Interactive Brokers Group's (IBKR)

Q1 2023 Results - Earnings Call Transcript

April 18, 2023 4:30 PM ET

<u>Executives</u>

Thomas Peterffy - Chairman

Milan Galik - President, CEO & Director

Paul Brody - CFO

Nancy Stuebe - Director, IR

<u>Analysts</u>

Richard Repetto, *Piper Sandler*

Daniel Fannon, *Jefferies*

Craig Siegenthaler, *Bank of America Merrill Lynch*

Ben Budish, *Barclays*

Kyle Voigt, *KBW*

Chris Allen, *Citi*

<u>Operator</u>

Good day, and thank you for standing by, and welcome to the Interactive Brokers Group First Quarter 2023 Earnings Call. (Operator Instructions) I would now like to hand the conference over to your speaker today, Nancy Stuebe, Director of Investor Relations. Please go ahead.

<u>Nancy Stuebe</u>

Good afternoon, and thank you for joining us for our first quarter 2023 earnings conference call. Once again, Thomas is on the call, but asked me to present his comments on the business. Also joining us today are Milan Galik, our CEO, and Paul Brody, our CFO. After prepared remarks, we will have a Q&A.

As a reminder, today's call may include forward-looking statements, which represent the

company's belief regarding future events, which by their nature, are not certain and are outside of the company's control. Our actual results and financial condition may differ, possibly materially, from what is indicated in these forward-looking statements. We ask that you refer to the disclaimers in our press release. You should also review a description of risk factors contained in our financial reports filed with the SEC.

This quarter at IBKR had something for everybody. Account growth was strong; DARTs rose despite uncertain markets, and commission revenue was the second highest in our history. Meanwhile, our net interest income reached a record, and our reported pretax margin reached 72%.

We achieved this using our simple strategy, one that seems to be unique in our industry today:

- We run a conservative balance sheet,
- With ample equity, and
- An extremely short portfolio duration.

That means we have over $12 billion in equity, and our portfolio duration is a matter of 3 to 4 weeks, not months, not years. This balance sheet supports a global business where we charge the lowest prices on commissions, and we pay the highest rates on uninvested client cash. We pay these rates on cash that you can use right now: you don't have to sweep it out, and then wait if you need it back. With us, our clients' cash can do two things - be available and earn interest - at the same time.

Because of this, we do not and have not seen clients taking cash out of their Interactive Brokers accounts and moving it elsewhere; we do see them using their cash to invest in the markets. Because of our high rates on qualified client cash, we are paying more than most, if not all, banks. We also have active customers, who want instant access to the markets. We simply do not see cash in client accounts moving elsewhere on a net basis.

More and more investors are looking to the markets to earn a return that will allow them to build their wealth beyond the level of inflation, and this has been true for us around the world. I still

believe inflation is going to stay with us, and – as it has done - will likely remain above 4%. US government debt is now about $31 trillion, 120% of GDP. This is forecast to grow by $2 trillion a year, thanks to rising interest costs that end up adding somewhat to the inflation sparked by extraordinary US government spending during COVID. Now, even though they contribute to inflation, we need higher rates to fight it. This is not a short-term state of affairs that will soon result in rate cuts.

We are still seeing retail engagement. 12-month commissions for the individual client segment, as well as for the hedge fund and proprietary client segments, rose this quarter versus last year. Hedge fund 12-month commissions alone grew 81%. Product-wise, while stock share volumes did not keep pace with a very active quarter last year, futures and options contract volumes continue to rise, with both reaching monthly volume records here in March.

More activity in futures and options contributed to our higher cleared commissions per DART of $3.16, up over 20%, as these products carry higher commissions. As a note, higher futures commissions include very high exchange and regulatory fees, which in part explain our higher execution and clearing direct expense.

As clients continue to want to engage with the options markets, we have made it even more appealing by introducing a new routing venue for our clients, IBOPT, where our customers can give us an order pegged to the midpoint, or to the bid and offer, and give us their parameters of how much above the bid or below the offer they're willing to pay, and their options order floats as the bid and offer move. If we get a counter order, it gets executed. This is a unique product in the space, one that works especially well with very active, liquid options, and allows our customers to act like market makers. This is the heart of what we do – automate for client success. It is the complicated part of what we do.

