Internalisation levels in major currencies have hit never-before-seen levels of more than 90% at major banks over the last few years when market conditions forced liquidity providers to search for more efficient ways to manage risk than simply offloading positions in the open market.

As a result of tightening margins and increasing regulatory pressures, dealers looked to exploit the strength of their franchises to match off client orders against each other in-house, or to risk-manage their own positions more efficiently than on open market venues.

“We started building Integral FX Yield Manager about two years ago in response to a number of banks and retail brokers asking us if we could help find a solution that enables them to internalise customer order flows,” says Vikas Srivastava, managing director in business development at Integral.

“Internalisation was the driver on the bank side, because as the market became more competitive, internalisation has become one of the prerequisites of being successful in this business,” he adds.

The result of the build, the so-called Integral FX Yield Manager, won the judges’ votes to top the e-FX Initiative of the Year category at the 2016 FX Week e-FX Awards.

The big selling point for the Yield Manager, won the judges’ votes to top the e-FX Initiative of the Year category at the 2016 FX Week e-FX Awards.

The big selling point for the Yield Manager was its ability to offer banks and brokers a fully-automated FX risk management suite that covers the whole life cycle of internalisation and warehousing, without high costs.

“This includes client flow segmentation, setting risk-management policies, monitoring risk and yield in real-time, auto-skewing of prices and the ability to auto-hedge risk once maximum risk limits are reached. Risk policies can be defined to suit different volatility regimes; they include controls such as position limits, P&L thresholds and hold times.

The Yield Manager is also integrated with the Integral Pricing Engine, which allows users to skew prices driven by existing inventory and for exiting risk positions and hedging trades, as well as with the Open Currency Exchange (OCX), which provides access to both streaming and resting liquidity.

Customers can also access third-party execution venues through the system, and they can connect to Integral’s midpoint matching engine OCX RiskNet to rest positions on the platform, without having to monitor them and their impact on the overall risk position in Yield Manager.

“For the internalisation to be successful, you want to have flow at both the bid and the offer to earn the spread, so you want as much uncorrelated flow as possible. Say a retail broker in Turkey and a retail broker in Cyprus with different customer profiles have opposing flow; now they can match off that opposing client interest by offsetting risk against their peers’ franchise, which will allow both brokers in this example to extend their warehousing capabilities,” says Srivastava.

“In fact, one of the biggest advantages of this fully integrated system is that it’s interconnected with the wider Integral ecosystem, including RiskNet, a midpoint matching facility in which banks and brokers’ warehouses offset their inventories against each other without impacting the market,” he adds.

And while the success of peer-to-peer trading networks depends on the size of the network, the ability to adjust risk-management policies and monitor their effects in real time gives business users unique control over their operation.

“Regional banks and retail brokers especially have a need for high-end warehousing technology for B-booking trades. But my guess is that we may see some of the largest FX banks considering offerings like Yield Manager in the near future, as the cost and time savings from cloud-based solutions becomes a greater competitive advantage versus in-house development,” forecasts Srivastava.

The backdrop provided by conditions in currency markets, one of the big spikes in prices, high event risk and a significant uptick in volatility, is likely to mean that liquidity is going to remain a big focus for banks. Sharp price swings in the thin liquidity market will also pose a problem for retail brokers, for whom the availability of credit has become increasingly difficult, so the ability to reduce their balance sheet usage by using an internalisation tool could be significant.

“The company has always prided itself on solving real-life problems for clients in a collaborative way. When clients ask us for something, we work very closely with them to arrive at a solution that best serves their needs,” says Srivastava.

“Integral was founded 21 years ago with a single purpose: be the trusted technology partner to help our clients grow their businesses. That’s what we continue to do today,” he adds. ‣ Eva Szalay