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FRANKFURT AM MAIN

Optimization of the Capital Markets
Compliance Value Chain

Implications of Service-oriented
Architectures in the German
Banking Industry – A Case Study

Order Handling of
Institutional Investors

Trends in European
Securities Settlement

accenture

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Editorial

Optimization of the Capital Markets Compliance Value Chain

Ole Petersen

In the last few years capital markets compliance[1] was the subject of intensified focus on the part of stakeholders and the general public. The implementation of MiFID led to extended tasks and responsibilities when it comes to compliance. Several law suits were fought due to low quality of advisory services in the securities business which results in financial and reputational risks for banks. Expected costs in this regard may easily reach 1 million Euros per suit.
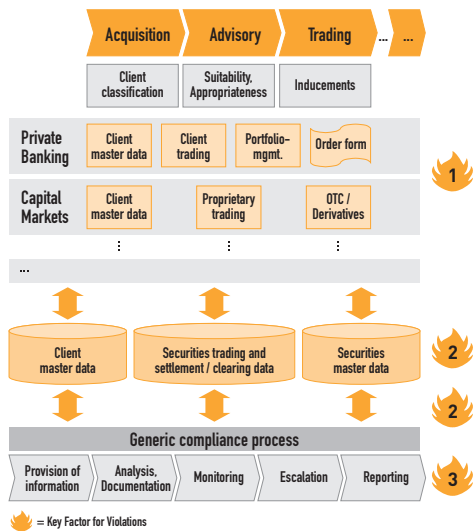

Figure 1: Architecture of the compliance value chain

Dennis Schetschok

On 18th February 09 the German Federal Ministry of Justice issued a draft law setting up increased requirements for advisory services, which will lead to even higher compliance risks. In recent projects we observed three key factors that could lead to violations of regulatory rules:

1. Lack of compliance awareness
In most business units there is an unsatisfactory level of awareness and knowledge surrounding compliance issues. A **lack of defined compliance quality standards** for process outputs (e.g. advisory service) and a **poor process harmonization** should be seen as a reason for that (see figure 1 **hotspot 1**).

2. Lack of information supply
The compliance unit at most banks is not fully integrated into the business processes. Very often there is a lack of standardized reporting tools and processes for compliance-relevant information.

3. High costs for compliance controls
Different business units in the securities business use various IT systems in the front and back office. This leads to high costs for the required compliance controls due to **different**

data quality and source systems (see figure 1 hotspot 2).

Moreover, a **low level of process standardization within the compliance unit** is a crucial factor for high control costs (see figure 1 **hotspot 3**).

In order to reduce compliance risks a thorough analysis focuses on process-related key factors of potential violations and technical support. The definition and communication of quality standards for process outputs of the business units will develop higher compliance awareness. So called "quality checkpoints" are to be implemented on various parts of a process. Business units should be responsible for and measured by compliance with these quality features. Standardized, process-oriented compliance monitoring based on a single data basis guarantees on-time identification of quality failures. Management of non-compliant process outputs is possible due to this compliance "early-warning system". This approach contributes to a reduction in the financial and reputational risk for the bank and reduces process costs for compliance controls.

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Dennis Schetschok
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[1] Capital markets compliance guarantees compliant services and actions with regard to specific laws and regulations in the context of securities services.

Implications of Service-oriented Architectures in the German Banking Industry – A Case Study

CURRENTLY THE REALIZATION OF SERVICE-ORIENTED ARCHITECTURE (SOA) IMPLEMENTATION IN THE GERMAN BANKING INDUSTRY VARIES, WHEREAS SOME ARE IN THE ADOPTION PHASE AND SOME ARE ALREADY IN THE SOA OPERATION PHASE. THIS ARTICLE FOCUSES ON SPECIFIC IMPLICATIONS CONCERNING THE SOA READINESS AND THE SOA MATURITY OF GERMAN BANKS AS WELL AS THE ROLE OF SOA IN THE CONTEXT OF M&A SCENARIOS.

Julian Eckert
Dieter Schuller
Ralf Steinmetz

Nicolas Repp
Lars Kiewning[1]

Introduction

Service-oriented Architecture (SOA) as an architectural paradigm has gained importance in the financial industry. With the help of SOA, banks and financial service providers are able to implement flexible and agile business processes (Schulte et al., 2007). A recent survey, the SOA Check 2009, highlights the following three major goals for SOA implementation: increased flexibility, business process optimization, and time-to-market (Martin and Eckert, 2009). 37% of the interviewed companies state that they plan a SOA implementation and 47% state that they have already implemented a SOA, whereas the remaining 16% do not plan to implement a SOA. From the companies which already have a

SOA, 17% state that they are in the planning phase of a companywide SOA, and 25% have started a companywide SOA implementation. Already 58% of the companies are in the implementation phase or have already implemented a companywide SOA. This highlights that a SOA may have one specific SOA maturity level indicating the progress of SOA implementation.