What we see in the future, is more of what we already deliver. Our net new accounts are growing just over 20%, and we are still looking to onboard the first of the two large introducing broker accounts this quarter. It will start slowly and we hope to see it completed by the end of the year.

We also remain on track to start onboarding the second large i-broker account sometime in the third quarter.

We have also focused on appealing to financial advisors with several features. We are soon introducing customized indexing, to make it easy for them to build stock portfolios modeled on ETFs, but customizable for tax efficiency and investment goals. Unlike a one-size-fits-all ETF, with customized indexing clients will own fractional shares of each component stock, so an advisor can adjust weightings, capitalize on gains or losses for tax purposes, or exclude specific stocks or sectors, personalizing as their clients need. We do not require minimums, we have no ticket charges, and charge no custodial, technology, software, platform or reporting fees.

We also save financial advisors money on their mutual fund investments. As just one example, at other firms if an advisor chooses an allocation to a particular mutual fund for 100 customers, that means 100 separately-charged ticket fees. At IBKR, you only pay one commission - $14.95 – and no ticket fees, no matter how many customers you put into a fund, even for 1,000 customers. And finally, we now offer third party research from global, independent research firm ISI Evercore to our financial advisor clients in the US and several other countries.

I have great confidence in Interactive Brokers' capabilities and strengths, and in the secular trends that are taking place around the world – more people wanting to invest in securities markets, more investors globally looking to gain exposure to different countries, particularly the US; rising income levels in developing countries; and the acceptance, worldwide, that investing in the markets is the way to build wealth.

I have less confidence in the responses seen so far to inflation, bank sector troubles, and the mounting cost of US debt service. Interest expense in 2023 on US debt is expected to rise 35% this year, to $640 billion, and to ¾ of a trillion dollars next year. This all gets added to our growing deficit.

This means investors around the world look increasingly to the markets to stay ahead of inflation and uncertainty. It has grown clear to more and more people that holding onto cash, when it is

earning low or no interest, is a losing proposition. We let all investors know that Interactive Brokers pays its clients 4.33% on their cash balances, without having to sweep.

We continuously add relevant content to our IBKR Campus educational website, to make it simple to use and easier for clients to find topics of interest to better understand the world of investing.

We will serve our customers, in over 200 countries and territories, and educate them about their options – both their opportunities and the security. We continue to add accounts, and are excited about where our position – as a leader in international access, with a strong and safe balance sheet, offering a good deal to people as well as comprehensive educational tools for all – will take us.

With that, I will turn the call over to our CFO, Paul Brody, who will go through the numbers for the quarter. Paul?

Paul Brody

Thank you, Nancy. Thanks, everyone, for joining the call. As usual, we're going to review the first quarter operating results, and then we'll open it up for questions.

Starting with our Revenue items on page 3 of the release, we recorded another strong quarter, with record net revenues that exceeded $1 billion in a quarter for the first time. With ongoing customer account and balance sheet growth, we continue to expand our potential for both commission and interest revenues in the future.

Commissions were strong, reaching $357 million despite mixed equity markets worldwide. Futures and options volumes reached record levels, while stock share volumes declined from last year's quarter, once again driven by a drop in trading of lower-priced stocks.
Net interest income of $637 million reflected higher interest from margin loans and segregated cash, owing to increases in benchmark rates and a larger segregated cash portfolio. US benchmark rates have moved from an average effective rate of 12 basis points in the first quarter

of last year to 451 basis points this quarter. These gains were partially offset by the higher interest we paid on customer credit balances, as our longstanding policy is to pass through rate hikes above 50 basis points to our customers on their qualified funds.

Other fees and services generated $43 million, with the biggest contributors being market data fees of $18 million, options exchange liquidity payments of $8 million, and risk exposure fee revenue of $6 million. The drop from the prior year quarter was driven primarily by the risk-off positioning of customers, which led to a $9 million reduction in risk exposure fees.

