



Trade & Risk Management: Software Vs. True Cloud,
The Argument Is Won

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Introduction

The wind of change has blown through the world of commodity trading software. Enterprise software vendors who have had the market to themselves for years are losing customers to a new generation of players that use the cloud to deliver more agile, more responsive solutions.

This paper looks at the reasons behind this shift, analyzes the key differences of both models of software offerings, offers a perspective on the new generation of vendors then, crucially, looks at things from an end users' point of view.



Beyond The Tipping Point

The CTRM software market has passed the point of no return. Dominated for a long time by large, entrenched vendors selling legacy client/server systems, now the tectonic plates have shifted in favor of cloud vendors with products that cost significantly less and are able to adapt more quickly to shifting industry and regulatory climates.

The tipping point was reached when more aware than ever of the need to justify IT costs yet meet ever tougher legislative and accountability rules, commodity trading firms began looking more closely at their enterprise ETRM/CTRM systems. They didn't like what they saw.

Long promised software updates or new features that had been repeatedly delayed or simply failed to materialize. Project budgets and timescales slipping dramatically. Nagging support issues that were taking a longer and longer to get resolved. Vendor support that had simply dried up completely. Traders, managers and IT professionals at user organizations cried enough, and began turning towards cloud based CTRM systems that are simple and quick to implement, and don't cost a fortune to maintain.

As far back as 2012 the specialist CTRM analyst firm ComTech Advisory reported 15% annual growth in cloud systems sales compared to just 5% annually for traditional systems. Several years on and the margin is likely to be still greater.

It was the smaller trading firms that led the charge towards the cloud. Unable to afford enterprise CTRM software, they had been forced to make do with systems based on generalist, packaged office software such as spreadsheets. As pressure for tighter governance grew, after-the-fact tools such as spreadsheets were proving increasingly inadequate. To these firms cloud CTRM systems came just at the right time, delivering at an affordable cost the timely and granular detail required for assured regulatory compliance, and to enable them to up their trading game through greater efficiency and accuracy.

Larger trading houses and the trading departments of big oil companies saw the trend and they too began moving to the cloud as they look for better value, better return on investment, and reduced capital outlay.

The Playing Field

Leaving aside for a moment the delivery model – cloud or recurring enterprise license – there are profound differences in the capability of contending CTRM solutions. At the lower end of the market some do little more than capture trades. At the high-end, full-function solutions handle everything end-to-end from trade capture through invoicing and fulfilment and on to the storage and shipping of cargos via road, rail, sea or pipeline.

Different solutions come at the market from different points of origin. For example, some are still rooted in the trading and movement of oil while others have evolved over time to handle additional types of commodities such as precious metals and coal. Other solutions have been built from the ground up to handle multiple commodity types from the start, but may have only later been redesigned to support end-to-end processing.

Because of this, vendors naturally seek to focus market attention on their strengths while at the same time blurring those areas in which their product may be comparatively weak or compromised. The devil, as they say is in the detail. But to discover it prospective purchasers of CTRM solutions face the challenge of decoding a complex comparison table of vendors, backgrounds and capabilities. What no CTRM vendor can hide however, is the basic delivery platform that underpins their solution.

In many cases that means an on-premises implementation of legacy client/server software architecture and all its attendant baggage of multiple installs, extra server room hardware and extra demands on IT support staff time.

The contrast with cloud solutions could hardly be more stark. Cloud means there is no software to be installed, no lengthy in-house implementation project to get in the way of business, no time-wasting updates or reinstalls to perform, and little need for the intervention of the IT department. With cloud it is the solution vendor rather than the user that hosts and supports the application on its own infrastructure, at the same time taking care of hardware costs, maintenance and the testing and delivery of any updates required.

Cloud CTRM shields user organizations from technical risk and complexity, and frees them from additional investments in hardware and any consequential support costs at the desktop. Further, cloud solutions - being hosted entirely within the network and accessible securely from anywhere - are ideal for mobile workers and those in organizations where hot desking and roaming policies require frequent changes of location.

