

THE E-FINANCE LAB IS AN INDUSTRY-ACADEMIC RESEARCH PARTNERSHIP BETWEEN FRANKFURT AND DARMSTADT UNIVERSITIES AND PARTNERS ACCENTURE, BEARINGPOINT, DEUTSCHE BANK, DEUTSCHE BOERSE GROUP, DEUTSCHE POSTBANK, FINANZ\_IT, IBM, MICROSOFT, SIEMENS, T-SYSTEMS, DAB BANK, AND IS.TELEDATA LOCATED AT J. W. GOETHE UNIVERSITY, FRANKFURT AM MAIN.

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- > Foreign Banks and Standort Frankfurt
- > Is the German financial industry ready for MiFID?
- > Conquering the German retail banking market:  
The case of ING-DiBa
- > Shinsei Bank – Successful turnaround and  
expanding its business in Central Europe



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## Foreign Banks and Standort Frankfurt

Foreign banks are institutions that operate with foreign capital in Germany. They are usually staffed with predominantly German nationals, their management teams are either of mixed nationalities or just German. Very often, foreign banks do not act as universal banks but rather specialize in certain products like trade finance, consumer credit, investment banking, transaction, processing services etc.

The number of foreign banks in Germany - subsidiaries and branches - grew by 11 from 162 in 2004 to 173 in 2005 - the peak was 183 banks in 1994. This increase occurred despite the ongoing active merger market and consolidation process in the financial services industry. According to recent figures released by the Association of Foreign Banks the foreign banks in Germany employ around 20.000 people. The size of its members ranges from 4 to 7.000 people. The number of employees increased by approximately 5% in 2005, thus defying the trend among German banks to reduce the number of employees. Part of the growth happened in the area of new products like asset management, custodian business, investment banking, direct banking etc.

An important measure is market share. By looking at selected areas of businesses the market share of foreign banks is big and growing. Some of the growth happened because of a growing market, some of it is

taking away market share from domestic competitors!

Take the number of banks operating at the Frankfurt Stock Exchange (FWB) on the Xetra Platform: Foreign banks represent 46% of the total banks. Their share in turnover at the Frankfurter Wertpapierbörse grew from 36% in 2004 to 49% in 2005. The market share at Eurex is even bigger and reached 85% of total turnover in 2005.

The bond market is largely dominated by foreign banks. The new issue statistics contain only two German banks among the ten market leaders. The same can be observed on the equity side, where only three of the most active ten banks are German. Auctions for German Government Papers see foreign banks as major participants: out of the fifteen leading banks eleven are foreign. In some cases a foreign bank is even the market leader. The number of mandates in the German mergers and acquisitions (M&A) business lead by foreign banks is big: Seven of the leading ten banks are foreign, the market leader is Deutsche Bank.

On top of providing additional jobs, foreign banks blend cultures, introduce new products and processes, increasing the professionalism of the market place, and offer interesting and attractive career opportunities both inside and outside of Germany. Foreign banks also offer different experiences from other markets and regulatory environments, thus



*Dr. Lutz Raettig, Chairman of the board, Morgan Stanley Bank AG, and – as a representative of foreign banks – member of the board of the Association of German banks*

enriching the knowledge base of Frankfurt. Their decision making process and organizational structure may be different, too. Ensuring the quality of the Finanzplatz Frankfurt, foreign banks contribute a lot to the outstanding regional position of Frankfurt in the centre of Continental Europe. The foreign banks also could (and are) using the location of Frankfurt as an efficient hub for Central and Eastern Europe, i.e. take advantage of two factors: The logistics infrastructure of Frankfurt and the knowledge base of bankers who have a wealth of experience in banking with that region. These two factors and the export oriented structure of the German economy make Frankfurt to a domestic as well as an international banking place anyway.

The existing labor pool of Germany also provides many people being very well educated and skilled in operational services. This enables foreign banks to run efficient and safe operations in areas like clearing, settle-

ment, credit work etc. These areas are also supported in Frankfurt by excellent business schools. Frankfurt has a concentration of more universities than any other financial centre.

The mix of talents and cultures described above is a great challenge and chance for one of the most important projects of the region: the building of the House of Finance at Frankfurt University. The traditionally close ties between business and academia in the Anglo-Saxon world should provide useful additional guidance for such a project through foreign banks.

It can be clearly stated that all banks and investors benefit from the services and skills of the first class operator Deutsche Börse. But Deutsche Börse as well benefits from the input and international experiences of foreign banks, particularly investment banks. Finally institutions like the European Central Bank and the Deutsche Bundesbank as well as the regulatory body of the European Insurance industry contribute importantly to the character of the financial centre, both directly and indirectly through attracting national and international attention as well as talents in various professions.

The financial centre is blessed with an efficient infrastructure, a great blend of people and cultures, an excellent skill-set of people and an unique central geographical location. Foreign banks provide a great enrichment to the place and take advantage of a great place!

