today's market.

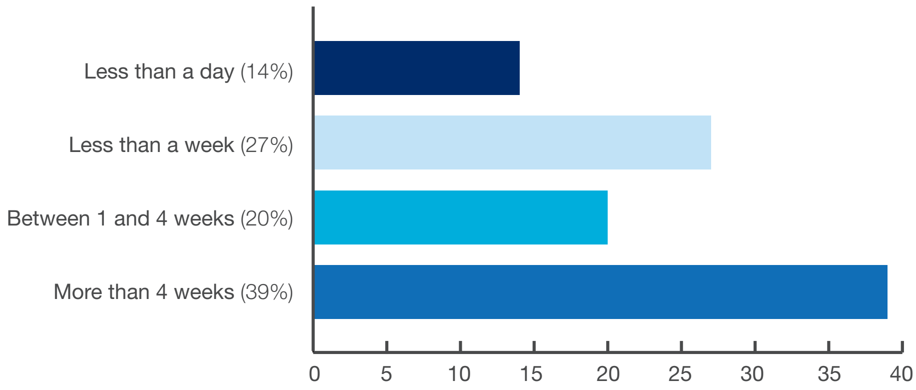
Figure 1: Do you think that your desk should be able to establish access to new markets more quickly?
(US, Europe and Asia)



The question to ask is how much institutions are losing through waiting for connections to come online. Based on research carried out by *WatersTechnology*, the losses incurred can be estimated to be approximately $5m every year for each trading desk in an investment bank faced with a typical delay of several weeks when attempting to set up connections to new liquidity sources. The main reason for such a high figure is that 39% of respondents (Figure 2) say it takes more than four weeks from the business decision being made to access to the market being live, and this figure rises to almost 50% when looking at investment banks.

Figure 2: What is the average time it takes to connect to new liquidity sources from the business decision being made to access to the market being live?

(US, Europe and Asia)

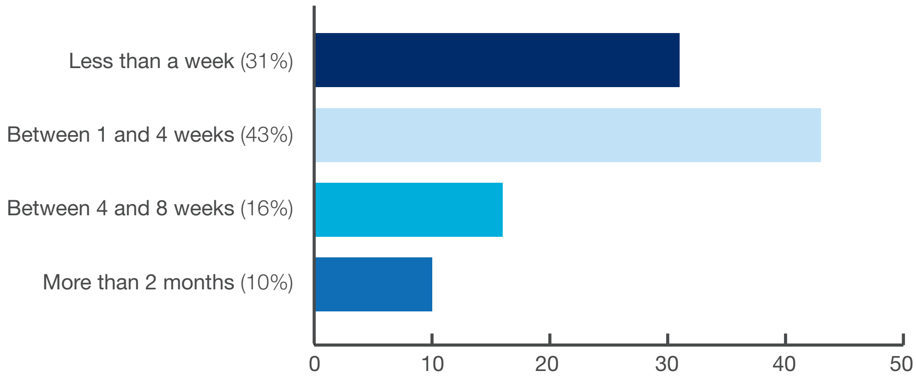


Considering the revenue potential of some trading desks, there is a lot at stake if new destinations can take weeks or even months to go live. Firms need to assess implementation risk when doing due diligence on technology providers, putting more pressure on vendors to deliver fast connectivity services and meet agreed delivery times to ensure trading desks know when they can expect connections to be live.

Connecting clients

While firms are experiencing problems related to setting up connections to new markets, it can also be time consuming to connect to new clients. Around 70% of those surveyed say it takes more than a week to connect to a new client, and 26% of these respondents highlight that the process can take more than four weeks (Figure 3).

Figure 3: How long on average does it take you to connect to a new client?
(US, Europe and Asia)

