MahiFX Alexander Ridgers: the Evolution of Risk Management in FX

The Director of Trading & Analytics at MahiFX speaks about the latest trends in the risk management space.

Victor Golovtchenko | Technology (Retail FX) | Tuesday, 04/07/2017 | 14:56 GMT

The retail foreign exchange business has changed materially over the years. One key aspect that has been evolving in recent years is risk management. In a world that was shaken by the SNB crisis and the British pound's flash crash last year, fat tails are now a predominantly important aspect.

Finance Magnates reached out to one of the specialists in this space, MahiFX, to find out about the latest efforts of the company in this direction and how the company's analytical tools can assist industry participants nowadays. Following is our interview with the company's Director of Trading & Analytics, Alexander Ridgers.

With regard to risk analytics, what does MahiFX do differently and how does this help it stand out as a business?

Unlike most other firms in the industry, we don't actually like risk. Our analytic processes consider risk as something that can only be tolerated to facilitate profit making. We work in partnership with our clients, rather than just leaving them with the tools. Therefore, our clients gain our knowhow, as well as our technology – an attribute we feel really makes us stand out above the rest. This gives us an emphasis to make our processes as simple and efficient as possible, so we can provide the most powerful tools that can be understood and configured by all.

How has risk management evolved in recent years, and in the post-SNB world in particular?

Previously, nobody was thinking about the long tail risk. MahiFX's systems are fully customisable with price and profit firewalls, volatility widening and liquidity throttling to name just a few. None of our clients were hurt during the SNB volatility and this speaks volumes for our product. This has now become a key concern of our current and potential clients in a world where B-Book profits are largely disappearing due to risk constraints. As yields are tighter, FX firms simply cannot afford to give away any of these revenues.

Suggested articles

Boosteroid to Squeeze Google and Amazon on Cloud Computing Market[Go to article >>]

In your opinion, what are the defining features of good risk management?

Good risk management means understanding that risk is a cost. Anywhere risk is occurring there should be a profit associated with it, otherwise it is not worth doing.

To be on top of your risk management, every single part of your trading business involving every part of incoming flow, hedge flow, and stagnant risk must be available for analysis. With MahiFX's analytic tools we are able to discern the profit contribution from every trade to the overall whole – which is never how much a client has won or lost.

How has the evolution of e-FX affected risk strategies, and how you approach risk?

It is a well-known fact that liquidity is not what it was, but also the face of liquidity has changed. We have a very agile illiquid top of book supported by liquidity at specific risk points, instead of liquidity being spread evenly throughout the price range.

This is cutting the time FX brokers have to exit risk (before being offside); A-books are increasingly the go to option. It takes constantly evolving market-making technology of the calibre of MahiFX's to win this battle and be able to monetize a lot of today's FX flow.