# Is the German financial industry ready for MiFID?

EUROPEAN REGULATION IN SECURITIES TRADING WILL UNDERGO MASSIVE CHANGES WITH THE IMPLEMENTATION OF MIFID. THIS STUDY INVESTIGATES INTO THE READINESS FOR MIFID AND THE EXPECTATIONS OF THE GERMAN FINANCIAL INDUSTRY 21 MONTHS BEFORE THESE CHANGES TAKE EFFECT IN NOVEMBER 2007.

PETER GOMBER  
MARKUS GSELL

CLAUDIA REININGER  
BARTHOLOMÄUS ENDE

## Introduction

The Markets in Financial Instruments Directive (MiFID), representing the centerpiece of the EU Financial Service Action Plan, is intended to foster investor protection as well as market efficiency. For these purposes MiFID addresses the following key issues:

- a new classification of trading venues into Regulated Markets, Multilateral Trading Facilities (MTFs) – the EU pendant of Electronic Communication Networks (ECNs) in the US – and Systematic Internalizers
- requirements for Best Execution on a European level, and
- the introduction of extensive transparency regulations for OTC trading which is new e.g. for Germany.

The venue classification of MiFID is intended to establish a level playing field between execution mechanisms, to foster service and price competition as well as to assure that investors have a choice on execution venues. On the

basis of setting up an individual “Best Execution Policy” investment firms are supposed to realize the best possible result for customer orders. Off-exchange transactions have to be published as close to real-time as possible. In response to these major regulatory changes the financial industry in Europe is supposed to establish adequate processes and systems to comply with the new standards. This study is intended to investigate the preparation status of the German financial industry in February 2006, i.e. 21 months before MiFID takes effect. Furthermore it shall provide an overview of the attitude of investment firms towards the central topics of MiFID and provide a basis for firms to benchmark their own preparation status relative to other investment firms.

## Data Sample

The survey „Die Umsetzung der MiFID in der deutschen Finanzindustrie“ (Implementation of MiFID in the German financial industry) was carried out in February 2006, including

193 investment firms consisting of the 100 largest financial institutions as well as the market participants of the three major German exchanges. For sound results five pretests were undertaken before investment firms were identified by phone that agreed to pass the survey. Finally a 28.5% rate of return (55 firms) was achieved.

## Preparation levels and project status

*Inhomogeneity of preparation levels* – The analysis of the responses reveals a high variance in preparation levels among the German investment firms. About 42% of the companies are currently involved in collecting further information about MiFID, whereas 44% of the respondents are already aware of its core contents. Further 14% assess their familiarity with the new regulation to be very well. More than half of the investment firms have already started to prepare their activities for a MiFID implementation. Among the already

undertaken preparations, the analysis of the implications on internal business processes as well as on IT systems dominates for 48% of the firms. At the same time merely 29% of the responding investment firms are investigating the implications of MiFID on their business strategies.

*Cost estimates surprisingly low* – The majority (80%) of the surveyed investment firms estimate total one-off implementation costs for MiFID readiness to be lower than 1mn € (see figure 1.a). These estimates are clearly below the already publicly available and discussed cost estimates. Another 15.6% of German investment firms estimate the costs to lie between 1 and 5mn €. Only 4.4% expect costs above 20mn €. Among these results it is striking that the estimates of large investment firms do not show consistent patterns. Instead they are distributed among the different cost classes. The main cost driver is

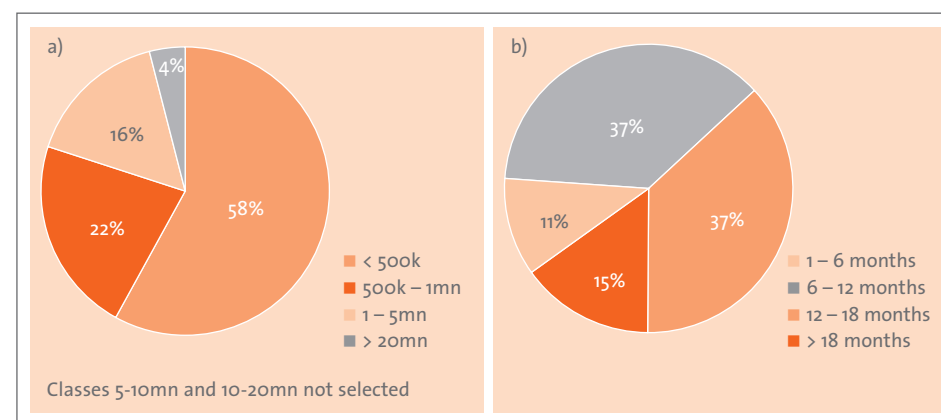


Figure 1: The left chart presents the estimations of overall one-off MiFID implementation costs, on the right the expected lead times for the implementation are shown.

