



ARTICLE

ONLINE BROKERAGE PLATFORM



1. BACKGROUND

Recent global events have led to an increase in the popularity of the online brokerage platforms, with many brokers reporting increased new clients and trading volumes. However, it is worth noting that this recent growth is actually riding an already well-established trend of interest in the online brokerage platform industry.

This upsurge in interest has taken place in parallel to financial markets becoming more accessible. The Great Financial Crisis of 2008, followed closely by the birth of the cryptocurrency industry, have both greatly contributed to an enhanced general awareness of markets and how they work. Both have generated a “Do-It-Yourself” mindset where the clients are now much more comfortable with the notion of taking control of their own finances and investing their wealth through online brokerage platforms.

On top of that, on social media, influencers propagate the notion of taking control of their finances through other means than the classical salary. Active and passive income sources like entrepreneurial income, real estate, financial investments and Youtube income are increasingly sold as ways to financial success and freedom. Amongst these, financial investments are the most easily accessible, even when one’s financial resources are limited.

Online trading is convenient, as customers can trade stocks quickly, check quotes and make changes from anywhere. It also facilitates faster execution of trades, which helps to take advantage of the volatility in a better manner. On top of that, online trading is more cost-effective compared to trading through a traditional broker.



In this pandemic context, Dynafin has investigated the impact of Covid-19 on the most used online brokerage platforms in Belgium. We have put them under the microscope and consolidated which criteria’s each platform need to excel in to service the class of active investors. Also, we have described some trends we spotted on the European market which are currently not yet present in our research in the Belgium market.

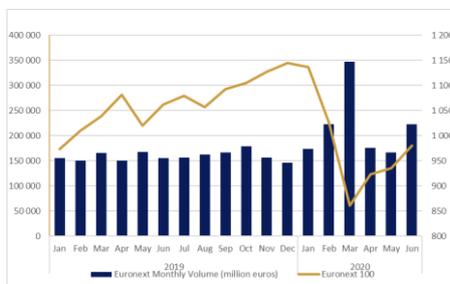
2. COVID-19 IMPACT ON VOLUMES OF TRADES

In a short period of time, markets and consumers' behaviours have experienced substantial changes due to the outbreak of COVID-19. This recent outbreak has created certain unique upheavals in the online brokerage industry.

INCREASING VOLUME OF TRANSACTIONS

According to a study of the FSMA, there is a global trend of increasing volume during this COVID-19 crisis.

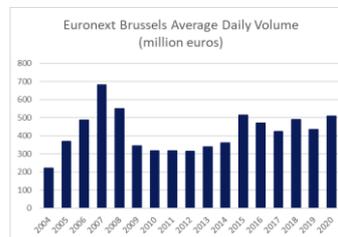
When we look at the chart of Euronext monthly volumes of the past 18 months, we see that they have increased from February on with a solid peak in the month of March. Its total stock market turnover in the past six months was a solid 38% higher than in 2019.



Source: <https://live.euronext.com/fr/resources/statistics>

Since March 18th, when the Euronext 100 index was at its lowest, up to end of June, it has increased by 33 percent. This trend is also confirmed in the rest of Europe. In the same period, the Stoxx600 - the most important 600 shares in Europe - is more than a quarter higher. Also, with the ECB pumping in billions of euros in the European economy, and a major EU wide COVID-19 package on the anvil, stock and other securities markets are expected to perform well.

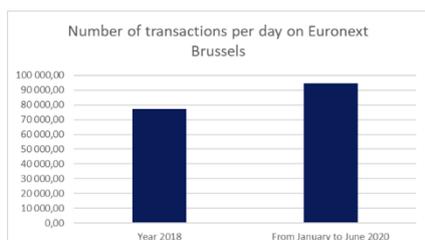
In the past 6 months, the average daily stock market turnover in Brussels was 508 million euros. This means that 2020 is on track to become one of the top years. In the past twenty years, sales were only higher in 2007, 2008 and 2015.



Source: <https://live.euronext.com/fr/resources/statistics>

These figures illustrate well that Belgian investors have remained very active in the stock market, even during crisis time. Experts also underlined that, unlike in the previous crisis, there have not been massive sales and big moments of panic.

The below figures illustrate well this global trend of increasing volume in Belgium.



There is a high chance that another record will be broken this year regarding the number of stock exchange transactions on Euronext Brussels. At the end of June, the counter for 2020 stands at an average of 94,680 transactions per day. The annual record currently stands at 77,223 transactions per day and dates back to 2018. The number of stock exchange transactions has increased sharply in recent years. In 2001, only 10,000 transactions were involved.

To give some concrete examples, the year over year volume of orders for both BinckBank and Keytrade in May increased by over a 100%. The year over year increase at Bolero was even 270% in May, 310% in April, and 400% in March. Lynx confirmed a year over year increase of 400% in March, and saw this trend also confirmed in April.

Bolero experiences around 70% buy orders versus 30% sell orders. This proportion at Keytrade is around 65% buy orders versus 35% sell orders.