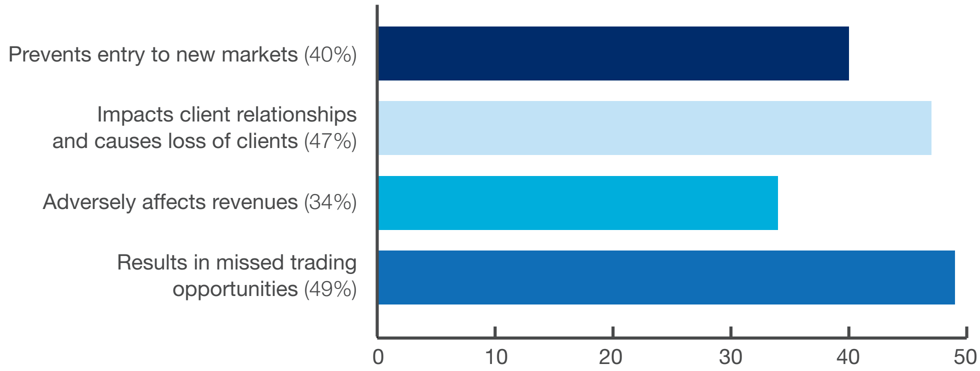


If the same question had been asked five years ago, the results are likely to have been better. Regulations implemented since the financial crisis have created an increase in the data and documentation required, leading to longer processes for onboarding new clients.

The true business impact

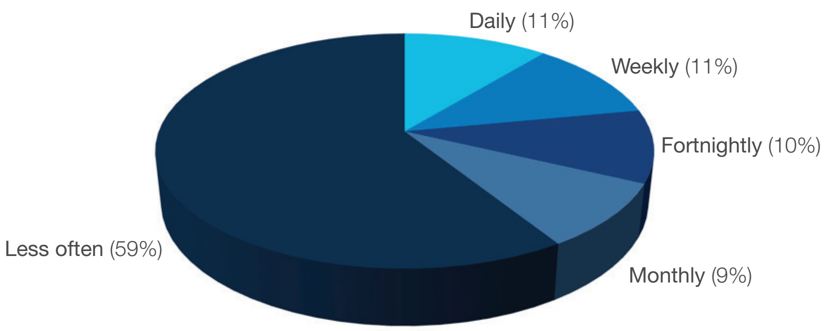
Having the right technology in place at the right time is essential for meeting client expectations and retaining strong client relationships, as well as being able to take advantage of trading opportunities that arise. According to the *WatersTechnology* survey, almost half of respondents say a delay in connecting to new markets results in missed trading opportunities and impacts their relationships with clients that might result in them losing a client altogether (Figure 4).

Figure 4: What impact does a delay in connecting to new markets have on your business?
(US, Europe and Asia)



There is also a significant number of firms that are experiencing delays and regular technology glitches, causing even more disruptions to trading and client services. More than 30% say that technology failures prevent them from accessing the markets at least fortnightly. For 11% technology glitches are disrupting their business every day (Figure 5).

Figure 5: How often do technology failures prevent you from accessing the markets you need to do your job?
(US, Europe and Asia)



Considering the delays and technology issues the survey shows firms are experiencing in setting up a new connection, it is perhaps not surprising front office professionals admit the impact this has on the business includes potentially losing clients. The challenge for technology and data teams responsible for optimizing operations is now to identify staff who see this direct impact and can therefore help champion projects. Since it is clear that many heads of desks recognize how more efficient technology and connections could help them generate revenues for the business, it should not be difficult for the technology department to identify senior front office professionals who can contribute with value-adding information to build the business case for connectivity services and get new projects off the ground. Three-way dialogue between the front office, technology department and connectivity providers should then follow.

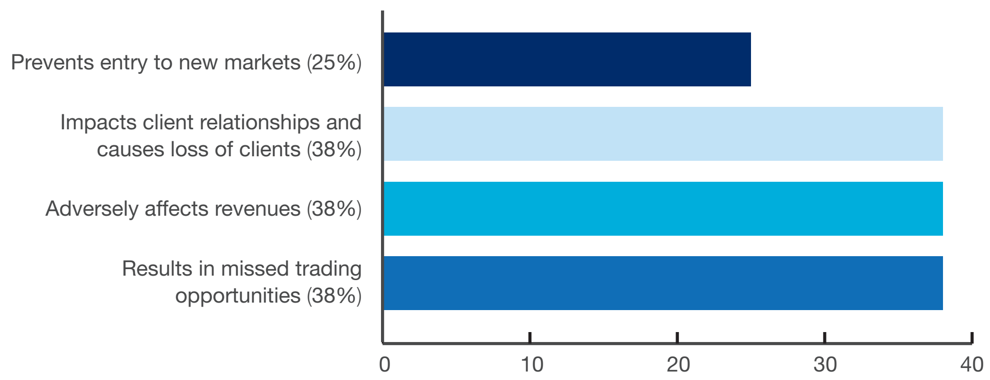
Regional analysis

A DESIRE FOR CHANGE IN CONTINENTAL EUROPE

In mainland Europe, where the survey included firms in Switzerland, France, Italy, Germany, Spain, Belgium and The Netherlands, the time it takes to connect to a new client is varied, with close to 30% of respondents highlighting it can be done in less than a week, but for most firms accessing new liquidity sources is not as quick.

