A fintech-led revolution for the bond market

Etai Ravid and Donald Chan of BondIT discuss how they can 'save' fixed income portfolios via automation that will drive much-needed efficiency and transparency to the bond market.

Bonds have lagged equities for decades when it comes to investment complexity as well as tools and analytics.

The opaque nature of the fixed income market has created multiple challenges: structural inefficiencies; inconsistency between providers in terms of data coverage and accuracy; and an inefficient and error-prone way of investing.

And with time-consuming, highly-manual, rigid and inflexible processes come several consequences.

These include: missed opportunities due to ineffective bond inventory management by investment firms; an inability to do active rebalancing in response to market events, in turn leading to losses; and higher costs to market players and clients alike.

It was inevitable, therefore, that this would inspire efforts at some point to use smart technology in order to create transparency – an attractive proposition for a hungry start-up to latch onto.

Enter a solution inspired by members of the Israeli Army's intelligence unit. "It took us almost four years to come up with a working solution," explains Etai Ravid, founder and chief executive officer of BondIT.

It turns out that inventing a new language for the fixed income market became integral, to standardise different kinds of data for an easier understanding. And that means a better, more efficient relationship between clients, advisers and the banks.

A REVOLUTION

Ultimately, BondIT views itself as a technology platform which can enable data-driven construction, analysis, optimisation, re-balancing and monitoring of fixed income portfolios, and all done in an efficient and easy-to-use format.
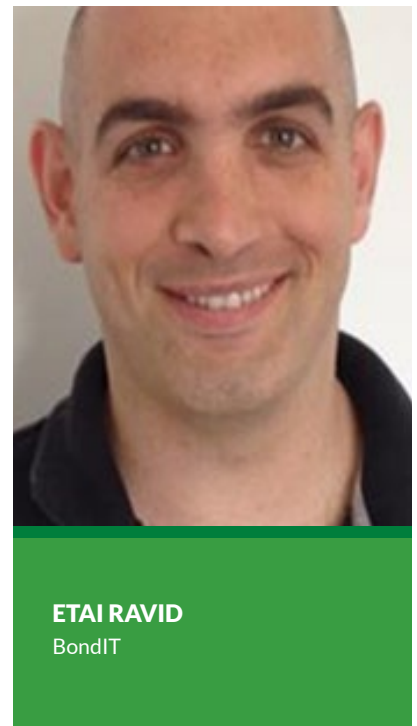
ETAI RAVID
BondIT

"We try to make the solutions as simple as possible, in order to blend science with art," says Ravid. "It empowers users with actionable analytics through the

DONALD CHAN
BondIT

This is all powered by an advanced proprietary machine which, says Ravid, offers learning algorithms that can be delivered both as SaaS and an in-house offering. "BondIT is the only pure-play fixed income-focused platform offering portfolio optimisation generation as well as smart optimisation methods for rebalancing and improving existing portfolios," he explains.

To respond to the fads of the day, the platform can be used as either a robo-adviser or to empower portfolio managers with data-driven algorithms and intuitive reporting tools.

Yet unlike other automated advisory solutions that aim to replace wealth managers, Donald Chan, BondIT's Asia Pacific director, adds that the solution can also be used to improve efficiency of advice.

The potential is mouth-watering. "Not a lot of people know that, for example, less than 1% of fixed income investments are via ETFs," says Ravid. "As 99% is through individual bonds and mutual funds, the ability for private banks to monetise fixed income is enormous."

Israel was the first fixed income market globally that went fully electronic and opened up to retail investment.

But Ravid could see the potential of this data-led solution world-wide. And he has since spearheaded its expansion to Europe, the US and now Asia.

Asia was of particular interest, explains Chan, since the majority of fixed income investment comes from wealthy individuals. Plus, the region tends to embrace the adoption of new technology.

"Whereas in Europe there are more people who want to preserve wealth, in Asia, they want to increase it, so they look at the platform in a different way," adds Ravid.

Further, explains Chan, since much of Asia's HNW population seek control over their investment portfolios, their advisers need to be able to put investment information into terms which are more easily understood.