Cloud solutions are also much more scalable than their traditional counterparts. They allow user organizations to start small with just a handful of seats, then scale up as their business grows to tens, hundreds or even thousands of seats, without any additional IT infrastructure investment. The financial benefits of the cloud can add up to a significant saving. A cloud CTRM solution in an average size trading firm has a cost of ownership typically one third that of an on-premises install. Some firms that have replaced old generation client/server systems with cloud-based alternatives have gone on the record to say their entire CTRM system costs the same as they were paying previously just for support.

	Traditional Install	Aspect Cloud
3 year license/12 users	\$400k	\$540k
Implementation	\$600k	\$50k
Enhancements/Reports	\$160k	\$0*
3-year S&M	\$160k	Included
3-year DR	\$200k	Included
3-year IT Support	\$300k	Included
Totals	\$1.82M	\$590k

(Source: ComTech Advisory)

*Aspect comes with out of the box with pre-configured reporting tools, but also includes an easy to use scripting language that enables users to build their own fully custom reports.

But while the cloud definitely has its supporters, there are a few dissenters too. A recent survey showed that while the majority of CTRM software buyers are open to the concept of cloud based solutions, there is still a small minority wedded to the idea that a traditional on-premises implementation remains the only viable option. This often stems from deep-rooted concerns over information security, loss of control over how and where data is held and expectations of difficulties with integrating cloud delivered software with existing line of business systems.

Such concerns are, in truth, largely overstated. These days, large corporates to private individuals are happy to trust cloud based systems for payments, invoicing, accounting and a range of other confidential transactions. At the same time online exchange trading and trade reporting are commonplace, with many organizations holding large volumes of such data in the cloud. And tighter regulatory reporting requirements can only increase the amount of data held outside of corporate firewalls.

Back in 2014 cloud take up was only 16% but around half of firms said they would at some time seriously consider moving to cloud CTRM for their trading and back office teams. Today, given growing confidence in and acceptance of the cloud as a whole, not to mention a still uncertain global economy, the cloud is an ever more compelling option. Proof can be seen in the order books of cloud vendors who are taking business away from client/server suppliers.

The Vendor Perspective

While all vendors in the CTRM space would claim to have a cloud solution of one kind or another, some are little more than re-engineered versions of client/server products given a visual makeover for a Web interface. Others apply a cloud label to what is essentially a hosted client/server application delivered via Citrix or similar.

Among all the vendors, one that can justifiably claim most experience of working in the cloud is London-based Aspect. Incorporated in 1999 as OILspace the company pioneered trade and risk management solutions delivered from the cloud over the Web, a delivery model it has continued to focus on exclusively.

Since its formation Aspect has scored several industry firsts: first with a totally Web-based solution, first with a full-feature mobile app, first with free-of-charge trials of its software, first to openly publish product pricing on its Web site, and first to implement CTRM at a customer site in less than two weeks from receipt of order. With approaching 500 customer organizations in more than 80 countries Aspect is now the largest dedicated cloud CTRM vendor in the world.

Aspect has also broadened its portfolio considerably, both in scope and in depth. From originally serving companies in the oil and petrochemicals business it has gone on to include gas, coal, agricultural products and metals. And from managing trade and risk across front, middle and back offices it has expanded into the physical operations elements of trading. These include shipping, storage, refining, road and rail transport and pipeline movements. There is also functionality to support the management of financial operations and the management of complex forward price curves.

Aspect's Any Cloud vision seeks to combine the best features of the SaaS and private cloud delivery models with that of the public cloud to form a CTRM hybrid cloud environment. This will allow end user organizations greater freedom in deciding who provides and manages their IT services, of where and how those services are hosted, how the risk Vs. cost equation is balanced, the level of security afforded and the ease of integration with other applications and services.

