Crisil
Coalition
Greenwich

Outsourced Trading in a Mad, Mad World

June 9, 2020

The COVID crisis turned the trading world on its head. Amid unprecedented volume and volatility, the financial industry also undertook a revolutionary move to adapt to COVID by moving nearly the entire workforce to work from home. One area that received heightened attention during the crisis was the use of outsourced trading desks.

As we now begin the process of returning to the office (or not), firms are examining what did and didn't work during the height of the crisis, including any experience with outsourced trading.

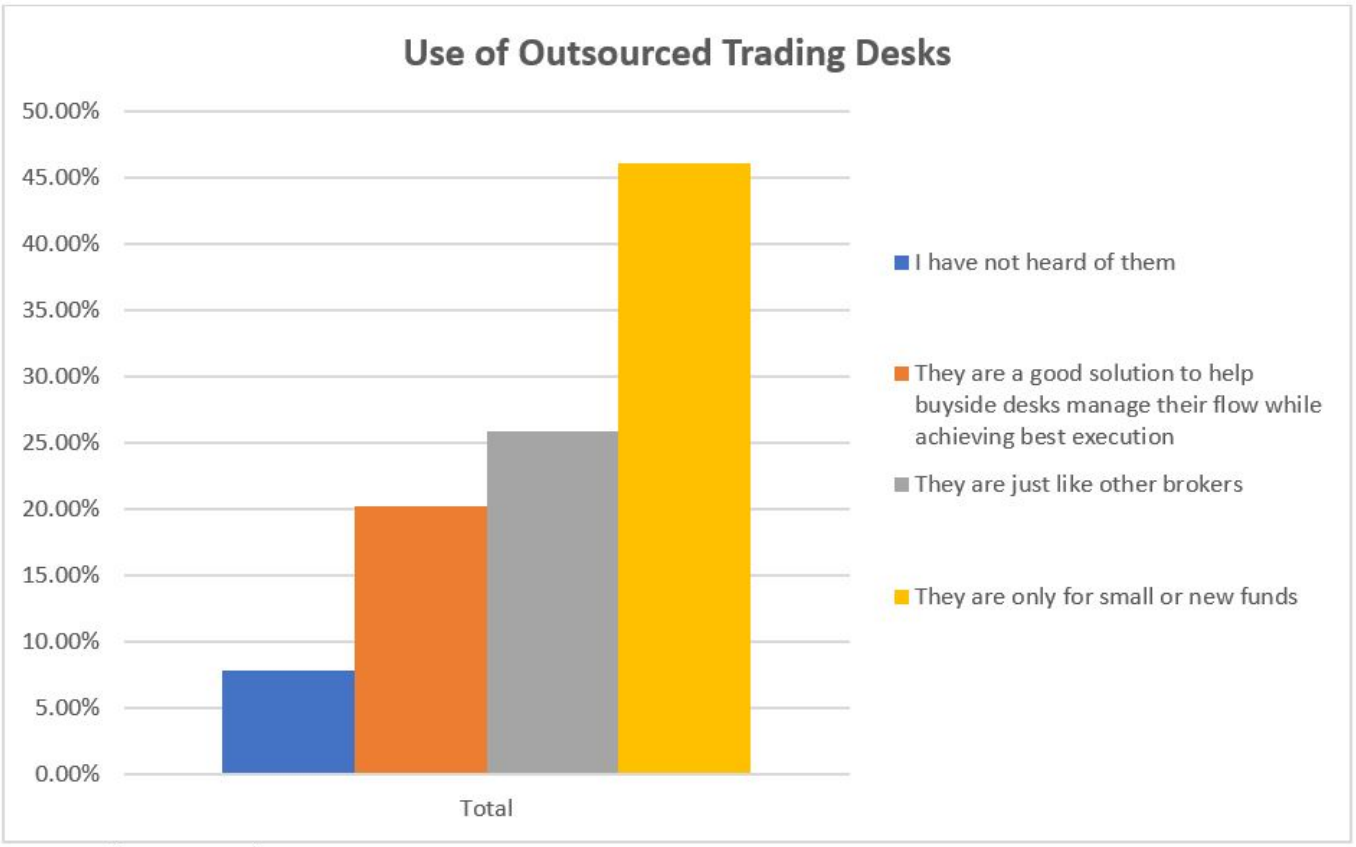
Accelerating Trend

Although it is a somewhat overused phrase, 2020 has been an unprecedented year—from a continent on fire in January, to a pandemic starting shortly thereafter, to protests for social justice, the world has been a very unsettled place. For the financial industry, wild swings in the markets, including dislocations within and among asset classes, have added fuel to the fire. Moreover, the industry made unbelievable strides in its efforts to move to a work-from-home (WFH) environment in an incredibly compressed time frame. Although not without the occasional misstep, the stability and resiliency of the markets have been profound.