The challenge of sifting through a mass of research to come up with a product

entire lifecycle of portfolio management. This enables advisers to focus on clients instead."

Essentially, the software simply crunches a lot of numbers before running the data through algorithms that determine the best courses of action for clients and their portfolios.

TOP-DOWN APPROACH FOR PORTFOLIO CONSTRUCTION BASED ON TARGETS AND INVESTMENT REQUIREMENTS
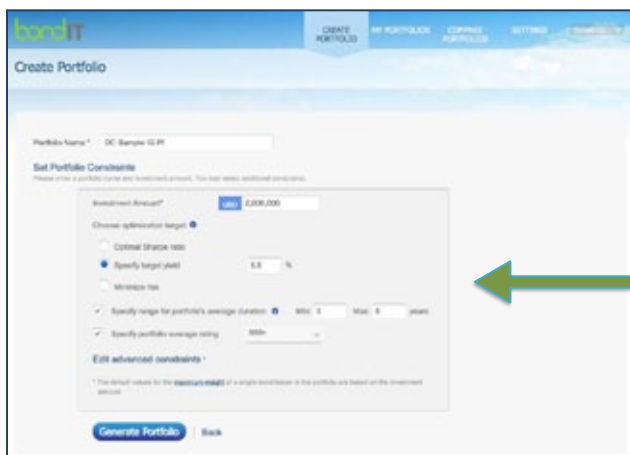
Easy-to-understand investment targets based on:

• Investment Amount
• Target Yield
• Portfolio Duration
• Portfolio Rating

that can match client needs, and be in line with suitability requirements, can more-often-than-not put off an adviser.

This is where BondIT believes its software helps take the edge off – by executing in moments what it would take even a top-tier bank 24 to 48 hours to do.

"The main idea is to automate the way that relationship managers deal with fixed income investments," adds Ravid.

"Doing something that is not fully automated in [the over-the-counter] world means losing a lot of sales."

A FINTECH WITH SUBSTANCE

The firm seems to be making headway in Asia. For example, BondIT was one of seven fintech start-ups chosen to participate in the 2015 FinTech Innovation Lab Asia-Pacific. Based in Hong Kong, the lab is a combination of several familiar banking names, including Bank of America Merrill Lynch, China Construction Bank, China CITIC Bank International, Commonwealth Bank of Australia, and Goldman Sachs.

The next step for BondIT, explains Ravid, involves client data. This means using that individual's preferences to figure out their buying behaviour, in order to tailor the portfolio with personal interests in mind.

And as the company approaches its first anniversary in Asia, a priority is to work more closely with partner banks.

"The end-goal for us is a level playing field," explains Ravid.

"For example, a family office might only have five people but it can be using the same technology as a tier-one bank, and via a cloud-based solution without heavy infrastructure." ■

PORTFOLIO ANALYTICS: OVERVIEW OF BOND PORTFOLIO
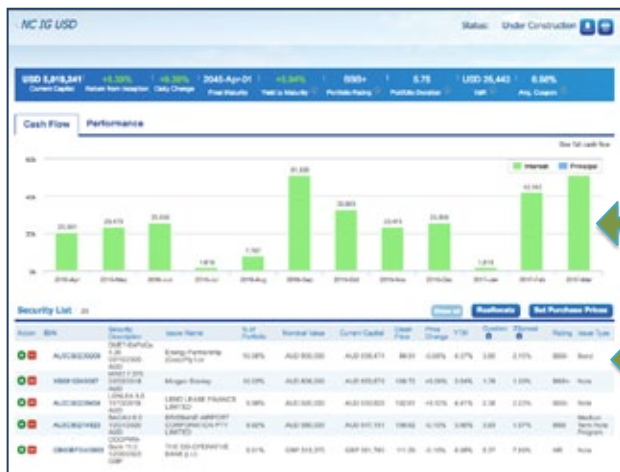
Aggregate cash flow display

Breakdown of individual bond holding

Risk Overview and Breakdown

Portfolio Overview and Breakdown