Integration The Aspect Way

CTRM solutions, however they are delivered, need to accommodate a broad range of user organizations and an even broader set of functional requirements and integrations with existing systems. In the past this has led to unwanted extra complexity in implementation and a corresponding rise in the need for specialist technical support; the very things that cloud delivery is meant to avoid. The end result is more cost, more scheduling slips and more of the risks that tend to accompany software customization.

Aspect's answer is the AEsthetics program, a set of tools and initiatives aimed at reducing the challenges of integration and support by breaking down existing business applications into a series of smaller, simpler components which can be more easily mapped onto processes and workflows. This helps companies do the work for themselves where in-house expertise exists, or at least reduces their dependency on consultants or professional services teams.

Aspect has also developed Work Benches, a series of functional modules each of which provides pre-built but configurable generic support for a common functional task such as trade capture, deal confirmation, settlement and accounting as well as various logistics and operational actions. The range of these modules is growing all the time with new versions released alongside routine software updates. The aim is to permit user or third party integrator customization at a functional level by simply configuring the component applications and without involving the writing of new code.



The Customer Perspective

A large international industrial commodities group was a long-time user of enterprise client-server CTRM to support its oil, feedstocks and petrochemicals business. But it had found that not only were support costs increasing annually while the quality of that support was going down, a long promised update to the software still had not appeared.

Rather than struggle on with older software, the group decided to invite bids for an all-new replacement system. Among all of the contenders, Aspect offered the shortest implementation time of just eight weeks compared with other bidders estimating as long as 18 months, while others still would have required a veritable army of highly-paid external consultants to complete customization and integration work.

The Aspect solution offered physical and on-paper trade handling, unmatched ease of upgrading and adding new functionality, coverage of multiple commodity types and an unusual degree of speed and responsiveness in operation.

The company’s Head of Business Systems recalls the wide-ranging evaluation process well: “We ran a very thorough selection process and went through a lot of detailed demonstrations and proofs of concept, gradually ruling out different solutions one by one. At the end of the process Aspect’s was the only one still standing. Their people really understood our business and the industry we operate in and were very responsive throughout.”

With the Aspect system installed and working, the Head of Business Systems can now speak from experience on how it performs in practice: “Performance on the desktop is a key area for us and we’ve seen a real improvement there. Our users can see things right away rather than waiting half an hour. For P&L and position management when we enter data it gets processed immediately and our traders can see their positions in real time and at the end of the day. As well as great control they can drill down with ease and build quick custom reports too, giving them basically exactly what they want to see.”

He also cites the Web services inherent in AspectCTRM. Describing them as very good he uses them for pricing data, forward curves and took advantage of them to write the in-house code he used to integrate the data from the group’s previous CTRM system into the Aspect replacement. He believes this alone speeded up the implementation by a factor of two or three.

“We have confidence in Aspect’s solution and more and more of the larger firms are buying it. We see the product improving even more over the next two years and we see a willingness and responsiveness from Aspect that we just don’t see elsewhere,” he added.



When the group factored in cost of ownership too, it realized that over five years the all-up cost of cloud-based AspectCTRM would be the same as the maintenance fees alone for the previous perpetually-licensed solution.

Almost immediately following the implementation, users right across the business enthused about the responsiveness of the new system, the intuitive presentation of data and the reporting functionality and the speed with which changes they suggest to Aspect are rapidly implemented.

Conclusion

Early adopters of cloud CTRM were smaller trading houses for whom legacy client-server CTRM was simply too expensive and unwieldy. The lower cost and greater flexibility of the cloud meant they could for the first time take advantage of the regulatory compliance assurance and greater commercial efficiencies delivered by CTRM.

With a clear-eyed view of the realities rather than the mythology of security, larger trading operations are now joining them, moving to the cloud for equally hard-nosed and pragmatic reasons. Deeply entrenched legacy enterprise client-server delivered systems are being ousted and replaced by cloud CTRM with its lower cost of ownership, greater flexibility and control, and superior functionality.

We can confidently say the cloud has now won the CTRM turf war.