Published – January 12, 2018

Industry News, Retail FX, Technology, Week in Review

The platform monopoly is over. How the end of MetaTrader 4 will empower the most important components of the FX industry

Yes, you reap what you sow by not having your own infrastructure and by having a short term mindset, but a software provider that is this integral to the industry's fabric – and in MetaQuotes case this can be considered absolutely integral on a monopolistic scale – pulling the plug in this fashion should be a sharp and harsh lesson to all of us in any capacity of the Industry.

Some say familiarity breeds contempt, others say that he who boldly accepts change when nobody else does is foolish.

The MetaTrader 4 platform embodies both of these contrasting extremities, and today is the day that marks the end of the road for the most ubiquitous trading platform in the world.

On one hand, MetaQuotes, the platform's manufacturer, has empowered 1231 retail entities which have not had to invest a single cent into development of their own trading systems, and since 2004 has been the de facto platform for brokers wishing to onboard new customers who are already familiar with a specific system, and also has been the mainstay of vast automated trading entities in the Asia Pacific region whose use of self-developed EAs (trading robots) have been designed around the MetaTrader 4 platform.

On the other hand, it could be argued that those operating with a very much off-the-shelf system may well have gained cheap and easy access to a very lucrative market – a MetaTrader 4 white label license costs just $5000 – but are not masters of their own destiny, something that the removal of the software by its manufacturer is testimony to, and are now in a position where they offer almost identical customer experiences in a market which has ever increasing costs and bureaucratic considerations, hence having to be extremely competitive on just spread and commission in order to get ahead of over 1000 identical competitors is increasingly becoming a squeeze.

Today's sudden announcement by MetaQuotes explains that the company will stop issuing new licenses to new brokerages, although the MetaTrader 4 platform can continue to be used by existing customers.

Brokers who are already using the software will not be able to expand their operations on the platform, as no new servers will be issued in any capacity.

That may sound very disruptive to brokerage operations, but there are some upsides. The MetaTrader 5 platform requires only one server for multiple locations, hence there would be no need to own costly servers in each division of a brokerage globally.

There is, however, a far more important matter to address, this being the consequences of the demise of MetaTrader 4 and the potential empowerment that this will give to important FX industry participants in very lucrative regions of the world who until now have been bound by a necessity to stick to MetaTrader 4 due to its EA compatibility – and in many cases that was its sole attraction – and now having it forcibly removed, will seek other avenues which will ensure that they have a far less dependent future.

In China, for example, which is a nation in which many of the larger MetaTrader 4-orientated brokers derive considerable business, MetaTrader 4 is the platform of choice because of the method by which business is conducted between Introducing Broker networks and retail clients.

Retail clients in China are not traders, they are investors and the Introducing Broker (IB) is often larger than many retail brokerages to which business is referred. In these cases, the IB connects client accounts to a main account and trades them on behalf of the investors, usually via a MetaTrader 4 MAM system controlled automatically by an EA which is often developed by the IB in house.

During the rise of the Chinese IB network, this was a very cheap and easy solution for both IB and broker. Small brokers could establish in Cyprus, obtain a white label license and then generate massive revenues by onboarding IBs in China, who would trade via their EAs.

FinanceFeeds is aware of several cases in which brokerages with absolutely no infrastructure or company structure at all began actively visiting IBs in China and very cheaply generating a vast business solely based on IB revenues.

Companies such as this will now rue the day that they lived solely on a sales model. The removal of MetaTrader 4 will leave them high and dry.

By contrast, long-established and well organized companies from bona fide jurisdictions with very well established IB networks and very loyal partners across the entire country from Shanghai and Beijing to the second tier development towns will be able to leverage this very successfully.

Saxo Bank and FXCM are vast in China, and both have taken the long road of developing their own commercial operations in China, and are providing their own completely proprietary systems.

In the case of Saxo Bank, the firm's emphasis on fintech development and customization toward a high level Chinese audience will most certainly demonstrate that longevity will prevail whereas those finding themselves with no MetaTrader 4 platform and no means of servicing IBs with automated accounts and EAs will have a serious challenge ahead.