Other income of $19 million includes gains and losses on our investments, our currency diversification strategy and principal transactions. Note that many of these non-core items are excluded in our adjusted earnings, and without these excluded items, other income was a $22 million loss for the quarter as we removed realized and unrealized gains on our US Treasury portfolio.

Turning to expenses, Execution, Clearing & Distribution costs rose 34% versus last year, led by higher volumes in options and futures, which carry higher fees, lower liquidity rebates, and higher regulatory transaction fees.

We find it useful to measure what we call Gross Transactional Profit, which is commissions less the pure volume-driven Execution & Clearing costs. As a percent of commission revenues, Execution & Clearing costs, which are driven by a combination of trading volume, exchange rebates and changing fee schedules, were 21% this quarter, in other words, a Gross Transactional Profit of 79%.

Market Data expense, a pass-through item, is included in “Execution, Clearing & Distribution Fees”, while the corresponding Market Data revenue is reported in “Other fees and services” rather than in Commissions. For this purpose, in the first quarter we exclude $18 million in primarily Market Data expense.

Compensation & Benefits expense rose $17 million, or 15%, over the prior year, driven by hiring in Europe and APAC and, in part, by inflation. While up in dollar terms for the quarter, Compensation & Benefits expense fell to 13% of our adjusted Net Revenues, versus 16% last year and somewhat below its historical level. Our headcount at quarter-end was 2,872.

G&A expenses were down 5% versus last year's first quarter, primarily on lower advertising and legal expenses.

Our adjusted pretax margin was a record 71%. While higher interest rates benefit us, automation remains our key means of maintaining consistently high margins, as well as continued expense control while we hire talented people and invest in the future of our business.

Income tax expense of $61 million reflects the sum of the public company's $31 million and the operating companies' $30 million.

Moving to the balance sheet on page 5 of our release, our total assets were $119 billion at the end of the quarter, with growth over the last year driven by increases in our segregated cash and securities.

We maintain a balance sheet aimed at supporting our growing business and providing ample financial resources during volatile markets, with maximum flexibility and short-term liquidity. We have no long-term debt.

The duration of our investment portfolio as of March 31st was 24 days.

Turning to our operating data, on pages 6 and 7 of the release, our contract volumes for all customers were strong, reaching their highest quarterly level in both options and futures, up 2% and 4%, respectively, over the year-ago quarter. Stock share volume was down 22% versus last year's first quarter, and the drop off was largely attributable to investors moving to higher quality stocks, as trading in pink sheet and other very low-priced stocks was impacted most.

On page 7, you can see that our account growth remains robust, with over 100,000 net account adds in the quarter, and total accounts at 2.2 million, up 21% over the prior year.

Total Customer DARTs were 2.1 million trades per day, down 19% from the stronger prior-year quarter.

Our Cleared IBKR Pro Customers paid an average of $3.16 Commission per Cleared Commissionable Order, up 23% from last year as our clients' volume mix included higher per order contributions from all product categories, and particularly from stocks and options.

Page 8 presents our Net Interest Margin numbers. Total GAAP net interest income more than doubled to $637 million on the year-ago quarter, reflecting stronger earnings on segregated cash and margin loans, partially offset by higher interest expense on customer cash balances. After a series of seven target rate increases in 2022, the Federal Reserve raised interest rates twice this quarter, by 25 basis points each in February and March. Many other central banks also raised rates this quarter. This group includes the UK, Canada, Australia and Hong Kong, as well as the Eurozone and Switzerland.

Net interest on segregated cash was $603 million, primarily due to Federal Reserve rate hikes but also to our managing to short duration on invested funds, which has allowed us to more closely match asset and liability maturities and to pick up benchmark rate increases quickly. At March 31st, our US portfolio duration was 24 days, so the investments roll over into new, higher, rates with a fairly short lag time. A 38% increase over the year-ago quarter in average segregated cash and securities balances also drove interest income higher.

