Financial Technology's Landmark Year
by John Bakie

An insightful Q&A Steve McLaughlin, Founder and Managing Partner, FT Partners

Financial technology is helping firms deal with everything from cost control to regulatory change. Steve McLaughlin, CEO of technology focused investment bank FT Partners, expects 2014 to be a landmark year for this industry.

How has the financial technology business changed in the last few years?

We've gone from a situation where not much was happening growth-wise during the financial crisis to seeing a much more robust market today. If we look back at 2009, hedge funds were going out of business, others were cutting back on their spending and there was a lack of activity with many technology companies simply not getting the funding they needed to grow. If we compare that to today, we've got some intense battles in almost every market segment between incumbents, companies that have spun out of the big banks and new market entrants.

Which area of financial technology is becoming the most competitive?

The market data space is continuing to evolve and we've got Bloomberg, Thomson Reuters, S&P, Markit and others all fighting for position. The major changes we're going to see over the next year or so are market data becoming more commoditised and a much greater focus on big data. The issue of big data has been around for a while now but 2014 could see some big strides in big data analytics and methods to speed up the way firms can handle data and turn it into something useful.

The execution management solutions space has been very competitive and there are about 20 firms or units of larger entities operating in this area now, but that business has begun to consolidate – or in the case of Mantara, evaporate – and we expect that trend to continue. It's an area that has also been shaken up recently with some spinouts by bank technology divisions, such as REDI becoming independent from Goldman Sachs, as we might see more of this in the future as a theme, not only in the EMS space.

Everyone has been saying that cloud computing is going to be big but will it really make an impact this year?

Absolutely, we're going to see a lot more firms opting for cloud-based solutions and some business are already making steps in this direction. One example is a firm called Integral in Silicon Valley, which has developed a global cloud FX solution that is really revolutionising technology and liquidity in the broad OTC space. Interconnected solutions will be at the heart of new financial technology developments, but systems must also offer users control over their presence with counterparties in markets, something that makes Integral stand out. You could say it's the "Facebook or Google of FX", building a huge network effect globally. People want to trade OTC and they want a single, multi-purpose liquidity platform that lets them interact with different market participants in different ways.

Last year saw a lot of focus on open platforms and standards, do you think this will continue?

Definitely, stuff like open APIs will be a big thing in risk management as well as in trading systems. Firms want solutions that will let them plug in any kind of data they have or is available from third parties via "apps" into a platform and be able to begin using it straight away. One example is Imagine Software, which runs a real-time software as a solution platform (SaaS) for portfolio and risk management, but also opens itself up to these modular apps that can integrate new sources of data, analysis and risk tools into the platform. Many systems are still quite closed and that's inefficient and requires expensive custom builds and maintenance of legacy systems. Ultimatley, they will not be able to compete in the space and will need to be sold or die off.

How will the financial technology business landscape change this year?

There's a large glut of companies in the old school software business that are going to continue to flatten out and struggle to get deals done. There are dozens of companies simply "stuck" in the mindset of M&A boom pricing of 2006 that will be disappointed. On the other side of the coin you have a lot of established and younger firms being more innovative and moving to the cloud and I think they'll be the ones doing well.

We're also going to see some players become dominant within their own asset class niche. It used to be that there would be multiple different platforms offering services in each class but I think we'll start to see the number of those reduce with firms focusing on a small number of the best platforms that are well connected and can provide liquidity they need.

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