Last year, in a private symposium organized by Saxo Bank in Hong Kong, the company's CEO for the APAC region, Adam Reynolds, explained to FinanceFeeds that Saxo Bank's biggest driver of growth over the past twelve to eighteen months has been Prime Brokerage with regard to credit intermediary and clearing.

Overall, with the absolute maturity that the OTC derivatives sector has now achieved, at that meeting in Hong Kong there was very much a focus on the institutional range of services and technology products that Saxo Bank make as proprietary systems for institutional trading and powering brokerage infrastructure.

At the meeting, sophisticated traders using SaxoTraderGo were present, and over 54% of attendees were in Fund and Wealth Management business, whilst only 11% were FX brokers, and 23% FinTech sector.

In terms of what solutions they were looking for, Mr Reynolds explained that API and Liquidity services customers accounted for 23% of the attendees, whilst Digital Wealth and Robo Advisory stood at 32% and Open API and Platforms amounted to 47%.

There were absolutely no delegates who were under the age of 45, (makes me feel young for once!) and each had a pedigree career spanning at least two decades in institutional wealth management or senior derivatives positions within large institutions.

Similarly, there were no MetaTrader 4 white label owners, and no warehouse dealing desk retail brokers. 85% of attendees at the meeting said that technology has been an enabler of their business and unlike small brokers with warehouse/MetaTrader 4 setups, 59% of today's delegates explained that they were optimistic about what 2017 holds for their business, difficulties with prime brokerage agreements and regulatory stick-poking not being a concern of theirs at all.

The way forward, it seems is diversity of both product and technology, and to not only emulate the existing institutional world, but better it and push the boundaries.

Similarly, broker technology provider Leverate has been investing in generating platform-independent tools which mean that IBs and brokers can conduct vital operations outside the MetaTrader 4 platform. FinanceFeeds has been investigating the functionality of this new system and will report more on it in the next week.

It is not just a technology and functionality matter either.

Attracting and retaining clients is now one of the biggest challenges for brokers as the FX industry matures and as CPA (Cost Per Acquisition) which is a major factor within an online advertising model grow highers, averaging $1000 per funded client in western countries.

To tackle the issue, some of the smaller retail brokers to whom cost of acquisition and retention is extremely important, have been ever more active in developing their differentiation angle via various means, ranging from promoting the social trading experience to offering deposit bonuses and cash rebates, as well as loyalty programs and interactive marketing campaigns, while automating data intelligence for the sales teams.

On that note, trading platforms such as MetaTrader 4 may pose an issue given that the ubiquitous trading platform acts both as a key facet with which to onboard clients and as a retention problem, becoming one of the main criteria when choosing a broker to open an account with, which also means those brokers risk being easily substituted following a minor incident or an aggressive marketing campaign by a competitor.

Given the high CPA costs that exist today, many brokers cannot afford the risk of converting clients only to see them leaving in a heartbeat, as such low client lifetime value can push smaller brokers out of business.

With that in mind, FX industry executives have been taking different strategic paths, some more leaning toward the development of a proprietary platform structure and others towards a differentiated MT4 experience, with special features developed in-house or via partnerships with integration technology companies, while also looking to diversify the technological risks on a single platform. Protrader, Ninjatrader and cTrader, among others, continue to compete for a market share, but the MetaTrader 4 platform accounts for approximately 45% among global (excluding Japan) retail forex and CFD firms.

White label MetaTrader 4 solutions are regarded as the cheapest and quickest way to enter the retail market, with firms paying subscriptions to a third party provider instead of acquiring a full license from MetaQuotes, but it also comes with the downside of less (or no) control over strategic decisions such as spread and products offered, potential conflict of interests as the provider is usually a competitor, and difficulty to scale the operation.

Looking at the brokers which are able to move their products and services forward, all of them have invested tremendous amounts in R&D and continual in house development of platform technology.

Swissquote, for example, has over 2.5 million products across its derivatives and spot platforms. That is the largest product range outside of Chicago.

CMC Markets and IG Group have a substantial and very loyal domestic market customer base in the United Kingdom, a notoriously analytical and conservative market, largely due to their ability to provide specific solutions and a full end-to-end trading experience.

It also positions them to enter new regions with corporate aplomb. IG Group recently applied for an NFA license and will re-enter the US market. This would not be possible for a small Cyprus based broker with a MetaTrader 4 license and no genuine product.