More than 40% of respondents in these countries say the time it takes to connect to new liquidity sources is between one and four weeks and for nearly 15% not including the UK it can take even longer. Nearly 60% of respondents in mainland Europe state their desk should be able to access new markets faster, and firms are concerned about the impact delays have on client relationships, revenues and trading opportunities (Figure 6).

Figure 6: What impact does a delay in connecting to new markets have on your business? (Continental Europe)



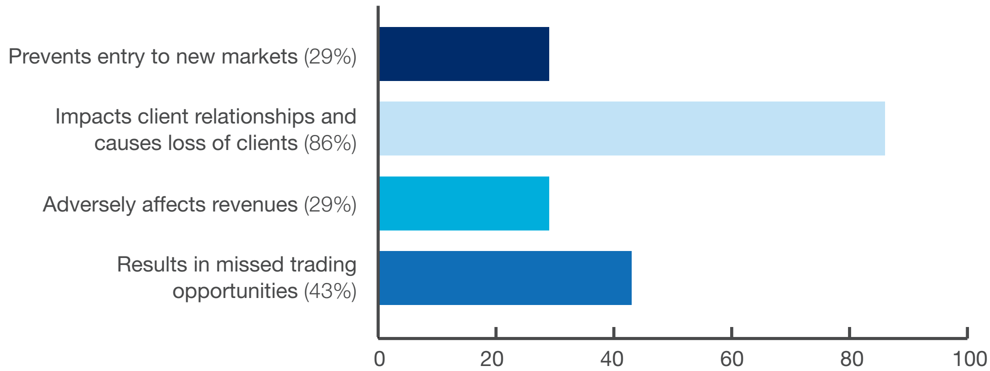
It is also a similar situation when it comes to connecting to clients. While some respondents in continental Europe are well-placed for meeting client needs by being able to connect to a new client in less than a week, others state it takes more than four weeks–or even more than two months in a worst case scenario.

THE FOCUS ON CLIENT RELATIONSHIPS IN THE UK

As the largest financial center in Europe, the UK plays a significant part in setting international standards for trading technology. London is often praised for providing a good environment for innovative start-up companies servicing the financial sector, and many UK firms are seen to be at the forefront in the race for excellence in trading technology. In terms of connectivity services, the reality however is that more than 40% of UK-based respondents in the *WatersTechnology* survey say it takes them more than four weeks to connect to new liquidity sources from taking the business decision to a new market being live. This result is slightly higher than in other European countries included in the survey where nearly 40% say it takes between one and four weeks.

There is widespread recognition in the UK that delays related to connectivity can have a significant impact on the business, with 86% saying that they worry about how connectivity problems affect client relationships. The high percentage of firms citing client relationships as a cause for concern reveals how client services is seen as the number one focus area for many UK firms. In fact, the percentage of firms in the UK saying delays in connecting to new markets could affect client relationships and potentially result in the trading desk losing a client is more than twice as high than in the US (Figure 7).

Figure 7: What impact does a delay in connecting to new markets have on your business? (UK)



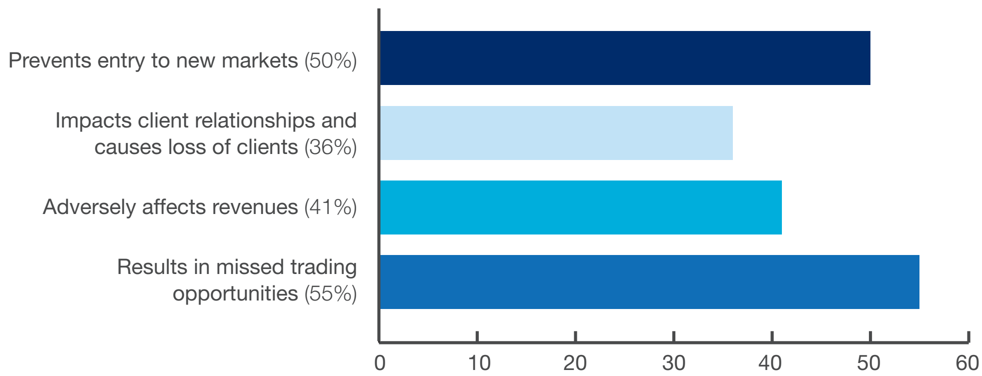
Considering the market focus on client services, UK firms are also more likely to be concerned with how long it takes to connect to a new client. The survey reveals more than 40% say it takes their trading desk between four and eight weeks to connect to a new client, which is also likely to impact client relationships, particularly since the process should not have to take this long and nearly one-third of firms surveyed globally can do it in less than a week.

