

Interactive Brokers: Boosting its Penetration of Asia's Vibrant Wealth Management Market

David Friedland, managing director of Interactive Brokers in Asia, is someone who seldom seeks the limelight in the media. However, when he met with Hubbis recently to conduct one of his rare interviews, he articulated how he is immensely bullish about the region and why the firm's state-of-the-art electronic trading platform is ideally suited to the challenges facing investors, especially those in the wealth management sector, from the wealthier and active retail traders to family offices and leading institutional players across a growing footprint within Asia Pacific. And neatly matching that thrust, the company recently opened its new Singapore operation to complement its regional offices in Hong Kong, Australia, Japan and Shanghai.

INTERACTIVE BROKERS GROUP INC, WHICH TRADES AS IBKR ON NASDAQ, is one of the world's most established electronic trading brokerage platforms, providing electronic trading services and custody for securities, commodities and foreign exchange around the clock in over 125 markets and with bases in some 30 countries. The company's clientele includes individual investors, hedge funds, proprietary trading groups, financial advisors, and introducing brokers.

"We cover the entire array of customers from the retail side to sophisticated institutions," Friedland explains. "These clients tend to be the more sophisticated traders who understand the nuances on payments for order flow, smart routing, best execution and hidden fees. We offer a front-to-back service providing straight-through-processing from execution to clearing, including portfolio analysis for advisors, and so forth."

Far more than retail

Friedland says that in Asia, the company has tended historically to be seen as more of a retail-focused brokerage but explains that the firm's client base ranges all the way through to the largest institutions, and everyone in between. Accordingly, the firm has been concentrating considerable energy on building its clientele in the wealth management sector in Asia which has been attracting a growing number of financial advisers to its platform.

Friedland explains that financial advisor, family office, IAM and large institutional clients are all drawn by the combination of compelling costs and outstanding efficiency that the firm offers.

Friedland's Key Priorities for 2020

"More of the same is my first goal" Friedland reports. "We are actually somewhat unique in that we've never had a budget, we have never had highly defined goals, we are more driven by keeping our eyes wide open on opportunities and trends, and doing the best we can all the time. In short, we are never satisfied, we are constantly seeking to evolve, change and grow, so if I have to define my first goal this year, it is the same as always, to continue to be the best."

Another mission in his sights is to expand products and markets. "We want to do more in Korea and Taiwan," he reports, "and to further build the hedge fund and wealth management space, where we are doing well but where we can also do better. And here in Singapore, where we have only recently opened, we want to build out our team to really service Southeast Asia, where we see great opportunity, great growth potential."

Friedland also highlights the aim to further beef up the mobile apps. "They are actually really good already, but we always continue to refine products, functionality, and user-friendliness."

"We are certainly a retail broker," he notes, "but our institutional offering and capabilities are also highly refined and honed to service all types of institutions, for whom we provide all the numerous regulatory reporting requirements they need behind the scenes. When you look at our earnings, roughly 50% comes from institutions, introducing brokers and wealth managers. And last year, we were the fastest-growing firm in the hedge fund segment."

Selling the concept

But in Asia, he adds, there is still the idea that Interactive Brokers is more focused on the active, or high-end retail. "In short, we need to get the word out and drive home the message that we not only service retail but that we offer outstanding

quality and service to institutions of all types and all sizes."

"Historically, we have grown robustly out here in Asia with only soft marketing," he elaborates, "as very often our best clients come to us through word of mouth. Nevertheless, we are ratcheting things up somewhat, and now that we have a full Singapore operation, fully regulated with the relevant CMS license as of a few weeks ago, we are now intent on building up our critical mass there, and using that as a base across the Southeast Asia region." IBKR, in fact, has a long history in the region. The firm's Asian journey began with Friedland back in 1995, when he moved from the US to open the Hong Kong operation, where today the firm holds licenses 1, 2 and 3 for derivatives, equities and foreign exchange.



DAVID FRIEDLAND
Interactive Brokers

The recent expansion to a full office in Singapore is a natural step to complement the company's other Asian operations and growing footprint. Friedland explains that given Singapore's rapid growth as a leading regional and indeed global financial and wealth management centre, there had been rising demand for Singapore as a booking centre to cater to worldwide clients, especially from the US, to help ensure regulatory compliance with the raft of new and also more vigorously enforced rules across the globe, including FATCA, CRS, AML, KYC, GDPR and so forth.

"And as we have grown across Asia," Friedland explains, "we saw the need for additional customer service infrastructure and reach, and of course Singapore is a great gateway for expertise, infrastructure and services to access the region and service global clients in the region." He adds that as IBKR is an electronic platform dedicated to optimal solutions, the firm now has I think around 500 programmers globally and is intent on building out better and more solutions for higher-value clients, often at their request.