NEW ACCOUNT OPENING REQUESTS

Bolero had almost 9 times more new account opening requests in April 2020, compared to April 2019. At Medirect, they confirm an increase of new clients of 390% in April 2020, compared to April 2019. Binckbank had an historic March and April in terms of registrations of new customers as well. Also, Keytrade bank saw a sharp increase in new registrations, with the new customers being 3 times more likely to do stock market transactions in April than in March 2020.

ROOT CAUSES OF INCREASING VOLUME

The root causes of this recent huge interest for online brokerage services during this pandemic period are diverse.

First of all, the lockdown has enabled many Belgians to have more time to invest, as they were temporarily unemployed or working from home. Facing the economic uncertainty, they are looking for other sources of income.

Secondly, the sharp fall in stock prices was an opportunity for many investors and, an alternative to saving accounts.

In addition to these two, we found other factors that caused the volumes to increase so dramatically.

For example, young investors aged between 18-35-year-old were the fastest growing investor group in March. And it was not be a whim as the trend continued in the following months with an increase of 10% compared to the same period last year.

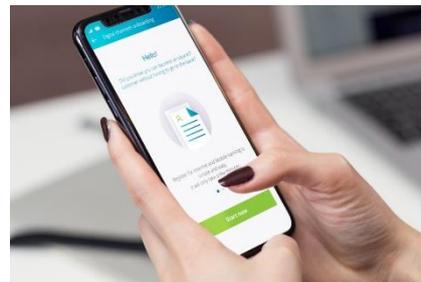
In the last week of March, this younger generation bought around 10 times more (21 million EUR) than on an average week in February before the outbreak of the COVID-19 crisis (2 million EUR), as mentioned by the FMSA.

Alongside this 18-35 age group, it should also be noted that occasional investors were also much more involved than usual. Between March 9th and 13th, they invested up to 30 million EUR after spending only 3 million euros in the week before the crisis.

DIGITALIZATION OF THE CLIENT ONBOARDING

This increasing volume has led the online brokerage platforms to further focus on the digitalization of the client onboarding in order to remain competitive.

To illustrate, some platforms that had a partially digitalised client onboarding process in 2019 have quickly adapted their processes making them fully digital. At some platforms, new investors had to print and send the paper documents by post as the original signature was required. It is now often possible to open an account with an electronic signature using Itsme® or an e-ID.



3. CRITERIA FOR A SUCCESSFUL ONLINE BROKERAGE PLATFORM

We have analysed the different platforms present in the Belgian market, and we have underlined the main criteria considered when choosing a brokerage platform.

There are several criteria for an online broker platform to be successful, and each of them depends on the profile of the investor. Before creating an account, the “client” needs to have a clear idea of what he wants to do.

PRODUCTS & MARKETS COVERAGE

Based on the need of the active investors, it is relevant to consider the different products covered: bonds, equities, funds, ETF (trackers), options, warrants, turbo's, speeders & sprinters, futures, and foreign currencies.

The diversity of the markets is an important criterion for active investors, and they will check if the offer of the online broker matches their needs before opening an account. Not all online brokerage platforms have direct access to certain exotic markets.

FEATURES WHICH MAKE THE USE OF THE PLATFORM EASY

To be a successful online brokerage platform, it is essential to have a user-friendly platform which focuses on the customer experience and where the information can be found quickly and easily. Customization is key. The users want progressive disclosure with data and navigation elements that can be exposed upon request. This way, they can be more focused and always in control.

Strong search engines, action screeners, Q&A sections and chatbot facilitate the utilization of the platform.

Another key element that makes the platform easy is its' fluency in executing the different manipulations. In addition to this, the most used operating systems and devices (Windows/Mac, Android/IOS) have to be supported.

Also, the possibilities of different type of orders such as day orders, GTC, market orders, stop loss/limit orders, may have an influence in attracting new customers.

CLIENT ONBOARDING

The client onboarding can be split into 3 phases: pre-opening (information to be provided), opening, and the whole customer journey. It is essential to have a simple, fast and user-friendly client onboarding. Time is money, therefore, clients do not want to spend too much time on “administrative” procedures. Today, it can take some days or some minutes to create an account.

Many will be reluctant to subscribe to a platform that does not offer a fully digital client onboarding solution. They will definitely prefer to opt for a platform which allows opening an account by using a card reader.

FEES

Fees can differ significantly from one platform to another. That is also a reason why investors have to be careful when opening an account. In any case, low fees are an important criterion for both short term and long-term investors.

There are several types of fees which need to be considered: account opening fees, Safekeeping fees, Execution fees, Data access fees etc.

Also, certain fees linked to conditions on the platform, like a minimum number of transactions, may influence the decision of a potential client.

COMPLEMENTARY INVESTMENT TOOLS

Providing extensive analytical tools and free and pertinent information to the investors such as daily market newsletter, real-time data, robo advisory, analyst ratings, Reuters and Echo news, Webinars, and trainings are a real asset for any online brokerage platform.

Extra services such as the availability of the help desk in terms of business days/weekend days and schedule should also be taken into consideration.