THE LONG WAIT IN THE US

In the US market, connectivity is emerging as a significant problem, with US respondents on average being more pessimistic about timelines than counterparts abroad. According to the *WatersTechnology* survey, close to 50% of US-based respondents say it takes more than four weeks for their trading desk to connect to a new liquidity source–a slightly higher result than in European countries included in the survey, where 27% including the UK of firms say it takes this long, but the same as in Singapore, Hong Kong and Japan where also 50% of firms say it takes more than four weeks.

It is perhaps not surprising that the majority of US respondents say their desk should be able to access markets more quickly, particularly since heads of desks recognize how the delays they are faced with are impacting their business. In the US market, the survey shows that 55% believe delays in connections results in missed trading opportunities for them and 50% suggest the inefficient connections also prevents entry to new markets (Figure 8). In comparison, 33% of respondents in Europe and 36% of respondents in Singapore, Hong Kong and Japan believe delays in connections prevent entry to new markets.

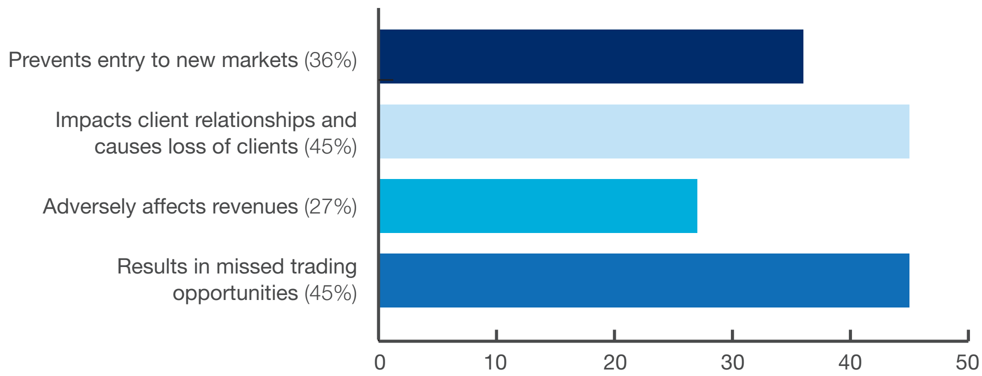
Figure 8: What impact does a delay in connecting to new markets have on your business? (US)



THE NEED FOR SPEED IN ASIA

Flourishing markets in Asia have seen increased focus from technology vendors in recent years, but according to the *WatersTechnology* survey, which looked at Singapore, Japan and Hong Kong in Asia, one of the challenges for trading desks is still to ensure technology is in place for optimizing connections with liquidity sources and enable fast access. For around 50% of respondents in Asia it takes more than four weeks once the business decision has been made to when a connection to a new liquidity source is live, and with over a month waiting time for some, it is not surprising firms are concerned about missing out on trades or losing clients. In the survey, 45% say a delay in connecting to new markets impacts client relationships and causes loss of clients, and the same number of respondents also believe the delay in connections results in missed trading opportunities for the firm (Figure 9).

Figure 9: What impact does a delay in connecting to new markets have on your business? (Asia)