Getting Personal with David Friedland

Friedland grew up in New York, where he later studied at Vassar College, majoring in Econometrics, before furthering his studies and obtaining his MBA from the Anderson Graduate School of Management at UCLA in California.

Friedland recalls his early days with Interactive with fond memories. "I am a real rarity; I have been with one firm my whole working life," he reports. "At the start, I was really thrown in the deep end in programming, back-office, and they just said, well you studied econometrics, get on with it. I felt like I had no clue what to, but I just had to figure it all out, and I did and that was my baptism by fire in a firm that is all about challenges, all about solving problems, all about being the best you can be. I have not looked back ever since those early days, and before long I had the opportunity to move to the trading desk and the next thing I know, it is 1995 and I'm in Hong Kong."

That was when Friedland relocated to Hong Kong to oversee and commence the group's derivative market-making and brokerage operations in Asia and Australia. Since then IBKR has enjoyed excellent growth across the region and Friedland has become a household name in the industry, taking up, inter alia, various consultative roles for the Hong Kong exchanges to help drive regulation and market infrastructure forward. He is currently is a member of the SGX DT Advisory Committee and HKEX Clearing Risk Working Group.

Married with a 20-year old daughter at Dartmouth College in the US and an 18-year old son who will begin Boston College next year, Friedland describes himself as a bon viveur who is passionate about life, food, wine, and sports, particularly yoga and tennis and gym. He is also an avid follower of baseball, basketball and American football, following teams including the New York Mets, the Knicks, and the New York Jets.

"Some of our best solutions have come out of client suggestions and requests," he adds.

Too much...for too long

Friedland observes that the world has finally realised that brokerage

is most efficient if fully electronic and that they have been paying too much for too long. "We don't charge for custody," he explains, "and we actually find it difficult to understand why banks are charging anywhere from three to

sometimes 15 basis points to hold a client's assets. Not charging for custody is already a major savings for our clientele."

He explains that as the firm's electronic execution is front to back, there are great economies of scale and efficiencies that the company can then translate to compelling costs for the clients. "We don't have multiple layers of people and layers of cost," he reports. "We automate virtually everything we can, even our stock lending, which is available on-screen, with most of the in-house functions done with the assistance of programs."

"We increasingly see frustrations amongst the RMs and advisers working with the banks who are doing everything for their clients – handling all the research, curating the portfolios – all while the banks take a large cut of their advisory fees. Whereas they can come to us, reduce their costs, get to keep 100% of what they charge as advisory fees to their clients, while we earn on our low commissions - it is a win-win on both sides."

Friedland is here referring to the firm's stock-yield enhancement programmes. These provide customers with the opportunity to earn additional income on securities that meet certain criteria, with loan rates established in the over-the-counter securities lending market. "We lend stocks on an investor's behalf and then split the income on the stock lending," explains Friedland. "Not only does it enhance our stock loan book, but it also lowers the overall costs of trading for clients. We are extremely efficient and competitive in our lending and our rates."

One (platform) size fits all

Friedland elaborates on the firm's credo, saying that what IBKR spends big on its computing power, software and programming. "And we are not picky as to the clients we work with, we are happy to onboard those who make only a few trades a year, while seamlessly accommodating those who trade five million contracts a year. All these clients are valuable to us."

Friedland says the IBKR offering is a far cry from anything the private banks serve up. "They might offer their clients some value, and we realise that some

clients want more of the personal touch, some handholding perhaps on their portfolio formation, and even perhaps someone to even invite them out to a really nice dinner," he comments. "But while we do entertain our larger clients, and we value these relationships, we try to focus our time, money and energies of saving them significant costs by conducting their business through us. We feel that is worth more to them than champagne and lobster dinners."

Advisors jumping ship

And that, Friedland elaborates, is why relationship managers

also jump ship from their private banks to join Interactive Brokers. "We increasingly see frustrations amongst the RMs and advisers working with the banks who are doing everything for their clients – handling all the research, curating the portfolios – all while the banks take a large cut of their advisory fees," he reports. "Whereas they can come to us, reduce their costs, get to keep 100% of what they charge as advisory fees to their clients, while we earn on our low commissions - it is a win-win on both sides. And even better, it is also a win for the clients, as they get the same expertise and probably better execution at reduced costs as brokerage is considerably cheaper and custody is free."

Friedland remarks that this compelling story has been helping IBKR's assets under management (AUM), in fact, what the company reports under the name 'ending client equity' in its filings, to roughly USD176 billion at the end of January, a figure that is up 27% in just one year.