CMC Markets is expanding in China, having opened a new office in Shanghai recently.

FinanceFeeds was at the launch and can be assured that by entering China with proper corporate facilities in the mainland and the Next Generation trading platform, the firm is poised to serve brokerages via institutional liquidity and technology partnerships rather than by MLM techniques used by many MT4 brokers approaching China.

From a software point of view, however, the imminent deletion of MetaTrader 4 has been, in our opinion, handled very heavy handedly.

Yes, it is possible to suggest that brokers that invest nothing in their resources and just churn leads and then close shop after two years and make no effort to develop their own business can only expect to have to pander to a platform firm that pulls the carpet out from them when it sees fit, however communication and execution is critical here, and MetaQuotes did not communicate well with its technology partners or broker customers.

If MetaQuotes wants to be respected at the level of a “global enterprise financial technology provider” they should act like one. In this case, they have all the right to depcrecate MT4 and devote their resources to a new system.

That may appear a very harsh standpoint, however having spoken to several industry leaders this morning in London and North America, both regions of great significance when it comes to retail FX technology development, our view is not at all out of line with industry sentiment.

This being said, for a respected global financial technology provider, communication is almost as important as the actual technical reasoning behind this type of decision.

Therefore, when MetaQuotes makes this type of abrupt, line-in-the-sand type decision it significantly lowers the confidence of the industry that they are going to continue to make rational decisions.

On this basis, it pushes clients to look else where for solutions, not because the technology is bad but because the communication strategy is erratic and unpredictable. Yes indeed, MetaTrader 4 has been the choice of those wishing to have an also-ran system that it can take straight to market and have immediate EA compatibility, and thus a small broker can then conduct sales and marketing activities, but these days competition is indeed part of the deal.

No longer is it a case of resting on laurels, knowing that many Cyprus or CIS based firms are not going to plan and develop their own systems, hence they only have one place to go. Spotware Systems, for example, will design a completely custom platform for any brokerage, giving smaller firms almost the same advantage as those with proprietary platforms for a fraction of the cost, meaning tailoring to each market and each broker ethos is entirely possible.

In the opinion of many senior executives spoken to today, the primary reasons brokers have resited moving to MT5 is not because they do not like the new platform, but because they have been burned by MetaQuotes in the past for how they've made decisions (Mobile Terminal support being one example). So, whether they realize it or not, the most counter intuitive thing they could've done to help continue to bolster support for MT5 is make an impulsive, dramatic end to MT4.

Those who know me well will remember me from my 18 years spent as a self-employed systems engineer in interbank trading desks, as well as at outside providers such as BT Radianz (British Telecom Financial Technology at the time), Accenture and PA Consulting who were contracted to develop deployable Windows server applications to interbank trading desks. For a large part of my 26 year career in the electronic trading industry, that was my main experience, hence an example of how to do this properly can be given from the history of Microsoft's methodology on phasing in and out of enterprise operating systems.

Windows XP was a very popular operating system and there was a lot of financial services industry resistance to moving to Vista, or 7 from within in-house R&D and support divisions of financial institutions.

Microsoft announced the end of sales for Windows XP 2 years in advance, and Vista was regarded as generally inferior in every way, whereas Windows 7 corrected many of the criticisms. Microsoft did not force the issue until adoption of 7 reached critical mass, so the company stopped selling in 2010 and stopped supporting Support for Windows XP Service Pack 3 will continue through April 2014.

So to make the similarity, the entirety of global business was dependent on Windows NT 3.51 when Microsoft began to offer proper server-based enterprise infrastructure which many bank trading desks and connectivity and hosting firms adopted to replace legacy IBM middleware systems that were as big as a house and very ineffective, then subsequently Windows NT4, Windows 2000 and Windows XP.

Withdrawing the last of that line (XP) was a major cause of ramifications for many firms so Microsoft did it slowly and with massive support.

Yes, you reap what you sow by not having your own infrastructure and by having a short term mindset, but a software provider that is this integral to the industry's fabric – and in MetaQuotes case this can be considered absolutely integral on a monopolistic scale – pulling the plug in this fashion should be a sharp and harsh lesson to all of us in any capacity of the industry.