Margin loan interest rose to $477 million, up significantly from $149 million last year, despite average margin loan balances declining 17% from last year's first quarter. Higher rates, in the US and internationally, have driven higher margin interest income.

Securities lending net interest was $88 million, down 20% from the year-ago quarter. It's worth noting that, while securities lending opportunities maintained a relatively strong pace, it is also

the case that as benchmark rates rise, a greater portion of the revenue generated by lending securities is reflected in interest on Segregated Cash, because the cash collateral received is invested as segregated funds. We estimate this impact to be about $41 million for the quarter vs last year. In other words, without this shift in reporting line items, net interest from securities lending would be $129 million, up 18% from the year-ago quarter.

Interest on Customer Credit Balances, or the interest we pay our customers, grew as higher rates in many currencies led to our paying interest on qualifying balances as we pass through rate increases. We paid $653 million to our customers on these balances in the first quarter.

Fully rate sensitive balances were roughly unchanged at about $20 billion.

We consider our policy offering clients a full pass-through of all rate hikes after the first 50 basis points on their qualified cash a significant component in our success, and one that sets us apart.

We believe this leads to clients choosing to keep their cash with us, especially active clients who do not want to use sweep programs that prevent them from immediately accessing their cash to invest.

As Thomas mentioned, on balance we do not see clients moving their cash away from us.

Now, for our estimates of the impact of increases in rates – Given market expectations of possibly one or more rate hikes to come, we estimate the effects of increases in the Fed Funds rate to produce an additional annual net interest income of approximately $50 million for each 25 basis increase in the benchmark. Note that our starting point for these estimates is March 31, with the Fed Funds effective rate at 4.83%, and based on balances at that date. About 26% of our customer cash balances is not in US dollars, so estimates of US rate change effects exclude those currencies. We estimate a 25 basis point increase in all the relevant non-USD benchmark rates would produce additional annual net interest income of $26 million, and rising to about $100 million at a 100 basis point rate increase.

In conclusion, the company generated a strong performance in the first quarter in a complex and volatile environment, reflecting our continued ability to grow our customer base and deliver our core services to customers, all at low cost and while offering meaningful cash interest, as we manage the business effectively with strong risk and expense controls.

And with that, we will now open up the line for questions. Thank you.

Question and Answer Session

Operator

(Operator Instructions) Our first question comes from Richard Repetto from Piper Sandler.

Richard Repetto

I guess, first question is sort of an accounting question. Just trying to understand the $40 million mark that I think you said, Paul, that you removed realized and unrealized gains. Is this a one-time thing? I'm just trying to understand whether I am missing something– is this a one-time thing in the quarter? Or has this been done in other quarters as well?

Paul Brody

Sure. So, this quarter's effect is a onetime effect. Let me explain it this way. As you know, we have considered that our investment in the treasury portfolio to have temporary mark-to-market fluctuations, which are reflected in our financial statements– both the income statement and the balance sheet. By the end of the year, the accumulated losses on our treasury portfolio because of market movement, were about $39 million. That was all in the income statement and the balance sheet.

For non-GAAP reporting, which is what we call non-core to our operating results in the release– it's in the earnings release every quarter, we pull out those mark-to-market effects. So cumulatively, by the end of the year, we had a $39 million accumulated loss that we had pulled out for the purposes of the non-core reporting. We have pulled out the losses and that raised the non-core reporting.

During the first quarter, we liquidated some securities rather than holding them to maturity. And by liquidating them, it erases the previous accumulated loss. In effect, putting it back in when it was realized upon the sale of those securities. So those were sold. That also played a role in reducing our duration on the remaining portfolio down to 24 days, extremely short. And we wouldn't expect much mark-to-market impact at all going forward because it is unlikely to be much on a very short duration portfolio.

Richard Repetto

Okay. Just one quick follow-up on that point, Paul. So why weren't these securities held to maturity then?