As firms expanded their remote footprint, they had to reexamine their access to their clients, counterparties and the markets themselves. A result of that evaluation may be to consider the use of outsourced trading desks. In a post-COVID world, firms are reviewing their ability to access markets in turbulent times. Outsourced desks may well fit as a supplement for current operations, in particular where a firm lacks current expertise or relationships. In a business environment where every dollar spent is highly scrutinized, some buy-side firms may find savings in the use of an outsourced trading desk. The one-stop-shop impact of outsourced trading certainly carries an expanded cachet in today's new normal.

Evaluating the Options

Outsourced trading, put simply, allows buy-side firms to "rent" a trading desk with the scale and capabilities that otherwise would be too expensive or too difficult to operate themselves. Our data shows that the buy side is still coming to grips with both what outsourced trading really is and how best to use it (if at all). Close to 10% of the firms in our 2019 Market Structure Trading and Technology Study were not aware of outsourced trading as an option. Nearly 72% of firms think of outsourced trading as either being the same as other trading options (e.g., agency brokerage) or more suited to smaller or newer funds. That said, more than 20% recognize outsourced trading as a good solution for today's buy-side firms.



Note: Based on 89 respondents.
Source: Greenwich Associates 2019 Market Structure Trading and Technology Study.

When a firm considers outsourcing, the next issues to tackle are 1) How would outsourced trading be used and 2) Where would outsourced trading help the most?

Outsourced trading can follow several different models. It can be a full-service desk, which provides all the connectivity, management and regulatory services of an internal desk. These firms also often trade in their own name, providing an additional level of anonymity for the buy-side firm. Of course, the institution may want to trade in its own name, whether for risk management or for sell-side credit purposes, and outsourced trading firms can accommodate those requirements as well. In some cases, the buy side may want to decide which model to use—whether case by case, asset by asset or geography by geography—and hybrid, outsourced solutions are also available to meet this need.

When evaluating whether outsourced trading will be useful, firms need to decide where they may need the service. Some need access and support in geographies beyond their current reach. Others need specialized expertise in complex assets. Still others may covet the favorable rates of an outsourced firm that consolidates flow from many institutions. As previously noted, a desire for anonymity may drive some volumes through outsourced providers. Buy-side firms may also wish to dip their toe in the waters of an asset class or geography without building an entire desk. Outsourced trading firms offer a ready-made solution for these situations.

The recognized difficulty and cost of establishing new trading desks may help explain why a swath of the industry thinks of outsourced trading in that context. Post-COVID, firms are also reexamining their ability to access markets in all manner of market conditions. With staff spread across the globe in WFH settings, the ability to use an outsourced desk to supplement their own access is understandably appealing.

Outsourced Trading and BCP/DR Requirements

Of course, as with all vendor solutions, it's incumbent on the user to understand the downstream capabilities of the outsourced desk to handle business continuity plan (BCP) and disaster recovery (DR) requirements. The worst-case scenario would be a firm putting its trading in the hands of an outsourced provider and then having that provider fall down under stress. Following best practices for vendor evaluation is critical when entrusting a third-party with such inherently sensitive matters, particularly with regards to cyber security, resiliency and communication. To be clear, in our discussions with the industry, we have not heard of any such travails. However, the burden of fully understanding the vendor capabilities remains with the firm selecting the outsourced trading desk.

Buy-Side Trading Post-COVID

As the world slowly reopens, a thorough and diligent review of how each firm handled the COVID crisis is required. Such reviews could examine the potential role of outsourced trading in a firm's overall trading solution—to complement, supplement or expand current capabilities.

Some may worry that outsourced trading desks add a layer of intermediation between the institution and the ultimate source of liquidity. While this can be a factor, the best outsourced trading desks partner with their clients as an extension of the buy-side firm. Others worry outsourced trading will replace all buy-side desks. In our view, there will always be a need for sophisticated traders that understand the intricacies of their own firm's investment process. Moreover, some firms will always want to retain primary control over their trading methodology, thus limiting (or eliminating) the appeal of using outsourced desks.

