Financial Markets INSIGHTS

The Realization Group

The Voice of the Future? Flexible trading, lower cost, more value.

Introduction

For many market participants, the deal only becomes real when there is a voice at the other end of a line. Despite the proliferation of electronic markets, voice trading is still proving to be alive and well. Yet, historically speaking, the provision of voice-based broking and trading services has been a costly, cumbersome business with little scope for operational flexibility or evolving compliance needs.

However, technological innovation, an increasingly tough competitive landscape and the demands of financial regulators in the post-crisis era are changing all of that.

Voice trading is still proving to be alive and well.

A modern voice-based system, provided it features the right architecture and software, offers the possibility of that voice at the other end of the line being located just about anywhere at any time. It means the cost of the connection will be lower, the quality higher and the security air-tight. And it means that the conversation that takes place will be tagged and stored in the most efficient and usable way possible.

By thinking about voice in terms of software, rather than in terms of hardware and cables, a firm can ensure that the data arising from its voice trading communications is fully integrated with data from its other trading channels, leading to significant benefits in both business intelligence and regulatory compliance, as voice trades can not only be electronically captured but also reconstructed and cross-referenced on demand.

This flexibility ultimately translates into a complete transformation of voice trading, offering significant cost savings and higher value services. But it does require taking a leap into the future, away from the 20th century communications systems that have thus far formed the backbone of most voice systems.

Think of voice trading in terms of software, trades can be electronically captured, stored, reconstructed and cross-referenced on demand.

Voice legacy

Today in our daily lives, we use stronger, more robust and more sophisticated communication devices than people ever could have imagined not long ago. Yet for many firms the underlying model of point-to-point voice communication between brokers and their counterparties has remained largely unchanged for decades, despite the enormous changes that have taken place elsewhere in financial markets technology over that time period.

In the past, open outcry exchanges and brokerage all ran on voice communication. But whereas electronic trading has evolved rapidly - particularly in markets such as equities and exchange-traded derivatives for example - voice trading has evolved much more slowly. Despite all of the technological progress in other aspects of trading, the dealer boards or turrets in use today at many banks, brokers, IDBs and trading firms haven't really changed too much. Devices may be server-based with IP endpoints but the basic technology at many firms remains the same. Turrets and their associated infrastructure have always been expensive investments, so it's maybe not

surprising that firms try to squeeze as much as they can from this legacy technology, with an attitude of, “if it ain’t broke, why fix it?”

However, with the new breed of software-based voice trading systems being more cost-effective, more flexible and easier to deploy than ever before, many firms are now starting to re-evaluate their approach to voice trading technology.

There’s a new breed of software-based trading systems - more cost effective, flexible and easy to deploy.

The three imperatives

To see why a voice-system revolution is needed, it can be helpful to think about three overriding imperatives.

First imperative - resilience.

The first is around resilience. The system cannot fail and leave traders exposed with open positions in the market. If a turret system goes down, not only will the head of dealing be in front of the CEO within minutes, but losses could potentially run into tens of millions or more. Voice trading systems need to offer 99.999% availability, which does not come cheap in a turret-based system.

Modern software-based systems however can be fully distributed and therefore offer far greater resilience at much lower cost.

Second imperative - provide a service clients demand without inflating operational costs.

The second imperative is to provide the service that clients demand without inflating operational costs. Here it gets more complex. As the financial services industry has grown and disruptive technology has proliferated, competition has only grown fiercer. But a modern voice system holds the promise of squaring the circle, providing better service without incurring additional costs, or even offering reduced costs.

For companies that offer voice services, a world of possibilities is opened up in terms of where staff are located and where they may work from. Imagine for example a London-based dealer who wants to be available for clients even while on a business trip or when working from home. Using a private peer-to-peer architecture and sophisticated software, that dealer can offer full-service, secure voice-broking to customers at any time while away from the office. It’s a communications equivalent of hot-desking, but with the reliability and security that financial markets demand, at an affordable price point.

Third imperative - trade reconciliation and regulatory compliance.