4. MARKET TRENDS ON THE EUROPEAN MARKET

Expanding our field of view from Belgium to other European countries enables us to get a good idea what the Belgian market of online brokerage platforms is currently lacking. We expect these gaps to be closed soon as the competition to connect with retail investors is heating up.

SOCIAL TRADING

A fundamental feature of social media sites is the ability to share opinions. Social trading platforms take that concept and apply it to the financial world, with investors able to decide whose opinion they will rely on. Those social trading platforms enable investors to copy and execute the strategies of their peers or more experienced investors.

While most traders perform their own fundamental and technical analysis, there is a category of traders that prefer to observe and replicate the analysis of others.



For instance, the 2007 fintech startup eToro offers such a social trading platform, which facilitates a copy trader system. The experienced investors earn a second income by being tracked and copied by the other users of the platform. It is also possible for an investor to join the program and get paid.

DEMO/ VIRTUAL ACCOUNT

A demo account is intended to simulate real trading with a virtual credit. It allows investors to test trade real market situations without risk, as well as getting to know the trading platform better and its potential user-friendliness.

The demo account is suitable for both beginners, who wish to start trading, and more experienced traders, who wish to test a certain new trading strategy. Many beginners may find it very complex at first and intimidating to trade on the financial markets. However, after a few tests, most of them will realize that it is not that difficult.

CUSTOMER SUPPORT

Another trend identified in Europe for which there is currently a gap in Belgium is a strong 24/5 multilingual customer support across live chat, email, and phone.

Such 24/5 support reveals itself to be very useful in case of certain issues, especially for investors who trade also on non-European markets.

DEPOSITS AND WITHDRAWALS OPTIONS

Fast and easy deposit and withdrawal options enable to give more time to focus on trading.

The deposit and withdrawal options on Belgian online brokerage platforms are often solely based on its' classical bank transfer procedure.

But internationally, more and more trading platforms are now offering transfer options with Visa, Mastercard, PayPal, and Bancontact that can be linked directly to the trading account in order to find the best funding solution.

ROBO ADVISORY

Robo advisors are automated portfolio managers. After initially answering a series of questions like the investor's resources, risk profile, time horizon and financial goals, the robo advisor will make ongoing decisions about how to invest the investor's money.

A robo advisor can be an advantage for both the investment firm and the investor, as for both it is cheaper than a traditional human advisor.

As the set-up is done only in the beginning, it is not as flexible as algorithmic trading. It is more a sit-back and enjoy the ride investment strategy.



To make it simple, the difference between a robo advisor and algorithmic trading is that the first is a platform that supports to invest money automatically based on defined factors (risk profile), while the second uses a computer program that executes instructions previously set, removing the human factor.

ALGORITHMIC TRADING

Algorithmic trading aims to remove the human factor by predetermining statistic-based strategies based on parameters such as price movements or volatility levels. Trading algorithms can automatically execute a buy or sell order on behalf its' initiator once a certain market condition, based on any predetermined criteria, is met.



This can be very useful as it can save time scanning the markets. But it also means that the trader should consider its potential execution, and its effect on the investment portfolio.

It allows to maximize the exposure to opportunities and thus capitalize on rare or special events such as the Bel 20 moving below its 20-day moving average. Also, it allows for adjusting the risk management in the trading strategy by the implementation of stops and limits that are otherwise not possible.

CRYPTOCURRENCY

Up to today, the Belgian online trading platforms do not yet offer the possibility of trading in cryptocurrencies. This is mainly due to the cryptocurrency industry remaining largely unregulated in Belgium, and by the European Union.

But pending the outcome of a European Commission consultation and the response to that feedback, it seems likely that 2020 will be an important year for the development of a more harmonized approach to the regulation of crypto-assets.

Also, in February this year, the FSMA has urged the Senate to establish a “legal framework for the sale, purchase, and use of virtual currencies and all related financial products.”



The number of cryptocurrency scams is another reason why the Belgian investment industry is a little hesitant to go that route.

5. CONCLUSION

The COVID-19 pandemic has accentuated the growth of young investors using online trading platforms. These young investors are accustomed to the possibilities to have access to all sorts of digital applications that help them cope with every aspect of their lives. Because of this, they expect the same from their online brokerage platforms. This is also pushed through social media where influencers propagate the importance of features available through fintech startups that are focusing on this new group of clients.

This has not been missed by the financial industry that is investing heavily in the digitization of their business models, product selling, and platforms. At the same time, we notice that the race is fierce, and that businesses that do not continue this route will most likely lose out.

Because of this, we encourage our online brokerage platforms to continue to scan their business market to identify the features that are most sought after, and integrate these in their proposal to this new kind of investors.

We are after all 2020, the age of Facebook and Twitter, Google and Youtube, Robinhood and eToro, PayPal and Payoneer, Spotify and Tidal, Netflix and HBO. For our young adults up to age 20, the 90's was before they were born. The next 5 to 10 years will be crucial to attract and keep these new clients. The battle is only just beginning.



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