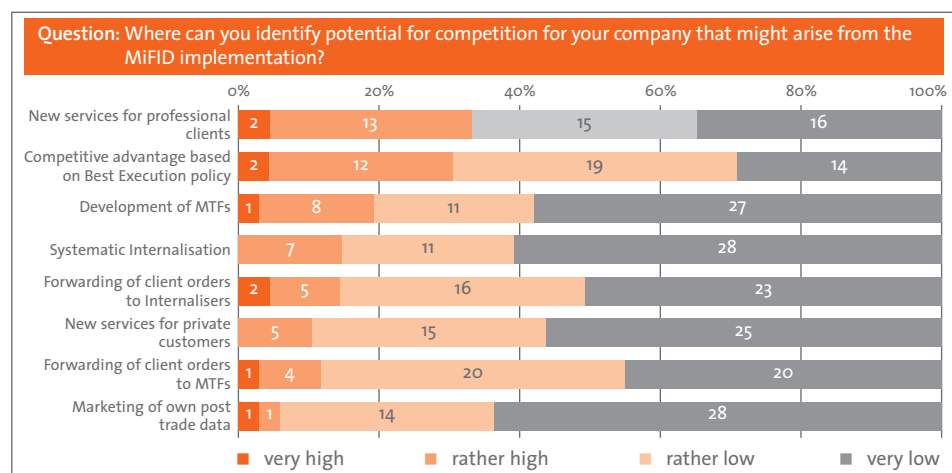


Figure 2: Potential for competition by MiFID implementation

expected to be the implementation of the requirements concerning Best Execution.

*Timely implementation expected* – In February 2006, the majority of surveyed investment firms assesses that the implementation of all MiFID requirements is achievable in less than 18 months (see figure 1.b). Only 16.7% of the companies expect the implementation to take longer. Among the respondents only 32% have already undergone a budget planning process for MiFID implementation. The companies that already have more concrete budget plans are allocating the budgets primarily for 2007.

#### Competitive potential and assessment of key MiFID topics

*MiFID is seen as a regulatory obligation rather than as a strategic chance* – Best Execution plays a key role in MiFID and offers investment

firms a chance for differentiation. Another area where firms see potential for new competitive moves is the provision of new services for professional clients (see figure 2). But overall, the industry does not see much potential for competition that can be derived from the implementation of MiFID. Especially, investment firms do not see a business opportunity in the marketing of their own post trade data although MiFID allows providing post trade data on a commercial basis and via self selected data distribution channels. Furthermore, most companies have not selected a distribution channel yet.

#### *Self assessment of firms concerning the criteria for classification as Systematic Internalizers*

In the draft Level 2 implementing measures, the EU Commission defines four criteria for a classification of investment firms as Systematic

Internalizers. Among the respondents of the study 55.1% possess rules as well as business processes supporting an execution of client orders against their own account (criterion 1). Furthermore, 40.8% provide personal or automated systems for executing customer orders against their own trading books (criterion 2). 26.5% of the investment firms assess themselves to provide this service to clients on a regular basis (criterion 3) and for 14% of responding firms, execution of customer orders against own account has a material commercial role (criterion 4).

#### *Expansion of transparency rules is not desired*

– The transparency requirements of MiFID will apply to equities only with the start in November 2007. Nevertheless, MiFID provides for an expansion to further financial instruments based on a review by the Commission. A majority of German investment firms (51.2%) rejects an expansion of the transparency rules to any further financial instruments.

#### Conclusion

Many investment firms still collect information concerning MiFID on which they will base their decision for concrete actions. One reason for their “wait-and-see” attitude may be due to the fact that the technical implementation details on the EU level are not finalized yet (target date: September 2006) and that MiFID has to be transformed into national legislation (target date: January 2007).

A survey performed by the MiFID Joint Working Group in autumn 2005 among UK

investment banks led to quite similar results. The uncertainty was even stronger: e.g. only 24% stated that their knowledge on MiFID is sufficient to take the necessary steps for developing a Best Execution Policy and 80% of the respondents had not developed a strategy for the requirements of the market transparency regulations yet. A BearingPoint survey in late 2005 also coincides with our results by stating that the main potential for competition is seen in Best Execution and that this issue is expected to generate high implementation costs.

Although MiFID constitutes completely new requirements e.g. on order executions that may provide new opportunities for firms, overall the industry currently sees MiFID as an obligation rather than a strategic chance. A follow-up study after the national implementation in early 2007 is planned to evaluate both the attitude of firms roughly 6 months before MiFID will go live and how the attitudes and cost estimates have changed given the full set of regulatory requirements and intensified internal investigations by investment firms.