Paul Brody

We make investment decisions from time to time based on market conditions. We felt that it made sense to sell a security and reinvest in currently higher rates. And looking forward, it also reduced fluctuation in our mark-to-market results. Had we held it to maturity, it would have resulted in approaching par value each quarter until what would have been the end of this year– they were not very long term. At the end of the year, they would have made it all the way back to par value, and we would have recaptured the exact thing that we declared this quarter all at once, we would have done it over four quarters toward maturity.

Thomas Peterffy

It also allowed us to reduce our taxes a little bit last year.

Richard Repetto

Understood. And just one quick question away from that topic. Thomas, just on the introducing brokers that you expected to start this quarter. Could you give us an update? You said it's going to go gradually– is it more of the same, just dealing with large financial institutions that it's difficult to deal with? Any other detail on the progress there?

Thomas Peterffy

Milan, would you like to answer that?

Milan Galik

Sure. So, the first of the two i-brokers already started onboarding its employees. The employees are basically testing the quality of the integration, going through all the functionality. The aim currently is for them to onboard the entire set of their clients and move them from their existing vendor broker in the summer. So, the first i-broker should be fully onboarded in the summer. There could be some delay. So maybe, latest Q3.

The second of the two i-brokers is moving a little bit slower. That relationship is bigger. It involves more of their entities. They have not yet started onboarding. They will most likely start in Q3.

Operator

And our next question comes from Daniel Fannon from Jefferies.

Daniel Fannon

I was hoping you could expand upon the hedge fund segment. I know you've been taking share and growing there. But maybe I think you said commissions were up 80% year-over-year. But if there's other stats that you could provide to help us think about the success you're having and the contribution of that segment?

Thomas Peterffy

So, what other stats do you have in mind?

Daniel Fannon

Well, I guess, in terms of number of customers, the customer count and the growth and then I think you have some goals, I think you've said previously in terms of what you want to get through over time.

Thomas Peterffy

Yes. So, we are #6 as far as number of hedge funds. Ahead of us was Credit Suisse that is not going to be there this quarter. So, we'll be #5. And then ahead of us is also Bank of America– barely ahead of us by number of hedge funds. So, we believe we will be #4 or #5 the next time Preqin issues their stats on prime brokers for hedge funds. And it will probably be in the fall.

Daniel Fannon

Okay. And in terms of the size of where you're having the most success, what's the average size? And I assume it's mostly in the U.S., but is it also outside the U.S.?

Thomas Peterffy

The average size is around, I think, $8 million. So, they are the smaller funds. Many of them– I mean, quite a few of them lose money and quite a few of them make money. So, some of them drop out and some of them become large, and we hope that they will stay with us.

We also have large hedge funds, but we are probably their second or third or sometimes fourth prime broker. So, they come to us because, a) our executions, they like our executions; b) they like the fact that they can see our short inventory and the rates at which they can borrow various equity issues from us. And when they compare that to their primary hedge fund, they either use our rates to bid them up into giving them a better rate or they actually ask us to borrow the shares from.

Daniel Fannon

Understood. And then can you confirm just the other income, excluding the movements in the one-timers that you talked about with the portfolio and treasuries, what that would be on a kind of a run rate basis going forward?

Thomas Peterffy

Paul?

Paul Brody

Well, other income includes investments and various other things. So, it's a little difficult to say that it has a run rate. Investments will rise and fall over time. And it's difficult to pin that down.

Daniel Fannon

But I guess, just if I look historically, that there was no one-time as we look at the $19 million in the fourth quarter or the single digits for most of the three quarters before, that's how we should think about it going forward? Those are the clean numbers?

Paul Brody

Yes. Let's remember that our currency diversification strategy that we call the GLOBAL, the result of currencies versus dollar going up and down are a component of other income. Sometimes it's a large component. This quarter, it was practically nothing. So, that's at least for you because we disclose the composition of our GLOBAL, that's for you a predictable number because you can imply exchange rates and make an estimate.

Operator

And our next question comes from Craig Siegenthaler from Bank of America.

Craig Siegenthaler

So, the Fed provided a nice tailwind for IBKR on the way up. If we start seeing cuts over the next year, is there any reason that the asset sensitivity on the way down would look any different than on the way up, just given the short duration of your assets and also the large equity position that partially fund your balance sheet?