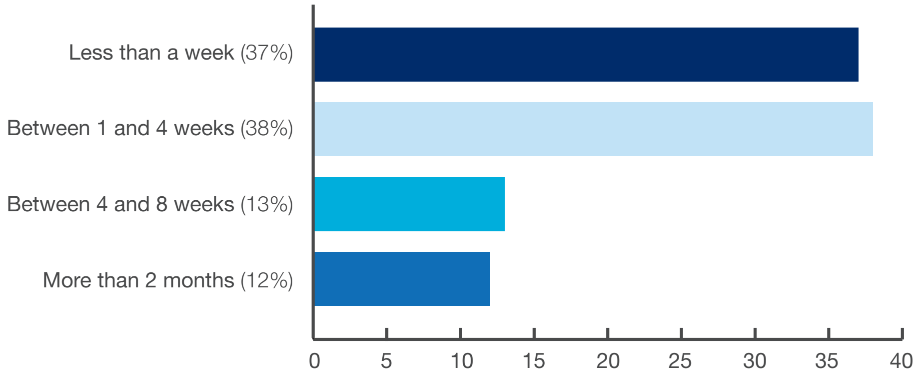


In Singapore, however, onboarding clients appears to be a smoother process for trading desks than setting up connections to new markets. In the survey, 37% say they can connect to a new client in less than a week, and another 38% can be up and running in between one and four weeks (Figure 10). This result reveals that more needs to be done to improve client services too, but it is still a slightly more positive outlook than in other countries surveyed. Variations in regulatory requirements and data management maturity at different organizations may explain why around 40% of respondents can connect to new clients in less than a week, which does not appear to be the case in other markets.

When asked about how often technology failures prevent the Singapore-based professionals from doing their job, around two-thirds say it is less than once a month, which is an improvement on the experience of their counterparts in other countries. It is the specific issue of going live with new connections that is troubling heads of desks in Singapore.

The survey points to a similar trend in Hong Kong and Japan, where several respondents highlighted that it takes the business more than four weeks to connect to new liquidity sources from the business decision being made to the go-live date. Like in Singapore, the majority of firms surveyed in these countries would also like to see a speedier process, and again the delays are mainly related to setting up of the actual connections. The time it takes respondents in Hong Kong and Japan to connect to a new client is faster than in certain other markets, as some can do it in less than a week and no one is taking months like 7% of firms surveyed in Europe and 13% of firms surveyed in the US.

Figure 10: How long on average does it take you to connect to a new client? (Singapore)



Conclusion

Even though optimizing trading infrastructure has been a key focus area for many firms in recent years, challenges related to connections appear to still be a concern for trading desks internationally. The long waiting times which firms face when attempting to set up connections to new sources of liquidity and clients is not an isolated issue in specific markets—it is a problem recognized internationally. The majority of heads of desks are dissatisfied with current operations, with close to 60% wanting to see their trading desks being able to connect to new sources of liquidity faster.

With increased pressure on margins and fierce competition, it is more important than ever for financial institutions to provide optimal client services. The ability to better service clients requires shorter connectivity times.

For technology departments, this means there is a need to ensure the business is equipped with the latest technology when it comes to connectivity. By working together with the business, technology departments can more quickly identify trading strategy requirements and drive improvements in infrastructure provision, putting an end to unexpected delays related to connections. Service providers must then work faster to find ways of meeting the needs of high-performance trading desks depending on fast access to new liquidity sources to protect revenue streams.

In general, there appears to be a need for closer industry collaboration, with market participants across the ecosystem needing to accept shared responsibility for the delays firms are experiencing in today's market. Exchanges actively looking to create demand for their market can help by building relationships with connectivity vendors, involving vendors and institutions in discussions on what needs to be provided to set up fast access to their markets. By improving collaborative efforts across the ecosystem, connectivity vendors will be in a stronger position to better service clients and help further improve market efficiencies.

Institutions recognizing the value of fast and reliable connectivity services are set to be the winners in the race to deliver high client satisfaction and in turn exceed revenue expectations and extract competitive advantage from their technology.

About Colt

Colt provides network, voice, data centre and managed cloud services to thousands of businesses around the world, allowing them to focus on delivering their business goals instead of the underlying infrastructure. Customers include 18 of the top 25 bank and diversified financial groups and 19 out of the top 25 companies in both global media and telecoms industries (Forbes 2000 list, 2014). In addition, Colt works with over 50 exchange venues and 13 European central banks.

Colt operates across Europe, Asia and North America with connections into over 200 cities globally. It recently completed the acquisition of KVH, an integrated managed communications and IT infrastructure services business, with headquarters in Tokyo and operations in Hong Kong, Seoul and Singapore.

Colt is listed on the London Stock Exchange (COLT).

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For additional information:

Web: www.capitalmarkets.colt.net

Email: capitalmarkets@colt.net

Address: Colt Technology Services
Beaufort House
15 Botolph St
London EC2A 7QN

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