

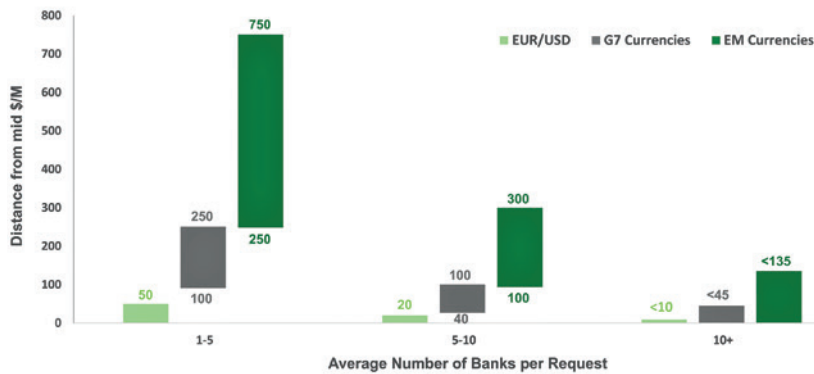


FX Technology: The Trend is Clear

By **Ryan Tolmay**, Sales Manager, Sub-Saharan Africa, 360T Treasury Systems AG (360T)

Just as technology continues to become more ubiquitous in our day-to-day lives, so too is it becoming more prominent within treasury departments, especially when it comes to FX trading and workflows. This has only been accelerated by the pandemic which, by forcing companies to operate with their staff in a decentralised environment, created a unique situation in which many cases required an increased adoption of FX trading technology in order to maintain regular functionality. However, once adopted, this technology is likely to become the norm for these firms because of the numerous benefits that it can deliver to their businesses.

The pandemic in many cases required an increased adoption of FX trading technology.

Fig 1 Analysis of Cost Differentials for Competing Spot FX Trades

Source: 360T internal data

Chief amongst these is access to better FX pricing. Today, many treasury desks are executing their FX transactions either via voice channels or single dealer platforms (SDPs). But the firms that have taken that next step to begin using multidealer platforms have found that, by being able to quickly and efficiently put multiple dealers in competition, the pricing that they're seeing on screen has improved as a result. And it's worth pointing out that this claim isn't based on anecdotal evidence either, at 360T we have seen firms derive quantifiable execution cost benefits by putting more dealers into competition.

Figure 1 illustrates that as firms compete their Spot FX trades amongst more banks, the pricing that they receive for those trades – in terms of distance from the market midpoint – tends to improve substantially. This trend appears most acute when firms are trading EM currencies.

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Driving costs down

Indeed, the benefits of utilising multidealer platforms to put more pricing into competition can be significant enough to have a material impact on treasury desks' P&L, whilst also ensuring that they meet shareholder demands to prove that they achieved best execution.

In addition to reducing costs, technology can also be leveraged to

**JAN BEUKES**

Group Treasurer, MultiChoice Group

Corporate Perspective

What were the drivers which caused you to implement new FX trading technology?

A big focus area within the MultiChoice Group Treasury digitalisation roadmap was to create visibility and cutdown on manual actions. Being multi-banked on FX required us to relook at how we trade. Having treasury staff phone to get pricing was not efficient. We had to be able to get pricing from multiple bank partners quicker and easier. Keeping manual records on cash flow savings based on optimal execution had to be changed.

How has technology enabled you to streamline your FX workflow?

With the integration of 360T into our TMS, we are able to get the visibility and automated compliance we want. Having feedback sessions with banks on FX performance is also a lot easier. Overall a significant amount of 'people time' was released which allows the team to focus on core value add projects and discussions with our business partners.

minimise operational risks. Every manual process within the treasury desk workflow incurs a certain amount of operational risk due to the potential for human error or a ‘fat finger’ incident, especially in a busy work environment where conducting currency transactions are simply one task amongst many. And while the probability of such incidents might be low, the impact of them can be very high. This is amongst the reasons why more treasurers are shifting away from using manual channels like email or chat functionality to process their FX trades and towards using electronic trading platforms to streamline their workflows and automate some of this activity.

Such platforms also satisfy the growing demand for more transparency on trading

desks. Shareholders always want the companies which they invest in to become more, not less, transparent in terms of how they operate, and this extends right through to treasury departments.

Given that currency management can have a big impact on firms’ overall earnings there is more scrutiny than ever before with regards to how treasuries are executing their FX transactions. Electronic trading channels have the distinct advantage over more traditional ones in this regard because they make it easier for observers to see exactly how and when FX executions are taking place. Multidealer channels take this a step further by providing a clear view of the other pricing options available at the point of execution, allowing the treasurers to clearly demonstrate that they traded on

the best price in the market.