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# Conquering the German retail banking market: The case of ING-DiBa

ANDRÉ GÜTLER

## Introduction

In recent years, the German banking market has been characterized by decreasing profitability (e.g., Hackethal, 2004). One reason: Bad loans roughly totaling 300 billion euros had been accumulated and decisive measures were necessary to reduce this huge amount. Thus, over 50,000 German bank employees lost their jobs between 2001 and 2004 as the banks attempted to make a considerable reduction in costs. At this time, the influence of the state-controlled banking sector with its access to funds on preferential terms and conditions was still quite substantial; these public-sector institutions commanded a 40% market share, creating a tough competitive climate for private-sector banks. Moreover, the situation was exacerbated by the fact that the German economy had the lowest growth rates in Europe. At first sight, these facts would hardly seem likely to induce foreign banks to consider expanding into the German banking market. Yet, against this background, we show how ING-DiBa has defied the odds, rising to fourth place in the

ANDREAS HACKETHAL

German retail banking business in terms of customer volume.

## Business development

ING-DiBa has prospered more than any other German bank in the last few years, and has become Europe's largest direct bank (according to figures published at the end of 2004). The very pronounced growth, which is most obviously manifested in the amount of call money, began in 2000. Since then, ING-DiBa has advanced to fourth place in the German retail banking business (after Dresdner Bank, Deutsche Bank and Postbank) with more than 4.3 million clients. The primary engine of growth has been the call money account "Extra-Konto". Furthermore, after swallowing up the German competitor Entrium in 2003, ING-DiBa also started to develop its personal loan business, since Entrium, a former subsidiary of the leading mail-order company Quelle, had a well developed customer base in this segment. In addition, Entrium had a strong market position in brokerage. The acquisition doubled ING-DiBa's fee income in

2003 in comparison to 2002. Hence, the different strengths of the two banks, ING-DiBa with its call money account and mortgage business and Entrium with its personal loans and brokerage, complement one another very well.

A comparison with the main competitors yields further insights into ING-DiBa's business development for the years 2000-2004. First, we evaluate the call money market share (see Figure 1). In this period, ING-DiBa became the market leader for call money investments by retail clients. At the end of 2004, it had a 6.27% share of the market in this segment, which is twice the figure for Postbank, the market leader in retail banking

as a whole. CC Bank and Citibank also succeeded in enlarging their market share substantially, but even so, both remained short of 1% in 2004. In contrast, Postbank, Apo Bank and Haspa were not able to increase their market shares.

Second, we compare the ratio of operating expenses to average assets as an important efficiency measure. Due to its very large asset volume, ING-DiBa had the lowest ratio at the end of 2004. Starting at 1.7% in 2000, this ratio improved to 0.81% in 2004 (see Figure 2). Only Apo Bank achieved nearly comparable figures, with 1.13% for 2004. Hence, we find evidence that online banking customers seem to be more profitable than traditional

