Preparing to go on-line

The race is on to provide foreign exchange services on the web. Anne Querée finds out how the big FX providers are rising to the challenge.

It has been a slow start for on-line FX trading over the internet, but non-bank portal providers have proved the catalyst in a now furiously competitive race for customers and liquidity.

The majority of banks have been slow to exploit the potential of electronic media – and the worldwide web in particular – to deliver cost and efficiency benefits to their clients.

That is the verdict of corporate and institutional foreign exchange users around the world who were interviewed for the Forex and forex derivatives study 2000 undertaken by financial services research and analytics specialist ClientKnowledge.com.

ClientKnowledge.com interviewed roughly 1,300 corporations and 400 investors between March and May this year for the study, which was conducted on behalf of a group of wholesale banks.

Banks that are offering on-line services have encountered a slow take-up by users. Some 10% of clients are using the electronic trading capabilities on offer, says the research. But "once impressed with electronic offerings, these web-literate clients move the overwhelming majority of their business to the electronic platform overnight," reports ClientKnowledge.com.

"The early and decisive winners among banks are likely to be those with systems that ease the pain of forex transaction processing," concludes ClientKnowledge.com's Chief Executive Officer Justyn Trenner.

Banks started to provide automated FX dealing services long before the internet existed. These PC-based products were particularly targeted at corporates with frequent low-value (so-called 'nuisance') deals to transact. The idea was that the greater efficiency of automated dealing might be reflected in pricing offered on these services, while corporates had the added advantage of straight-through processing and audit trails. Although there were some attempts to leverage technology to offer multibank pricing and dealing services to corporates (Cognotec was a pioneer), these initiatives were often cold-shouldered by the banks and failed to build a critical mass of users. Until recently, web-based services mostly just replicated PC-based mono-bank services.

But it had to happen – and it did. There are no prizes for guessing that corporates consistently say they want multibank FX services. A March 2000 survey conducted by Greenwich Associates with corporations, fund managers, banks and FI's revealed 84% of respondents would prefer a multibank system.

On-line exchanges

A couple of non-bank providers had seen the potential and moved quickly to create on-line exchanges where corporations can get quotes from several banks via one site. Currenex was the first to launch in April this year, offering access to over 20 banks. CFOWeb, from enterprise software firm Integral, launched in June. This portal has 10 bank participants offering foreign exchange, interest rate and money market products. Both these exchanges provide a competitive auction environment free to corporates, along with value-added news and other services.

Of course, users still need to establish credit relationships with the FX banks before they can start to trade through the sites.

A look at on-line exchanges in other industries, such as automotive, pharmaceuticals and commodities, reveals two clear models: exchanges operated by neutral third-party 'infomediaries' and exchanges operated by industry players, usually on the sell-side. FX is no different, and several groupings of banks have formed to operate their own exchanges – although all are still at the pre-launch stage.

FXall.com is due to launch before the end of the year and has 13 leading banks signed up, including Bank of America and BNP Paribas, both of which are also involved in CFOWeb.

The three largest FX providers – Chase Manhattan, Citibank and Deutsche – have so far stayed away from the portal party, and now we know why.

News has leaked out that these three are to form their own exchange, dubbed Atriax, in cooperation with Reuters, the largest provider of foreign exchange rates.

Aimed at "the smallest players to the largest global players" is another, as yet unnamed, initiative from a group of European banks including The Royal Bank of Scotland, Banco Santander Central Hispano, Commerzbank, SanPaolo IMI and Société Générale. The new group will launch an e-marketplace for treasury and capital market products, including FX, next spring.

Several banks are in more than one of these initiatives, and it is easy to see why. It is churn time in the new economy and for those smaller players who can afford it, keeping a number of doors open is a wise decision.

Time will tell how many portals the market can sustain, and which firms will be the winners. The received wisdom is that power shifts to buyers in the on-line world – if this is the case in foreign exchange, it will good news for corporate treasurers.

Says ClientKnowledge.com's Trenner: "The winning approach for banks in forex will be to blend care-oriented service and advice with an effective electronic offering." ■

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