

# The Banker

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## Reimagining private banking

Erik Tham, head of private banking product, MarketAxess and Gareth Coltman, global head of trading automation, MarketAxess outline the unique execution needs of private bankers and explain why automation is key to reducing operating costs and gaining a competitive advantage.



Erik Tham, head of private banking at institutional electronic trading platform, MarketAxess

Many smaller private banks struggle to get the liquidity they need from sell side firms, says Erik Tham, head of private banking product at institutional electronic trading platform MarketAxess. For the big investment banks, large asset managers whose traders bring more valuable trading tickets are sometimes more profitable than the smaller private banks, whose traders deal in a much broader universe of products and ticket sizes.

“If you look at a classic asset management desk at an investment bank, you have a couple of big blocks,” he says. “But at a private banking desk, there will be many orders – small, large – also tricky and easy products. All these orders have to be handled by a team of execution traders who have to work together sometimes in shifts, sometimes across geographic locations to cover multiple trading hours.”

Some private banks have “hundreds if not thousands” of individual orders that the private banking trading desk has to handle. The large number of orders of a smaller average size is the “sweet spot” for automation, says Mr Tham. “Across all of our clients using automation, we typically see them using it most for those smaller sized orders in the more liquid products.”

Like all investment managers, private banks are looking to reduce their operational costs and scale their business, keeping the trading desk as efficient and optimal as possible. “This is really what automation allows them to do,” says Mr Tham. “We have seen an incredible take up of automation amongst our private banking client base. Around 25% of all of the trades that our private banking clients do today are automated. And with our biggest private banking clients, that is as high as 80%.”

Automating the “easier tickets” enables traders to focus on more complex tickets and products where they can really apply their market expertise. “If you don’t automate, it’s

very difficult to find the time to focus on the real value, big tickets,” says Mr Tham.

The more of these smaller, more liquid tickets a private bank can automate, the more time its individual traders will have to focus on the important trades that can make a difference for the client. “Traders have told me after we rolled out automation to them, ‘you finally made my job more interesting’. This is a very good thing for the whole value chain, down to the individual client – to know that you have a highly skilled individual trader on a trading desk who has the time to dedicate to complex orders without spending unnecessary time on the easy tickets. Automation is adding real value to both traders and their end clients

Another factor that differentiates private banking trading desks from those of asset managers is that in many cases the investment decision is decoupled from the trading desk. Often the market insight and real-time data that is available at the trading desk is not available at the place where an investment decision is made. “Bridging this gap at private banks is a very difficult task – more private banking desks are realising this and are trying to work out how to close the gap: improving efficiency by leverage and sharing data between desks and the end client,” says Mr Tham.

Electronification of the markets should have overcome the traditional under-serving of the private banking market, but Mr Tham says while the situation has improved, many sell side dealers still provide a “slightly better” service to the tier one institutional clients, than to the private banks. Also, “Many of the electronic trading platforms really come from an institutional trading angle,” he says.

### LIQUIDITY, EFFICIENCY AND DATA

Amid these challenges, Mr Tham points to three key pillars that a successful private banking execution desk should have: liquidity,

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efficiency and data.

Open Trading<sup>®</sup>, MarketAxess’ all-to-all trading network, has become an important factor in accessing liquidity, enabling traders to tap into the liquidity of 1,800+ global market participants anonymously. This is a “big game changer” for private banks, says Mr Tham, as it opens up much wider global liquidity without the need to open new individual trading lines.

Efficiency plays a vital role on private banking trading desks given the fragmented nature of their order flow. “Firms need to be very efficient to organize their order execution workflow. Many trading desks work together as a team on a shared order queue and we have tools available to make this easy,” he says.

Data, the third pillar and the lifeblood of any trading desk, drives everything: “you need data to evaluate markets and ultimately drive alpha” and private banks should put tools in place to turn their execution desks into data driven trading desks.

### **THE TRADER OF THE FUTURE**

The trader of the future, says Mr Tham, will be much more tech savvy and focused on data. He or she will be more skilled in digesting and interpreting data and feeding this interpretation back to the client.

Gareth Coltman, global head of trading automation at MarketAxess, agrees. “I think we are already seeing shift in skill sets towards a much more data focused approach. We now have traders who are very comfortable with technology and with using electronic trading tools. They are also perhaps less reliant than they have been in the past on their counterparts, their liquidity providers in terms of relationships and interaction with salespeople. This has been replaced with a greater reliance on the technology.”

In terms of tools, traders will become more comfortable trading with a variety of

electronic protocols. Adds Mr Coltman. Electronic request for quote (RFQ) is the most typical protocol in fixed income markets, but Mr Coltman points out that order book style trading is also emerging. “That’s common in other asset classes where traders interact directly with streaming liquidity.”

He believes private banking traders will also increasingly use smart order routing tools, whereby the decision where to route an order will be fully automated. Traders will also start to develop skill sets that allow them to query and manipulate data in addition to relying on the data provided by companies such as MarketAxess. He also believes traders will develop more skills in using quant type tools such as Python.

“I can see traders becoming involved in more value accretive activities further up the investment or advisory process. They are a hub of information in a firm, able to provide guidance on where liquidity is, where it is cheapest, and can help to optimise the process in terms of investment decision making and security selection.”

The digital evolution is creating an environment where there can be more efficient human interaction, notes Mr Tham. “This is happening in private banking evolution as well. Digitalisation is moving traditional human interaction channels into digital channels. But of course, you don’t want to move everything because there are tasks and interactions that require the human touch.”

The goal, he says, is to eliminate the low-level manual tasks by automating them, enabling traders to focus more fully on their clients.

This is already happening at a number of clients, he adds. Several private banks in Switzerland have automated and created a “one stop shop” for all their executions. “By enhancing their workflow efficiency, desks that have many, many hundreds of orders per day can get through this large list of individual orders very efficiently. Some of the



Gareth Coltman, global head of trading automation, MarketAxess

desks that use our platform are not touching half of their orders now.”

Another MarketAxess client in Miami has given relationship managers greater access to data, enabling them to look up data, query their orders and follow all of the execution stages. “They can do all this live in real time, rather than having to call the trading desk to ask for information. They can answer many of their questions themselves.”

In this scenario, the relationship managers can bridge the gap between the trading desk and the investment decision taking with a client. “The information flows much more freely between the client and the trading desk and the market, MarketAxess has become the eyes and ears of the market for them” says Mr Tham.

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