In the end, each firm should review how it responded during the current crisis. Where such reviews highlight areas for improvement, the assessment of how they can be addressed may include the use of an outsourced trading desk. By no means is outsourced trading a panacea for all the world's ills. But it is another arrow in the buy-side's quiver to help make sense of this mad, mad world.

---

www.greenwich.com | ContactUs@greenwich.com

Coalition Greenwich, a division of CRISIL, an S&P Global Company, is a leading global provider of strategic benchmarking, analytics and insights to the financial services industry.

We specialize in providing unique, high-value and actionable information to help our clients improve their business performance.

Our suite of analytics and insights encompass all key performance metrics and drivers: market share, revenue performance, client relationship share and quality, operational excellence, return on equity, behavioral drivers, and industry evolution.

About CRISIL

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets

function better. It is majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics, and data to the capital and commodity markets worldwide.

CRISIL is India's foremost provider of ratings, data, research, analytics, and solutions with a strong record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights and efficient solutions to over 100,000 customers through businesses that operate from India, the U.S., the U.K., Argentina, Poland, China, Hong Kong, and Singapore.

For more information, visit www.crisil.com

Disclaimer and Copyright

This Document is prepared by Crisil Coalition Greenwich, which is a part of Crisil Ltd, a company of S&P Global. All rights reserved. This Document may contain analysis of commercial data relating to revenues, productivity and headcount of financial services organisations (together with any other commercial information set out in the Document). The Document may also include statements, estimates and projections with respect to the anticipated future performance of certain companies and as to the market for those companies' products and services.

The Document does not constitute (or purport to constitute) an accurate or complete representation of past or future activities of the businesses or companies considered in it but rather is designed to only highlight the trends. This Document is not (and does not purport to be) a comprehensive Document on the financial state of any business or company. The Document represents the views of Crisil Coalition Greenwich as on the date of the Document and Crisil Coalition Greenwich has no obligation to update or change it in the light of new or additional information or changed circumstances after submission of the Document.

This Document is not (and does not purport to be) a credit assessment or investment advice and should not form basis of any lending, investment or credit decision. This Document does not constitute nor form part of an offer or invitation to subscribe for, underwrite or purchase securities in any company. Nor should this Document, or any part of it, form the basis to be relied upon in any way in connection with any contract relating to any securities. The Document is not an investment analysis or research and is not subject to regulatory or legal obligations on the production of, or content of, investment analysis or research.

The data contained in the Document is based upon a particular bank's scope, which reflects a bank's data submission, business structure, and sales revenue Reporting methodology. As a result, any data contained in the Document may not be directly comparable to data presented to another bank. For franchise benchmarking, Crisil Coalition Greenwich has implemented equal ranking logic on aggregate results i.e., when sales revenues are within 5% of at least one competitor ahead, a tie is shown and designated by = (where actual ranks are shown). Entity level data has no equal ranking logic implemented and therefore, on occasion, the differences between rank bands can be very close mathematically.

The data in this Document may reflect the views reported to Crisil Coalition Greenwich by the research participants. Interviewees may be asked about their use of and demand for financial products and services and about investment practices in relevant financial markets. Crisil Coalition Greenwich compiles the data received, conducts statistical analysis and reviews for presentation purposes to produce the final results.

THE DOCUMENT IS COMPILED FROM SOURCES CRISIL COALITION GREENWICH BELIEVES TO BE RELIABLE. CRISIL COALITION GREENWICH DISCLAIMS ALL REPRESENTATIONS OR WARRANTIES, EXPRESSED OR IMPLIED, WITH RESPECT TO THIS DOCUMENT, INCLUDING AS TO THE VALIDITY, ACCURACY, REASONABLENESS OR COMPLETENESS OF THE INFORMATION, STATEMENTS, ASSESSMENTS, ESTIMATES AND PROJECTIONS, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT. CRISIL COALITION GREENWICH ACCEPTS NO LIABILITY WHATSOEVER FOR ANY DIRECT, INDIRECT OR CONSEQUENTIAL LOSS OR DAMAGE OF ANY KIND ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT.

Crisil Coalition Greenwich is a part of Crisil Ltd., a company of S&P Global. ©2026 Crisil Ltd. All rights reserved.