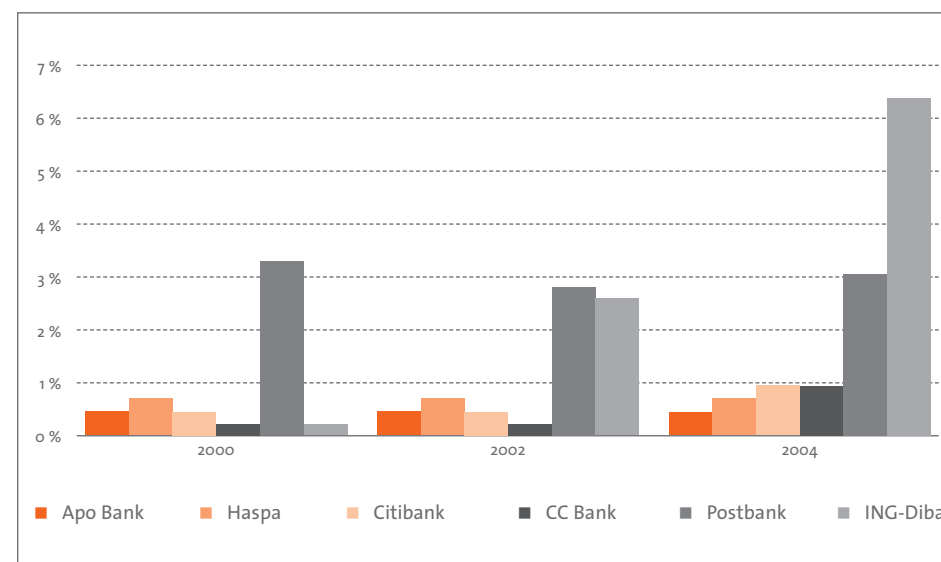


Figure 1: Call money market share

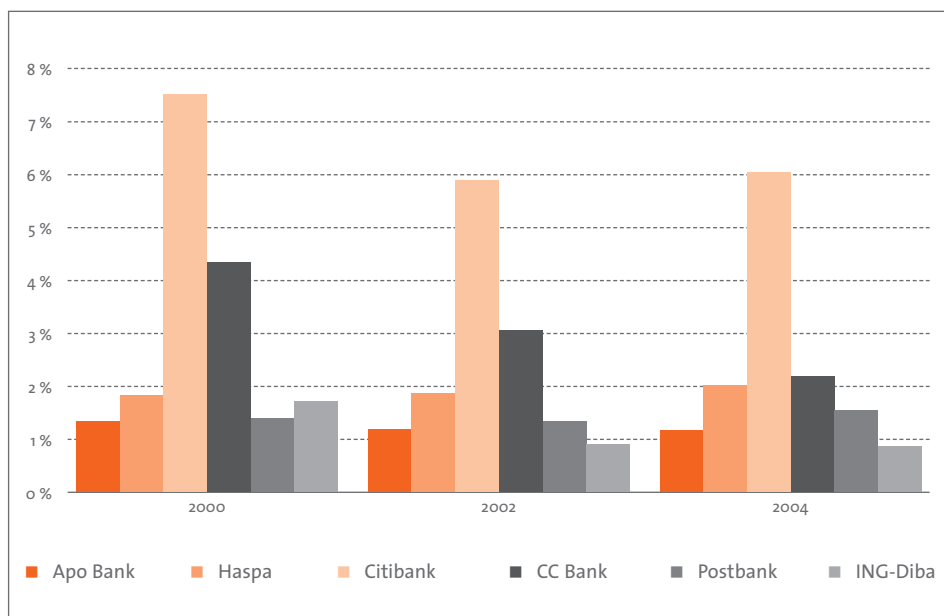


Figure 2: Operative Expenses / Assets

banks' customers, supporting evidence found by Hitt and Frei (2002).

As a consequence, ING-DiBa fulfilled ING Group's internal profitability requirements of 18.5% RAROC (Risk Adjusted Return on Capital) in 2004. Even in the difficult preceding years, and in contrast to the majority of German banks, ING-DiBa always operated at a profit. Thanks to its business model as a direct bank without any branches, ING-DiBa's strong growth was accompanied by only a disproportionately small increase in its staffing levels. Hence, whereas ING-DiBa's assets increased tenfold during our observation

period, it had to take on only four times as many new employees.

#### Success factors

ING DiBa operates as a pure play direct bank without branches. It concentrates on a narrow range of products with stable pricing schemes for retail investors. This strategy yields low variable costs, thus allowing attractive conditions to be offered. The combination of the direct banking concept, the small number of products, and the stable pricing scheme provides the framework for a faultless, user-friendly service. Moreover, the strategic move to operate as a pure play direct bank

was supported by the increasing acceptance and use of the Internet by retail investors.

However, their effective marketing strategy played a key role in substantially boosting ING-DiBa's market share. First, ING-DiBa greatly increased its marketing expenditures and concentrated this effort on the teaser product "Extra-Konto". This call money account was designed to be a viable alternative to the ordinary passbook savings account, a product which competitors had not previously used as an instrument to attract new customers. Since summer 2001, Extra-Konto has persistently offered a higher interest rate than the overnight interbank lending rate (see Figure 3). It appeals in particular to the many retail investors who have become very risk averse since the stock market bubble burst and who are therefore willing to accept low interest rates for risk-free investments. Customer targeting takes place in the form of mailings, a process which the bank has optimized through state-of-the-art customer relationship management (CRM).

In addition, the challenging demonstration of trustworthiness was strengthened by engaging the reputable sports hero Dirk Nowitzki for advertising campaigns (see Beck et al. (2003) or Suh and Han (2002) (for the importance of trustworthiness). However, it seems that ING-DiBa's success does not stem from the existence of any particular success factors; rather, it is attributable to a favorable combination of its hitherto unique business

model as a direct bank and the boost by the marketing strategy of the teaser product Extra-Konto.

In particular, the new strategic business model has been made possible by technological developments, specifically the Internet and efficient call centers. It is a model which more conventional banks with branch networks cannot imitate because of the heavier burden imposed by their cost structures. ING-DiBa has demonstrated that, with an appropriate strategy, retail banking services in Germany can be provided profitably, an accomplishment previously regarded as unfeasible for German banks – and for the private domestic banks in particular – due to their exaggerated branch networks.