Thomas Peterffy

Well, on the way down, we would decrease by the same amount we increased by, except for the fact that we are getting in more and more accounts. So, to the extent, we'll have more clients to do more trades and to keep with us more cash, it is going to be moderated. But if we went back to zero interest rates, of course, our interest income would be very similar to what it was a year ago. But I do not believe that we will get back to zero.

Operator

And our next question comes from Benjamin Budish from Barclays.

Ben Budish

I wanted to circle back on the introducing broker clients that are going to be onboarding later this year. I think there's a sort of a general understanding that as retail clients that are new to the platform join, they sort of become more productive over time. But these are generally existing clients from a previous broker. What's your sort of expectation in terms of the activity from these customers? Do you think that you could see sort of a step up over time as they become more familiar with perhaps new options that are offered with IBKR on the back end? And as part of that, how should we think about the cash balances coming over? Should we assume that it's a lot of fully rate-sensitive cash. Is that a fair assumption?

Thomas Peterffy

So, it is generally true that a new account starts at $3 and it grows to $6 in the first year and then goes to $9 after 2 or 3 years. So, I do not expect these customers to be any different from that.

Ben Budish

Okay. That's helpful. And then just thinking about sort of the strength in the quarter, particularly in March with futures and options activity. To what degree do you think that's sustainable? Was a lot of that just sort of in response to the volatility created by the banking crisis? Or do you think there's sort of a possibility for this sort of sustained engagement from retail in options and futures to kind of continue over the next several months or taking part of longer term?

Thomas Peterffy

Well to tell you frankly, for the past 10 days or so, our commissions are certainly lower than they were in the preceding 10 days. So, the banking crisis certainly contributed to some stronger activity that seems to have subsided now. But generally, when markets go down, the activity increases and when they stop going down and start to slowly climb up the activity decreases. So that's what we are seeing in the commission income side.

Milan Galik

And there is an additional component here. The options trading is getting generally more and more popular and the type of clientele that we attract looks towards the option offering that we have as part of our platform. So the expectation is that the options trading and derivatives trading in general is going to be growing over time, even as volatilities drop in the market.

Operator

And our next question is Kyle Voigt from KBW.

Kyle Voigt

Thomas, you started the call in the prepared remarks, highlighting the yields you're paying on idle cash balances. And we've also been noticing that you're marketing this recently and comparing your yield to that of other brokers. I guess, have you seen evidence that clients are consolidating more cash or more assets at IBKR from other brokers or other accounts because of that yield differential and because of some of the marketing push that you've been making recently?

Thomas Peterffy

Well, unfortunately, I did not. So, the incoming moneys are about the same as they were a month ago or two months or three months ago. It's very steady—we haven't seen any pickup and we also haven't seen any drawdowns.

Kyle Voigt

Understood. And I just wanted to follow up on the prior question. I know you've been quite positive on the growth trajectory for options, broadly speaking, and believe that growth is sustainable over the medium term. But I was wondering if you could comment on some of the growth in this SPX zero-day-to-expiry option trading. We've seen grow rapidly over the past few quarters. I understand that your customers are one of the larger users of the zero-day products. Just wondering if you could give us any detail on which client segments you're seeing utilize those products within IB? And then also just give us your thoughts broadly on this zero-day

options trend and whether you see the volume growth in those products as sustainable as we look out over the next few years as well?

Thomas Peterffy

So, it is certainly sustainable because it's less expensive for people to take a position in one-day options, one day ahead of news, right? Previously, they had to take a position that would have several days to run even though they would take the position a day ahead of the news. So, it is cheaper for them to use the one-day option. Also, when people want to take a position in a larger portfolio, it's easier for them to accumulate on one-day, say Standard and Poor's options and trade the portfolio on a market on close order. And that way, it's a lot cheaper for them to buy or sell that portfolio.

