

Technology innovation

Modality Technologies

Technologists have devoted a lot of time to devising tools for structurers and issuers to price products accurately and manage their risks. That effort has paid off and a range of sophisticated pricing and risk applications is now available. But that solves only half the problem of creating a market. The other half involves the clients and whether they understand the products and risks well enough to invest in them.

The traditional methods of informing clients about how products work – at least in the retail sector – have been the brochure and prospectus, together with an explanation by the intermediary or distributor. The trouble is that the prospectus is often so long that no-one reads it in detail, information in the brochure is limited and static, and explanations by sales people are inconsistent in depth and clarity.

Over the past year, Modality Technologies has further developed its Modality/Structures sales and support system for secondary markets, with analytical tools to evaluate products, including animations of product life cycles based on up-to-date market data, and showing future scenarios along with past performance.

Other recent enhancements to the technology include the generation of automatic textual explanations of products, describing the different events and phases the product undergoes based upon terms and market scenarios. The system will now also generate future scenarios automatically and embed them within performance reporting to illustrate potential product outcomes. In addition, Modality has converted its technology to the HTML5 programming language to support multi-touch screens and the latest generation of mobile devices.

In hindsight, the application of user-friendly, interactive technology to inform and educate structured products clients seems obvious, but it was Modality that first made the creative link between the two.

Founded in Tel Aviv in 2000, Modality is a financial technology company that started out building analytical and transaction processing tools. Around six years later, a bank asked the company to help it automate payment calculations for its structured products portfolio. As Modality built the required system and learnt about the structured products market, it discovered a problem for which the market did not yet have an adequate solution.

“The banks were working hard to create good structured products, but these were quite complex and difficult for clients to understand compared with traditional investments, such as shares and bonds. We



Eran Elad



realised that if the products were to appeal to a mass market, that required a bridge between their complexity and clients’ understanding,” says Eran Elad, vice-president, sales, structured products at Modality.

The firm noted that if people wanted to buy other complex items, a car for instance, they could go online for information and explore options using interactive tools. So the company set about building a set of tools for creating visualisations, interactive demonstrations and simulators for structured products, as well as automating the production of documentation.

Modality’s new offering struck a chord with an industry struggling to get its message across. The company quickly built up customers including many of the leading players such as Royal Bank of Scotland (RBS), Barclays Capital, Nordea, Rabobank, Danske Bank and CIBC.

Though its software can be installed in-house, most choose to use it on a service basis. A bank creates a new product and sends Modality the term sheet and a list of requirements in terms of educational materials. Modality uses its toolset to create the required demonstrations, simulators or documentation. To do this requires more than just technical prowess. “We have spent the past five years learning about structured products in depth, and have built up a big financial analysis team, including a number of maths PhDs,” says Elad. The company now has 75 employees and last November made it into the Deloitte list of 500 fastest-growing technology companies in Europe, the Middle East and Africa.

Rabobank has used Modality for around 18 months to create interactive presentations and exploratory simulators for retail products. “We take customer care seriously,” says Bas Janssen, adviser, investor products, financial markets e-commerce at Rabobank International.

Client education is critical in the current competitive environment. “The main barriers to entry in the retail structured products market are the visibility of products, performance monitoring and how they compare with funds,” says Colin Dickie, head of UK retail, investor solutions at Barclays Capital. “Intermediaries and distributors are used to getting monthly factsheets from funds companies. We wanted to create the same sort of collateral to level the playing field and aid comparison. Modality is extremely helpful in enabling us to do that.”

For many clients, Modality offers something entirely new, and there is still no direct competition. “What they offered was unique, and it seemed the logical choice for RBS,” says Zak de Mariveles, managing director at RBS Global Banking & Markets. ●