The third imperative concerns trade reconciliation and regulatory compliance.
If someone thinks he or she said ‘a hundred’ but the trade was for ‘a thousand’, the voice record becomes paramount, both for the service provider and the client. Little has changed on that front. Finding the right record based on the time and the transaction should be a relatively straightforward affair, so long as an accurate database of records is kept. But accuracy is not always possible with legacy voice technology where recordings are highly compressed leading to low quality and loss of accuracy, and recording of multiple voices on a single channel results in unintelligible crosstalk.

Modern IP-based voices systems are able to address this issue by capturing audio in uncompressed multi-channel format. With every speaker having his or her own recording channel, cross-talk is eliminated. And as the audio is captured and recorded as uncompressed WAV files, there is no loss of quality.

Distributed architecture

One interesting aspect of the best in class of the a new breed of voice systems is that they run on fully distributed private peer-to-peer architecture. This offers a number of benefits. First of all, the linear scaling of such systems allows firms to grow - and shrink - their voice network to meet demand, without incurring the large additional costs associated with the tranche-based scaling of traditional turrets.

Secondly, firms can operate their enterprise voice and trader voice services on the same platform, resulting in not only cost and equipment efficiencies, but also full interoperability. No longer is the trader voice system sitting alone in its own silo, it is now integrated with the rest of the business. This can really help matters when it comes to providing business intelligence, where data from multiple channels needs to be consolidated and aggregated, and satisfying regulatory compliance needs, where trade-related data often needs to be reconstructed on demand.

Distributed architecture offers cost and equipment efficiencies with no single point of failure.

Another benefit of having a fully distributed architecture is the reliability it offers. As with any distributed system, as the network grows so does the resilience as there is no single point of failure on the network. Contrast this with the centralised or federated architectures of traditional voice-based systems, where an outage at a strategic point can bring down either the entire network or a significant part of it.

The linear nature of these systems, and the fact that it is not necessary to have specialised proprietary equipment on the network, makes them easier to deploy 'as-a-service'. This again leads to significantly lower up-front and ongoing costs, as a tablet and handset offering soft turret capabilities typically can offer substantial cost savings versus upwards of $10,000 per position per location for a traditional turret. Huge cost savings can also be achieved in the data centre, where only a handful of servers can be run in a managed services environment rather than multiple racks of proprietary hardware.

Conclusion

It is clear that there are a number of compelling arguments driving banks and brokers to transition from traditional hardware-based turrets to more modern software-based voice trading systems. But although clients want the agility, flexibility, functionality and interoperability that software can give them, they will never give up the levels of security and reliability they have come to expect from their legacy voice systems.

Today's state-of-the-art distibuted voice trading solutions ensure the security and reliability of the legacy systems whilst delivering the agility, flexibilty, functionality and interoperability which customers demand now.

Fortunately, they don't have to. The state-of-the-art distributed voice trading systems on offer today can provide the best of both worlds at much lower price point than legacy type systems. And they can be consumed on demand. In the past, firms might have had to spend £10m or more and write it off over the following seven years or so. Now they can consume voice in a 'Turrets-as-a-Service' model, not only turning the tap higher or lower when they want more or less, but also turning it on and off from a different place.

This opens up the market to new participants. The existing turret and dealer board market is shared by a handful of vendors and less than 200,000 users worldwide, which is a pretty small market. But the really exciting market for the new software-based solutions is the aspirational companies who have been unable or unwilling to spend $10,000 per user and can now consider cost effective alternatives. This is a very interesting dynamic that will eventually eke into the traditional turret customer base.

Going forward, banks and brokers will need to implement voice trading solutions that are distributed, scalable, flexible, sophisticated and easily deployable either onsite or as-a-service in the cloud. Either way, this will need to happen if those firms want to stay both competitive and compliant in today's market.

Regulators these days are speaking with one voice. So are clients in their search for value. Providers of voice-based services will have no choice but to listen.

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Richard joined enepath in 2014 as they met the criteria of a company providing innovative and disruptive technology in the trading systems arena and had the agility of a smaller organisation.

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Marc has over 20 years' experience in trading room technology, throughout the world, working in marketing, strategy and business development with most of the industry's leaders. Most recently, Marc has been based in New York, where he served as VP of Strategy for IPC Information Systems. Marc has consulted in all things voice for the trading room in the last few years working at BT and Orange Business Services amongst others.

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