

creditex

Not overburdened with capital

Sunil Hirani is one of a rare breed of CEOs who can disarm you with his self-effacing honesty. "To have started this firm with such a token amount of money in the scheme of things was probably the most naïve thing I've ever done in my life," he says, shaking his head.

Hirani and creditex co-founder John McEvoy, who resigned earlier this year and is at present sunning himself on various beaches, were successful credit-derivatives marketers in 1999 at Deutsche Bank, one of the top two firms in the business, at a time when the market was growing and life was good.

He's not giving specific figures, but he leaves you with the impression that when he and McEvoy started credit derivatives platform creditex they probably had less than \$500,000 as very initial capital.

Now it may well be true, as an e-commerce consultant told *Euromoney* around the same time creditex set up, that any computer whiz could set up an online exchange with \$300,000, but you'd be hard pressed to find a platform in the financial world that did that and succeeded. Atrix, the defunct e-forex platform, demanded \$20 million from each of its four initial partners just to get off the ground.

Creditex would appear to be the exception. Now it can lay claim to being the central marketplace for single-name default swaps, having the best bid-offer spread prices on any given day in as many as 200 names, and has moved to a larger office.

But it's not just the lack of money that Hirani looks back on with a degree of wistful amazement. It's the business plan as well. "Perhaps we were a bit naïve, perhaps we were ahead of our time," he says. "But the market couldn't support a trading

platform that was both for all-comers and electronic. And it still can't. You can't commingle professional dealers and end users yet."

In his defence, back in 1999 it seemed as if every product was about to go electronic for the benefit of the end users, and to do so immediately. What better business to start, then, than a platform for credit derivatives, one of the least commoditized tradable financial products?

The business model was modified about two years ago, says Hirani. "What has not changed is our commitment to technology, and client service. Technology, especially, can be a differentiator. But we decided that we had to change our focus from being so enamoured with offering an approach that was 100% based on technology." That summer they added client coverage and service, using the good old-fashioned phone, changed some of the people, and changed some of the technology. The technology is now focused less on executing trades and more on information, including real-time price information with online chat facility, and historical default-swap data.

Default swaps aren't the only business creditex is in, though. For a company that is just four years old, it's done a remarkable job setting up other businesses – three, to be exact. The first is LoanX, an electronic marketplace for trading loans that was created in November 2000. Next, earlier this year, came Credit Derivatives Research, a joint venture with independent credit research company Gimme Credit. And lastly, at the end of July, the firm launched ADR Swapbook, which uses creditex's technology to enable investors to swap ADRs and the underlying ordinary shares and could cut trading costs from five cents per share to one.

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