

Mythbusting Around Automation?

Sebastian Hofmann-Werther
Head of EMEA at 360T



Despite everything that's happened since the start of the pandemic and all the adjustments that FX market participants have had to make, one of the biggest themes from my perspective has actually been a continuation – or to be more accurate an acceleration – of an existing one. And this is the drive amongst institutional and corporate clients to automate more of their FX workflows and trading activity.

Last year we published articles on [why more firms are pushing for greater automation](#).

Sebastian Hofmann-Werther, Head of EMEA at 360T, addresses some of the remaining myths around FX automation.



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The key to building a truly successful automation strategy is a deep and ongoing dialogue

how they can *differentiate between the different automated trading tools* available and *what lessons we learnt* about automation during the pandemic. So really, what else is left to be said on the subject?

Well, it occurs to me that there are still some existing misconceptions within the industry broadly regarding automation, which is why I thought it might be worthwhile for me to take this opportunity to do some mythbusting.

MYTH: AUTOMATION PUTS TRADERS OUT OF A JOB

To be honest, this is something that I've started to hear less over the past 12-18 months as more firms have started down the path of implementing automated trading solutions and people have seen that this doesn't necessarily equate to the elimination of traders.

This is because automation can't replicate the abilities of a trader, but rather aims to enhance them. This technology simply enables traders to be more productive and execute in a more efficient manner. Or, put another way, it helps unlock the real value of a trader because they have to spend less time on the desk staging and executing simple trades and can spend more time focused on the trades that actually require their expertise and skills.

MYTH: AUTOMATION CREATES COMPLIANCE CHALLENGES

In today's financial market legal and compliance concerns are, with good reason, always front of mind. However, automation actually helps rather than hinders on this front for a couple of reasons.

Firstly, the rules-based nature of automated trading means that these systems by definition cannot break the rules that are set for it, which reduces the potential scope for human errors that might contravene industry and company best practices and compliance rules. And secondly, such a rules-based system creates a transparent audit log of not just what happened on the trading desk, but also why it happened. This is because the underlying rules themselves can be accessed and viewed by the relevant staff for oversight, which then explain why a particular action was taken.

MYTH:
AUTOMATION
MEANS LESS
HUMAN
CONTROL

Intuitively, we feel that if a piece of technology is doing a task for us then we fundamentally have less control over that task, and the same is true of traders. But the reality is that because the rules which dictate automated trading systems are determined by humans they're still in full control, it's simply the execution of those decisions that is done for them.

Think of it this way: if you set an air conditioner to automatically keep a room at a certain temperature, do you have less control than if you were constantly pressing the button up and down yourself to maintain that steady temperature? No of course not, because at any point you could decide that you want it hotter or colder and adjust the settings accordingly. The decision is still yours, it's just that the repetitive manual effort needed to execute it has been removed.

And just as you could turn off the automatic temperature setting at any point in time, so too can traders step in to take control should they wish to. Automation is not an irreversible either/or decision and the trader always remains in full control of the extent to which it is deployed.

MYTH:
AUTOMATION
REQUIRES A HEAVY
TECHNOLOGY LIFT
TO IMPLEMENT

When thinking about the technology implementation required to automate FX trading activity it's important to remember that automation isn't an all-or-nothing proposition. Quite the contrary, it's a journey that is typically taken step-by-step as firms become more comfortable with the technology and they are able to validate its effectiveness at each stage of this journey.

When people think about "automated trading" their minds often drift naturally towards Algos or no-touch execution, but there are actually significant benefits that can be derived from automating elements of FX trading workflows even if they choose to continue executing manually. It is important though that firms looking to automate all or parts of their FX trading partner with technology providers who have teams in place with experience of implementing these types of tools as they are better able to take on any technology lift that is required on their side.

MYTH:
**AUTOMATION COULD
NEGATIVELY IMPACT
BANK RELATIONSHIPS**

Both institutional and corporate clients rely on their bank partners for a variety of different products and services and so it's understandable that there is some concern that implementing automated trading solutions could impact this relationship. However, in many different conversations that I've had with these firms they have emphatically said that this is not the case. Instead, they found that implementing such solutions meant the banks stopped simply quoting prices to them and started to focus their attention on providing additional value-add services instead.

Our mantra at 360T has always been that technology is an enabler of relationships, not a replacement for them, and we've seen this borne out time and time again when clients adopt e-trading solutions and subsequently tell us that now they spend less time talking to their banks about pricing vanilla trades and are instead having deeper, more interesting conversations as a result of introducing new technology.

CONCLUSION

Hopefully some of the above will prove helpful to the many firms that are currently pondering if and how they should start their own journey towards automating more of their FX trading activity.

Perhaps the last thing I would add is that our experience working with our various industry partners has taught us that everyone has unique elements to their workflows. Because of this, we have learnt that the key to building a truly successful automation strategy is a deep and ongoing dialogue to understand precisely where this technology can have the most positive impact for that specific trading desk.

Link list:

- > [eForex: Automation and Volatility: What did we learn?](#)
- > [eForex: Automated FX Trading: Getting beyond the buzz](#)
- > [Using Technology to Target Treasury Pain Points](#)