Together with IBM Global Business Services GmbH, Cluster 2 is conducting a case study in which three different research objectives are analyzed and evaluated. The research objectives are: SOA adoption, SOA operation, as well as the consequences of SOA during Merger & Acquisition (M&A) conduction. Furthermore, the

SOA readiness and SOA maturity of German banks with a special regard to SOA Governance will be analyzed and evaluated.

Research Objective

The focus of the case study is to assign the levels of SOA implementation in German banks to the already existing SOA maturity Model (Johannsen and Goecken, 2007). This approach includes the following three major research questions:

1. How are SOA adoptions in the German banking industry implemented?
2. How appropriate are SOA operations in the German banking industry?
3. Which consequences does the adoption of SOA imply during M&A conduction?

The answers to those questions help to understand how SOAs in German banks are implemented, why it is done in which way, and to which extent. Furthermore, an evaluation of the impacts a SOA has in the context of the financial industry including both competitive advantage and cost reduction is supported.

SOA adoption, SOA operations, and *SOA during M&A conduction* represent the three research objectives of SOA implementation in banks which are mostly derived from SOA Governance issues. These parts are summed up in the research framework as depicted in Figure 1, serving as foundation for the questions which have been used for the personal interviews.

SOA adoption as the first research objective comprises three subtopics: *conformance, real-*

ization, and implementation. In the first subtopic *organizational, procedural,* and *technological* conformance issues are discussed: the company's organizational structure and adjustments of responsibilities, the progress of process documentation, process analysis, and process optimization as well as the maturity of technology. The second subtopic discusses *roadmaps* and *motivations* for a SOA adoption as well as *challenges.* Furthermore the degree of SOA experiences, a bank acquired on its own, and the influences of external consultants are discussed. The degree of *standardization,* representing the ratio between the self-developed SOA solutions in the IT departments and the parts that are bought from external IT providers as well as the determination of the procurement of *external services,* is discussed in the third subtopic.

SOA operations as the second objective of the research framework emphasizes SOA *Life Cycle Management* as well as *practical experiences.* In order to differentiate between banks with high and those with low service-orientation, it is investigated to which extent processes are implemented with the usage of services and how many services already exist. *Life Cycle Management* comprises five issues being derived from SOA Governance which are adapted to the banking industry. The conformity between goals of the IT and goals of the management are subsumed in the subtopic *alignment.* Furthermore, *performance management* tools for business critical services, *value contribution* of each service as well as *service selection* processes are investigated. Moreover,

security issues for purchasing services from external providers and third parties are subject of the study. The second subtopic *practical experience* focuses on the suitability of daily use of services in the banking industry dealing with *competitive advantages* and *challenges* that may occur due to the operation of services.

Due to the increasing importance of M&As in the German banking industry in the third research objective SOA *during M&A* both the *architecture* and the *success* of SOA during M&A conduction are analyzed. This implies the

analysis of the impact of a flexible architecture on the ease of integrating both parties. Also generic questions such as how a SOA influences a M&A conduction and how a forthcoming M&A influences SOA are evaluated.

Case Study Conduction and Preliminary Insights

During the case study, four German banks have been interviewed which are familiar with SOA and have already implemented a number of services. The banks have been selected in a way that the case study can also cope with

M&A scenarios. However, none of them has a completely adopted SOA yet.

After conducting the interviews the evaluation of the results is not finished yet. However some major insights for each of the research objectives (Figure 1) can already be identified.

As a first insight, concerning *conformance* we can state that each of the investigated German banks possesses a higher technological maturity level than the maturity levels of organization and processes. This implies that the top management support of SOA in banks is not very high at that time and that SOA is almost always driven by IT instead of by the management. As a second insight, concerning *realization* we can state that the study shows that SOA adoption – no matter how SOA is realized – self-developed or purchased from external providers, is almost always triggered by the bank itself and not by external consultants who are merely used for implementation purposes. It is also characteristic for SOA implementation in the German banking industry that the topic SOA is more project driven than process driven at present.

As a third insight, we can state that SOA *Life Cycle Management* is implemented incompletely. Concerning the research objective *SOA during M&A*, we can state that SOA is only relevant for small M&A projects, whereas banks with little M&A experience suggest the adoption of SOA in those phases, while the ones with higher experience are discouraged since the effort for coordination and service alignment becomes very high.

Conclusion and Future Steps

As a preliminary result, the study highlights the importance of SOA for the German banking industry. Nowadays, SOA is far away from being a hype topic. It developed towards a fundamental design principle in various areas of application. Nevertheless, there are still some major challenges to tackle.

Future steps are the analysis and evaluation of all the conducted interviews with respect to the research objectives. As a result the study should give detailed insights concerning SOA adoption, SOA operations, and SOA during M&A in order to be able to determine the SOA readiness and the SOA maturity of German banks.

