

Strategising for survival and growth in a changing financial world

Interactive Brokers is today a \$26 billion market capitalisation financial services giant specialising in online trading and also moving rapidly into areas of wealth management. But to stay ahead of the game, the firm needs to constantly evaluate the financial markets landscape of today and tomorrow.

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INTERACTIVE IS A US ELECTRONIC broking giant registering rapid growth, even today some years after the electronic platform revolution took place. The firm has broad global reach with access to over 120 markets in 24 countries, offering seamless access to products worldwide, whether stocks, options, futures, foreign exchange or fixed income in 23 currencies from a single account.

David Friedland the Asia-Pacific Managing Director for Interactive Brokers spoke at the Hubbis Independent Wealth Management Forum of November 16, 2017 about the firm's offering for the wealth management industry in Asia and its constant need to reinvent itself amidst rapid



DAVID FRIEDLAND
Interactive Brokers

evolution in the world's wealth and customer needs.

Growing focus on wealth management

"We have a large and growing wealth management platform and we offer a hugely efficient electronic capability," he explained. "Most of our senior management are programmers and as a result we tend to do everything ourselves. We built our technology in-house and we have an unclouded vision of automating whatever we can. We have grown organically to about \$6 billion in equity capital today and a \$22 billion market valuation as of November 2017."

Friedland highlighted the roughly 50% of the firm's business that is individuals, with the other portions coming from introducing brokers. The firm offers a white labelled product on a confidential and a fully disclosed basis. "And crucially for this talk we have 20% of our business which is in the financial advisory space, this having grown from almost zero to where it is today in just five years."

As of March 2017, Interactive Brokers had about \$100 billion in assets under management, of which around 25% was financial advisers. By November, in just 8 months, the assets had grown to \$120 billion, with most of the growth coming from financial advisers.

Scalable and adaptable

Friedland explained how the firm

keeps growing its business and profits. "We have a scalable module," he said. "We create a software direct for institutional clients that is picked up by the retail customers. And under the hood we have numerous tools that are developed for specific groups of the market, such as wealth advisers. We can drill down to the individual clients, allocate trades, portfolio management tools, risk analytics and we offer all that as part of our software, for free."

Robo-advisory is a core development that Friedland anticipates changing the landscape. "Artificial intelligence will grow and drive down the costs managing portfolios, but so far it is not precisely clear where it will all go, but it would seem that as it enters everyday financial life it will become much more difficult to get ahead of the market."

As a result, Friedland and colleagues envision a significant increase in passive investing. "Think about it, eight billion people in this world, 2.5% GDP per year growth, the middle class growing rapidly. And of course, in China the wealth creation is incredible. And as this wealth matures the individuals will move from speculative investing to managing and preserve wealth.

"The question then is will clients follow AI strategies where they can fully invest themselves, or can advisers offer additional value. It is a big challenge

for this industry."

He also highlighted the growth of multifamily offices to reduce the costs of running single family offices. And that in turn will add pressure on the bankers to reinvent themselves in order to add value to these large family offices.

Covestor becomes IB Asset Mgt

Friedland highlighted the importance of a company Interactive has bought named Covestor, which it then re-branded as IB Asset Management and which the firm now introduces as the 'future of investing'.

Using technology and data IB Asset Management helps construct portfolios from as little as \$5000 of investment. Clients enjoy the low costs and the convenience of online investing, but with human help where required, and a broad selection of Smart Beta and actively managed portfolios.

The Smart Beta portfolios are personally overseen by the Chief Investment Officer and IB Asset also offers dozens of actively managed portfolios run by experienced money managers. The firm says its mission is to make investing easy, transparent and inexpensive.

In conclusion, Friedland highlighted the need for all the banks, the advisors, the brokers, to constantly reinvent yourselves. "We all have to constantly imagine how do we change, what do we do, what do people want and where are we going to be five years from now." ■

406,000
client accounts⁽³⁾

\$6.0B
equity capital⁽³⁾

657,000
DARTS ⁽¹⁾⁽²⁾

59%
brokerage pretax
margin⁽¹⁾

18%
YoY⁽²⁾ acct growth

⁽¹⁾ 1Q17 ⁽²⁾ DARTS are based on client orders ⁽³⁾ 3/31/17 ⁽⁴⁾ Excludes MtM loss on U.S. Treasuries and currency diversification ⁽⁵⁾ Trailing twelve months to 3/31/17