This is vitally important not just from a best execution perspective but also in terms of creating a comprehensive audit trail. As companies continue to grow and their treasury operations become more complex as they scale up, having a trading system which provides a clear trail of the entire FX workflow and trading activity across the organisation makes conducting audits much easier.

Enriching relationships

All of the benefits outlined above don’t just make treasurers’ lives easier; they also free up their precious time. Clearly, putting a series of dealers in competition on-screen is much more efficient than having to call round a series of them to compare different currency prices, and the availability of liquidity. FX trading is just one item on a long laundry list of treasurers’ day-to-day tasks and so reducing the time they need to execute these trades enables them to focus more time and attention on the other, possibly more mission-critical, elements of their jobs.

Moreover, we’re seeing that even as companies grow and their FX flows increase there is often not a corresponding increase in the head count on treasury desks. Consequently, treasurers are under

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MICHAEL SHUTTLEWORTH

Group Treasurer,
Aspen Pharmacare

Corporate Perspective

What tangible benefits has technology brought to your FX trading capabilities?

Previously, Aspen struggled with ensuring FX transactions were undertaken at best-price. In addition, with many relationship counterparties, we needed to ensure that FX trading was being undertaken on a purely objective basis (i.e., best-price) and to be able to keep track of what volume of trade was being executed with each counterparty. With 360T, we now have an easy-to-use venue from which to execute FX transactions, and because 360T automatically (and in real-time) compares quotes from all our counterparties, our FX traders don’t need any specialist training or experience to ensure Aspen is trading at best-price. Lastly, the 360T audit trails and reporting tools make for convenient and useful subsequent analyses of individual trades and trends at a portfolio level.

How challenging was it to actually implement these solutions?

The initial setup of 360T as a stand-alone tool was quick and easy. Adding on new Group entities, users or counterparties is also a straightforward process.

pressure to become more productive and, when it comes to FX trading, technology can help alleviate this pressure by driving new workflow efficiencies. And when it comes to implementing new technology, it's worth addressing the impact that this can have on human relationships. There is some misconception amongst certain FX market participants that technology can erode human relationships, including those between treasurers and their bank partners. But actually, quite the opposite is true — in our experience we've found that technology enhances relationships rather than replacing them. This is because, rather than removing the need for treasurers to talk to their banks about their FX needs, technology helps to evolve and enrich the conversation.

So instead of talking on the phone with dealers to get pricing for straightforward Spot FX trades, treasurers can instead see an array of pricing on an electronic platform and then spend that time talking

to the dealers about why they are being priced that way, and how this pricing could be improved. And once again, executing the simple trades via an efficient electronic platform leaves treasurers more time for working through the more complex orders that they need to execute with the banks.

Finding the right partner

Despite all these clear benefits, one inevitable concern when it comes to adopting new technology is the internal lift required to actually implement it. However, introducing a new FX platform into treasury workflows doesn't have to be a time consuming and complex task, but it is crucial that firms partner with the right technology provider.

More specifically, this means finding a provider who has extensive experience working with corporates and seamlessly integrating into their existing treasury management systems (TMS). In addition,

they should look for firms that are willing and able to work alongside them in a consultative manner to devise and implement a technology roadmap that is tailored to their individual needs.

A final point to mention here is that businesses are not static enterprises; they grow, evolve and often become more complex over time, and so when it comes to the treasury desk firms need trading technology which has the flexibility to meet their changing requirements. This is why web-based FX platforms, which can be consistently enhanced and refined and don't require installed applications or a terminal, are garnering increasing interest amongst corporate treasurers in South Africa. Indeed, the benefits of using this type of platform were made acutely apparent during the pandemic as they enabled firms to continue trading with no disruption, even during the most volatile days in March and April of last year.

Keeping pace with the industry

Ultimately, as mentioned previously, the trend line for technology adoption is moving inevitably in one direction. We've seen many times in other markets across the world that the case for utilising more advanced FX trading platforms to drive efficiencies, reduce operations risks, boost P&L and improve the resiliency of the trading desk eventually becomes too compelling to ignore.

Moreover, firms that aren't taking a proactive approach to looking at how technology can streamline their FX workflows and enhance their treasury operations risk eventually falling behind their peers in their respective industries, because there are already first-movers emerging who are embracing more advanced FX trading solutions, and they're thriving as a result. ■



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Over the past six years Ryan has driven growth in the eFX space across 11 countries in Southern Africa for 360T. His clients include banks, institutions, corporates and NGOs. Prior to 360T, he spent eight years working in foreign exchange in the London banking sector, including Lloyds Bank and Citibank, where his focus was predominantly interbank and institutional FX sales.

Ryan has a Bachelor of Business Science (BBusSci) degree with business management honours from Rhodes University.

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