Kyle Voigt

Understood. And I just have one follow-up. One last question. It's just regarding the balance sheet of the company. You now have, I think, close to $9 billion of capital in excess of your regulatory requirements. And that excess capital figure has grown significantly over the past few years. I know you've previously stated you wanted that excess capital to help support the prime brokerage operations and to help customers kind of feel safe custodying assets at IB. But I guess is there some level of excess capital where you'd feel as an adequate level and therefore, not needing to continue to build that as rapidly as it has over the past few years? And just updated thoughts there would be great.

Thomas Peterffy

Very strange that you should ask that question at the time that many of our peers appear to have insufficient amounts of capital. So no, we are very proud to have as much capital as we do, and we hope to keep growing it.

Operator

(Operator Instructions) And we have one more question. Our next question comes from Chris Allen from Citi.

Chris Allen

Just wanted to touch on– you noted that advertising spending was down year-over-year, helping drive G&A lower. Can you just give us an update on the marketing strategy here. I know in the past, you talked about being a targeted marketing strategy. How has that evolved recently? And is the pullback in advertising just a result of the environment or just a lower opportunity set?

Thomas Peterffy

So, you will see that – maybe you notice our heads cropping up all over the place. We're trying to advertise our 4.33% interest that we pay on instantly available cash. We roughly have doubled our advertising spending a month ago. So, you will see a much larger advertising spend in the next quarter.

Chris Allen

Understood. And then just one more quick one. On headcount growth, the pace of growth has been moderating in recent quarters. Is that just because you're reaching scale in certain areas, whether it's from a country or regional perspective or just the near-term opportunity so just you don't need to grow as fast as you have in the past?

Thomas Peterffy

I think this is a CEO question.

Milan Galik

So, we are obviously paying a lot of attention to our expenses. The human capital cost is significant. What we have seen is – if I compare our numbers to the one-year-ago quarter, the customer service personnel has decreased by 3%; our compliance team has increased by, let's say, 10%; and our information technology personnel, which is programmers, technicians, system administrators and similar, that number went up by 16%. So, these numbers are not bad.

The fact that we are increasing the size of our information technology team just signifies our commitment to being a leader in financial services technology tools for our investors. So, you can expect us to grow the team as we have increasing amount of work.

The customer service, I think that team is at a good level. We are closely paying attention to the wait times of our customers calling us– how long they have to stay in the phone queue, and that number is very low single-digit minutes. We like that. So, the size of the team seemed to be appropriate to the level of business that we have and the number of accounts that we have. One of the reasons that we do not have to grow that team has to do with the fact that our platform is over time becoming more user-friendly, and we have done a very good job in providing self-service customer service– to various FAQs and chatbots and that type of technology.

As far as the compliance staff, we had to increase it because there is a lot of surveillance that we have to do on both cashiering transactions that our customers perform as well as trading activity. The operators that we have, there is a few hundred of them, pay attention to the various alerts that our systems generate and then they check whether those alerts signify a problem or if they're just false positives.

We are putting a significant amount of energy into making those alerts more targeted, decreasing the number of false positives as well as making it easier for the operators to service those alerts. So, I would like the size of that team– the growth of that team to slow down as well, and I believe we will achieve that. So, these numbers, I think, are good. The team is at the right size. Obviously, if it was smaller, our profit margin would be greater, and that is what we would like to deliver to our investors.

Chris Allen

Great color. Just one quick follow-up. On the IT personnel side, has the cost of talent moderated at all as there's been more pressure in the tech sector?

Milan Galik

So very lately, it has become easier to hire good technologists. So obviously, there have been layoffs. We all can read about them in the news. So that made it easier. We now don't have to kill ourselves in making oversized offers, including the sign-up bonuses. So yes, it became easier.

And we are taking advantage of that. Some of the talent that is available is very good, and we would obviously like to get a hold of that. So, we can do that.

Operator

I am showing no further questions. I would like to turn it back to Nancy Stuebe for closing remarks.

Nancy Stuebe

Thank you, everyone, for participating today. As a reminder, this call will be available for replay on our website, and we will also be posting a clean version of our transcript on the site tomorrow. Thank you again, and we will talk to you next quarter end.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.