In the area of marketing we detect three main advantages for ING-DiBa. First, CRM marketing approaches require huge databases, both in the cross-section as well as in longitude. ING-DiBa has a database of over 4.3 million customers, e.g. including their past responses to mailings, and can therefore perform its marketing campaigns very efficiently. Of course, competitors can buy extensive databases on the open market. However, the general customer data available might not always be appropriate for the requirements of a direct bank. Second, ING-DiBa has already begun to explore its cross selling potential within its huge customer base and is building reliable customer relationships. Third, ING-DiBa is now one of the most well-known and

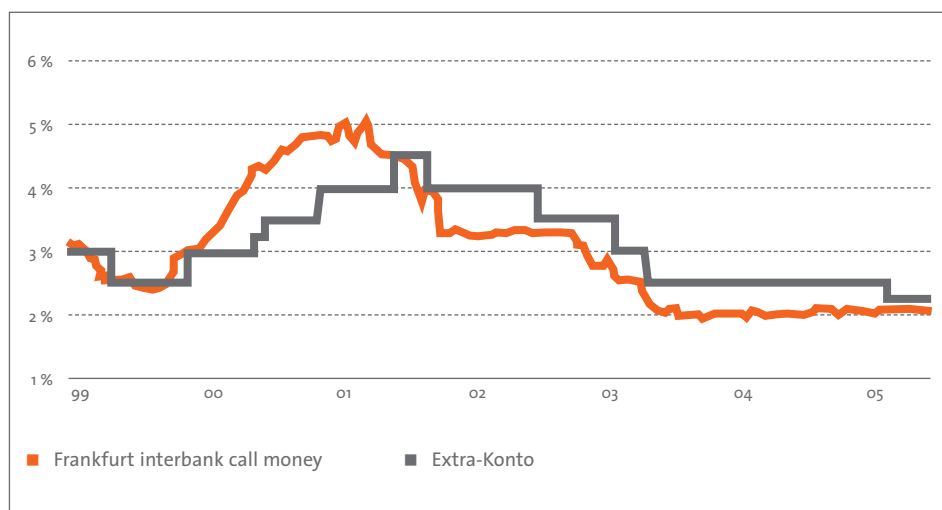


Figure 3: Comparison of interest rates

respected brand names of all financial institutions in Germany. These three advantages are not forever out of reach for other competitors, but on all counts, ING-DiBa has significant early mover advantages.

#### Business model sustainability

It is questionable, however, whether ING-DiBa's success will be sustainable in the long term. For example, car loan banks such as Volkswagen Bank have successfully copied its strategy. These mostly new banks have the advantage of being able to implement the most modern IT systems from the outset, whereas ING-DiBa is still using relatively old-fashioned IT systems for some of its operations. However, such new competitors must first win a vast number

of customers before they can benefit from scale effects. Traditional banks will also react to the increasing possibilities of the Internet.

Nevertheless, we do not expect these banks to become main competitors to ING-DiBa (and other direct banks) due to their cost disadvantages. Such banks with branch networks have also begun to offer more favorable terms in an attempt to compete with ING-DiBa and other direct banks. However, it would seem impossible for traditional banks to compete with the direct banks' terms and conditions in the long run while continuing to maintain their branch networks with their less favorable cost structures. The direct banks' target

customers, who are exceedingly cost sensitive and "Internet affine", seem to be lost to the traditional banks with branch networks. A major dilemma for these banks is the growing pressure on them to introduce Internet facilities into their services, both due to customer demand and for cost-cutting reasons: doing so, however, effectively trains their customers to use the Internet, which increases the likelihood of their switching to ING-DiBa or another direct bank.

Furthermore, the advantage of a branch network in terms of accessibility and quality of service diminishes with every branch closure. Moreover, the coexistence of direct banks and traditional banks with branch networks could lead to adverse selection: clients might leave only the personnel-intensive business to the traditional banks, where the latter can only lose money. For example, customers seeking standard mortgages might favor direct banks because they offer a better deal, while the more complex mortgages, e.g. those involving some form of government aid, remain with the traditional banks.

#### Conclusion

ING-DiBa has attained a very strong position in the German retail banking market through a coherent marketing and IT-based business strategy. Since traditional banks with branch networks are not able to imitate the successful business model of direct banks, we expect in the future to see price-

oriented direct banks that offer a clearly defined range of services coexisting alongside advice-oriented banks with branch networks (Howcroft et al., 2002).

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# Shinsei Bank – Successful turnaround and expanding its business in Central Europe

## What is the history of Shinsei Bank?

In October 1998, the Long-Term Credit Bank of Japan, the predecessor of Shinsei Bank, was temporarily nationalized under the provisions of the Financial Revitalization Law. While in nationalization, the bank implemented management policies to fully resolve its non-performing loan issues and undertake the rationalization of its operations. In March 2000, ownership of the bank was transferred to New LTCB Partners, an investor group established by influential financial institutions in Europe and the United States. The temporary nationalization ended June 5, 2000, the bank's name was changed to Shinsei Bank, Limited.