Smart tools

He offers further insight into the rationale for financial advisers to working with Interactive Brokers. "It is not just the costs," he explains, "but the tools we offer, so, for example, we have an excellent allocation tool where they can make one trade, one order, but allocate that trade amongst numerous clients, and then easily keep track of it. Onboarding their clients is simple and fast, with the only caveat of additional enhanced due diligence these days. For the institutional accounts, we have dedicated teams to help them, and we have a professional service team that will follow all clients throughout the journey."

He cites the example of one advisor who recently moved roughly 100 of his clients over from a major bank. “We make it as easy as possible to handle the data, with the account opening in XML type format and then a mass upload,” he reports. “The concept is to make these transfers as seamless as possible, to make all their lives as straightforward as we can.”

The FX USX

Friedland shifts his focus to other key areas of the firm’s comprehensive offering. “In foreign exchange, we offer institutional rates to all of our clients, whatever their size,” he explains. “Our spreads on all the major currencies, and even on many non-majors, go as low as a tenth of a basis point, and we charge a commission of 0.2 basis points, so clients literally save huge amounts over the costs of transacting with the

private banks, who might be charging 10 times more than us. It is all about efficiency, transparency, spreads, costs, and economies of scale.”

Additionally, IBKR offers white and dark labelling for brokers and funds, on a fully or non-disclosed basis if they wish, another segment in which the firm has had great success and is working hard to expand further.

Just one account required

Friedland also highlights the ease of user access, for example, clients need to have just one account with the firm. “You are in Singapore,” he explains, “and you open one account and you then have access to the world, and via one screen for equities, futures, mutual funds, foreign exchange, so all your products. We don’t charge any mark-up fees on a lot of the products, and the software is free. And for financial advisors,

we have a wonderful portfolio analyst tool offering a host of metrics; we provide this for free, but obviously, we earn on the execution of trades.”

Strength is vital

He draws the discussion towards a close by focusing on the strength of the firm’s finances. “We are one of the safest, possibly even the safest among the independent brokerages, and we are arguably stronger than the banks, as we have over USD7 billion in equity and a market capitalisation of over USD22 billion. With our chairman and the management team owning more than 80% of the stock, you can appreciate that we have significant skin in the game, so we are cautious and do not take excessive risks. That is extremely important for our clients, as stability and safety are of paramount importance in the world’s financial markets.” ■



Interactive Brokers: A Snapshot

Nasdaq-listed Interactive Brokers Group, Inc. (IBKR) began life back in 1977 and is today a world leader in automated trade execution and custody of securities, commodities and foreign exchange around the clock in over 125 markets in numerous countries and currencies, from a single IBKR Integrated Investment Account to clients worldwide.

The firm services individual investors, hedge funds, proprietary trading groups, financial advisors and introducing brokers.

"Our four decades of focus on technology and automation have enabled us to equip our clients with a uniquely sophisticated platform to manage their investment portfolios at the lowest cost possible," Friedland reports. "We strive to provide our clients with advantageous execution prices and trading, risk and portfolio management tools, research facilities and investment products, all at low or no cost, positioning them to achieve superior returns on investments."

Headquartered in Greenwich, Connecticut IBKR has a market valuation of around USD22.2 billion based on February 11 trading, and on February 3 had reported its electronic brokerage monthly performance metrics for January.

The information showed an average of 1,019,000 daily trades at an average of USD3.67 fees/commissions per trade. The 1.019 million figure was 20% higher than a year earlier and 32% higher than the prior month, from 705,000 client accounts, 16% higher than a year earlier.

Ending client equity was USD176.1 billion, 27% higher than the prior year. Ending client margin loan balances were USD27.3 billion, 15% higher than the prior year while the ending client credit balances of USD58.9 billion were also up 15% year on year.

In Asia, IB began operations in 1995 through a Hong Kong subsidiary, Timber Hill Securities. The firm then launched in Japan in 2002, followed by South Korea and Singapore in 2004, and Taiwan in 2007. The India business started in 2008. In 2014, it became an exchange participant in the ground-breaking Hong Kong-Shanghai Stock Connect. And IBKR launched its full-scale Singapore operation recently, with the firm obtaining its full CMS license and regulatory approvals.

Friedland has been with IBKR since 1985 and has enjoyed the firm's remarkable rise from its beginnings as a proprietary trading house into perhaps the biggest electronic options market-maker in the world. "Our founder, the Chairman today, saw quickly in the early 1990s that market-making was going to become commoditised and there was a need for greater price and execution transparency, and we have come a long way from the days of trading pits and open outcry."

It was in 1995 that Friedland came to Asia; at that time, Hong Kong was about to form an electronic stock options market. "The firm seized the opportunity to open the Asian operations, and we have expanded across the region, with offices also in Japan and Australia, and with access into Korea, as well as wholly-foreign owned operation in Shanghai, which is achieving exceptional growth, and of course the new Singapore operation we have recently opened. And there is much more to achieve in a region of such enormous potential."