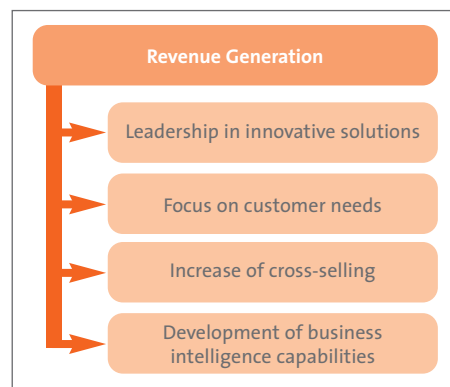


Figure 1: Approach to the revenue generation of Shinsei Bank

## What did you do to transform the bank?

Shinsei now is recognized as one of the most impressive turnaround stories in Japan. The key focus was on building a platform which, among other things, involved:

- Creating a dedicated group to work out the \$20B+ of non-performing loans.
- Establishment of a PC and server based scalable technology platform that does not utilize a mainframe.
- Major hiring efforts to attract talent and experience.
- The establishment of a retail bank.
- Creation of a solutions based business model for institutional banking.

Also, following the IPO in 2004, Shinsei entered a phase of revenue generation focusing on quality and diversification of earning streams. In doing so, Shinsei Bank (see Figure 1):

- Became a leader in innovative solutions such as Non-Recourse Lending and Securitization and established Consumer and Commercial Finance as a third strategic business pillar to complement the existing Institutional Banking and Retail Banking Groups.
- Focused on customer needs by integrating product specialists with relationship managers.



Clark D. Graninger, Executive Vice President, Head of Institutional Banking Group Shinsei Bank, Tokyo

- Increased cross-selling to both institutional and retail customers.
- Developed business intelligence capabilities, including customer segmentation using customer relationship management systems.

## What is new in institutional banking?

Shinsei's Institutional Banking Group is a unique hybrid investment and corporate banking model that offers an integrated and customer-focused approach in which product specialists and customer relationship managers work together to provide not only corporate loans but also value-added solutions to our institutional customers. Those innovative solutions include securitization, credit trading, non-recourse lending to new growth areas such as capital markets distribution, loan syndication, asset management, and wealth management.

## What is new in retail banking?

Shinsei's retail banking offers unique customer-focused value with innovative products, flexible and convenient service and an efficient "bricks and clicks" distribution model. The distribution model has enabled rapid customer growth to take place mainly through cost-efficient remote channels while allowing

branches to focus on providing personal and financial advice and handling higher value transactions.

## How is the bank positioned today?

As previously mentioned, we have developed three strategic business pillars; Institutional Banking, Retail Banking, and Consumer and Commercial Finance. It is clearly a different type of Japanese bank. We pride ourselves on being more global than local banks in terms of range of solutions offered and more local than global banks in terms of our long-standing customer relationships.

*You are engaged in the German NPL joint venture. What is the purpose and who are the partners?*

We set up a joint venture with NORD/LB and WestLB for non-performing loans in September 2005. The joint venture, named SGK (Servicegesellschaft Kreditmanagement GmbH), was the first company in Germany's public sector banking industry to offer the purchase and restructuring of non-performing loans. This joint venture exemplifies our international strategy, which is to leverage the knowledge and expertise from our home market in Japan with excellent partners in overseas markets. We have had very successful experiences with clean-up of our own non-performing loans and investing in those assets in Japan, Korea, and Taiwan. We believe we can leverage that expertise in the German market.

*What is the reason to set up your subsidiary in Frankfurt?*

Frankfurt is a financial center and provides good access to most of the major markets in the country.

## news

### Heiko Gewald (IBM, Cluster 1) finished his Ph.D. thesis

Heiko Gewald – member of the cooperative Ph.D. program in Cluster 1 – finished his Ph.D. research on "Assessing the Benefits and Risks of Business Process Outsourcing in the German Banking Industry". He will re-join his employer IBM as Managing Consultant responsible for Business Value from Technology in IBM's Technology Strategy practice.



### Roger Needham Award and Best Paper Award

Dr.-Ing. Oliver Heckmann (Cluster 2) received the Roger Needham EuroSys Award 2006 for his thesis "A System-oriented Approach to Efficiency and Quality of Service for Internet Service Providers" in Leuven, Belgium.

Thorsten Wiesel (Cluster 3), currently visiting scholar at Goizueta Business School (Atlanta, USA) won together with his co-authors Prof. Skiera and Prof. Villanueva the award for the best conference paper "Decomposition of Changes in Customer Equity over Time" at the European Marketing Association Conference (EMAC 2006).

### Appointments as Assistant Professors

In September 2006, Martin Böhm (Cluster 3) will join the Marketing Department of the Instituto de Empresa at Madrid as an Assistant Professor and Thorsten Wiesel (Cluster 3) will join the Marketing Department of the Vrije Universiteit Amsterdam as an Assistant Professor, too.

### Nomination for Best Paper Award

Heinz-Theo Wagner and Tim Weitzel (both Cluster 1) with their paper "Operational IT Business Alignment as the Missing Link from IT Strategy to Firm Success" and Heiko Gewald and Phil Yetton's with their study "Differences in Benefit Perception According to Alternative Statuses of Business Process Outsourcing Adoption" have been nominated for Best Paper Award at the 12th Americas Conference on Information Systems (AMCIS 2006).

### 3<sup>rd</sup> Meeting of MiFID Joint Working Group (JWG) hosted by Cluster 5

On July 12th, Cluster 5 hosted the third plenary meeting of the MiFID Joint Working Group at Campus Westend and delivered an information session on the latest MiFID developments.

### The E-Finance Lab Fall conference 2006 "Customer Management in Retail Banking"

The E-Finance Lab Fall conference 2006 "Future trends of customer management in retail banking" will be held at the Westend Campus of the Goethe-Universität, Frankfurt, at 28<sup>th</sup> of September 2006. For further information and registration see [www.efinancelab.de](http://www.efinancelab.de).

## selected efinance lab publications

### Berbner, R.; Spahn, M.; Repp, N.; Heckmann, O.; Steinmetz, R.:

An Approach for Replanning of Web Service Workflows. Forthcoming in: Proceedings of the 12th Americas Conference on Information Systems (AMCIS 2006). Acapulco, Mexico, 2006.

### Gellings, C.:

Contracts for Successful Outsourcing. In: Proceedings of the 17th Information Resources Management Association International Conference (IRMA 2006). Washington, D.C., USA, 2006.

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### Gensler, S.; Leeflang, P.; Skiera, B.:

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### Gewald, H.; Yetton, P.:

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## research outside the efinance lab

### RESEARCH PAPER: A REVIEW OF TRADING COST MODELS: REDUCING TRANSACTION COSTS

Until recently, the focus of the investment community has been on fixed trading costs although implicit costs (e.g. market impact, price appreciation, etc.) make the lion's share of the overall costs. In this article the authors have focused on these so-called "hidden" transaction costs and take the reader from the very early attempts of modeling market microstructure to some state-of-the-art techniques used today. Thus, this article provides a perfect starting point for entering the exciting field of Transaction Cost Analysis.

*Freyre-Sanders, Andrew, Guobuzaite, Renate, and Byrne, Kevin  
In: Algorithmic Trading: Precision, Control, Execution, 2005.*

### RESEARCH STUDY: BANK & ZUKUNFT 2006

In 2006, banks continue to expect further intensification of competition, especially in the field of standardized products and services. This firstly requires intensive analysis of industrial methods of process management, which contribute to increase the general efficiency of banks and thus their competitiveness. Secondly, this also serves to create room for innovation processes in the banks which will be utilised to intensify marketing activities. The primary goal of such measures is a more intensive relation with the customers through long-term service approaches. In addition to this, innovative distribution concepts should serve to initiate spontaneous contacts to customers, with improved processes and a stronger sales approach on the part of the employees allowing for a simpler and faster purchase of products.

The banks of the future therefore combine efficiency and innovation as equal parts of a business development concept.

*Spath, Dieter, Engstler, Martin, Praeg, Claus-Peter, and Vocke, Christian  
Stuttgart, Germany, 2006.*

### RESEARCH PAPER: CUSTOMER ACQUISITION PROMOTIONS AND CUSTOMER ASSET VALUE

The author addresses the question of how a firm's acquisition efforts influence the composition of the customer portfolio. The first part is a conceptual model that illustrates how customer uncertainty provides an explanation for why promotionally acquired customers have smaller lifetime values. The second part of the research involves empirical analyses of customer-level data. The author shows that acquisition discount depth is negatively related to customer asset value. For example, a 35% acquisition discount results in customers with about one-half the long-term value of non-promotionally acquired customers.

*Lewis, Michael  
In: Journal of Marketing Research 43 (2006) 2, pp. 195-203.*

## electronic newsletter

Das E-Finance Lab betreibt zwei Typen von Newslettern, die beide quartalsweise erscheinen, sodass alle sechs Wochen die jeweils andere Art herauskommt. Bei dem hier vorliegenden gedruckten Newsletter steht die Beschreibung der Ergebnisse zweier Forschungsprojekte des E-Finance Lab im Zentrum – ergänzt durch ein Interview und weitere Kurzinformationen. Zur Subskription senden Sie bitte eine E-Mail an: [eflquarterly@efinancelab.com](mailto:eflquarterly@efinancelab.com) oder ihre Visitenkarte mit der Notiz „bitte gedruckten Newsletter zusenden“ an:

*Prof. Dr. Wolfgang König  
E-Finance Lab, Universität Frankfurt  
Mertonstr. 17, 60054 Frankfurt*

Der elektronische Newsletter hingegen setzt mehr auf kurze Anmoderationen und den Einsatz von Hyperlinks zu weiterführenden Ressourcen. Zur Subskription senden Sie bitte eine E-Mail an: [newsletter@efinancelab.com](mailto:newsletter@efinancelab.com)

*Viele weitere Informationen finden Sie unter [www.efinancelab.com](http://www.efinancelab.com).*