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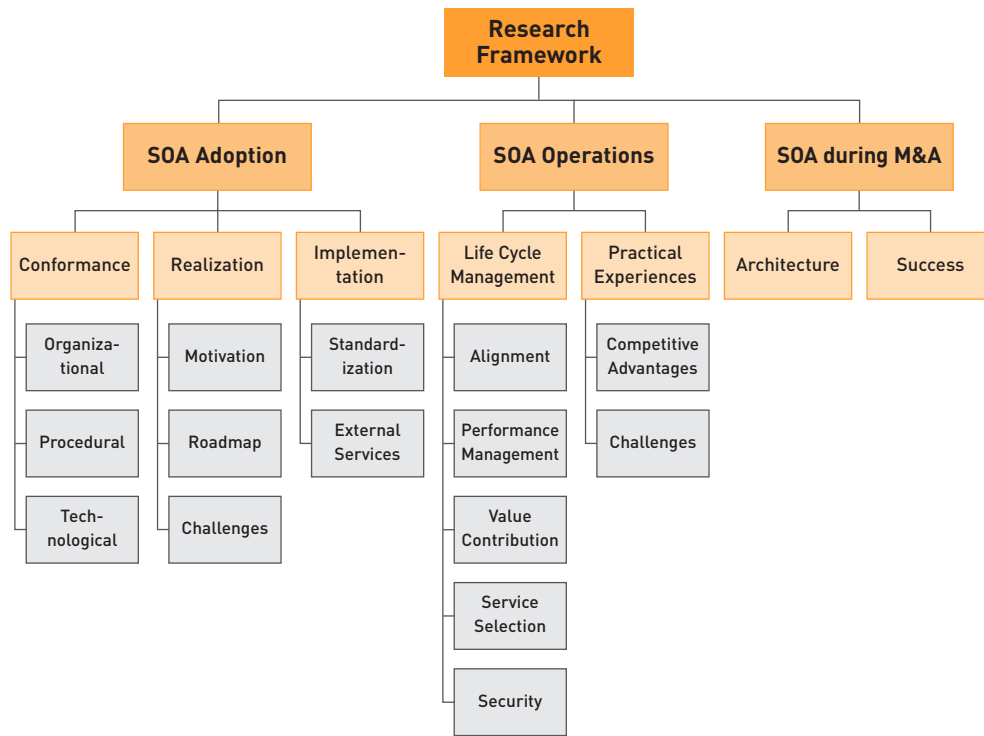

Figure 1: Research Framework

Research Report
Order Handling of Institutional Investors

THIS SURVEY REFLECTS THE ASSESSMENT OF THE LARGEST EUROPEAN INSTITUTIONAL INVESTORS ON NEW TECHNOLOGY-DRIVEN EXECUTION OPPORTUNITIES WHICH ENABLE THEM TO PERFORM SELF-DIRECTED TRADING.

Peter Gomber
Markus Gsell

Bartholomäus Ende

Introduction

In the securities trading industry, institutional investors like asset management companies or hedge funds traditionally delegate order execution to brokers as intermediaries. Core competencies of brokers in order execution are the identification of counterparties, the choice of suitable trading venues as well as the execution of large order volumes without adverse price movements (market impact).

With an increasing automatization of the trading process, technological innovations like *Direct Market Access, Algorithmic Trading* or *Smart Order Routing* change the interaction between institutional investors and their brokers: Direct Market Access enables institutional investors to use a broker's infrastructure to directly forward orders to securities markets without being touched by the broker anymore. It provides lower fees and increased execution speed which enables investment companies to even take advantage of short-lived market opportunities. Algorithmic Trading and Smart Order Routing

are built on the basis of Direct Market Access. Algorithmic Trading is based on mathematical models exploiting historical and real-time market data to determine how to slice and time large orders to avoid market impact. Smart Order Routers perform an automated search for trading opportunities across multiple markets and route suborders to the most appropriate combination of markets.

The adoption of these innovations enables institutional investors to take control of their orders instead of delegating execution responsibility to an intermediary. Therefore, the use of these technologies and the self-directed order execution by institutional investors is defined as *non-delegated order handling (NDOH)* (see Figure 1).

A recent survey of the E-Finance Lab reflects the assessment of large investment companies concerning non-delegated order handling and the new execution opportunities. Further, as not all institutional investors decide to employ non-

delegated order handling it aims at investigating factors that foster adoption and refusal.

Data Sample

As the setup of non-delegated order handling incorporates relevant investments in the technologies mentioned above, the focus of the study has been set on the largest European institutional investors: Namely the top 500 European institutions in terms of assets under management (AuM) which cover 95.4% of the total AuM in Europe. For sound results, four pretests were conducted; two in Germany and two in the UK. Within each institution the corresponding process owner has been personally contacted to ask for participation in the survey. Finally, 39 out of 41 responses from process owners could be evaluated. As desired, the data represents predominantly large institutions as it covers about 28% of

the total AuM in the sample. In the following the key results will be presented both descriptive and in terms of a causal model that tries to explain both drivers and inhibitors of the technology adoption.

Perception of new Trading Technologies

Concept of NDOH is well-known – A vast majority of 89.1% is aware of the advantages and disadvantages of the new trading technologies. Moreover, 61.1% of the process owners state that they employ the concept of non-delegated order handling. However, fax and phones still remain the technology most often used for the handover of orders to brokers.

Positive attitude towards technology – A common belief exists that technology in general helps to reduce overall costs (91.8%). Further,
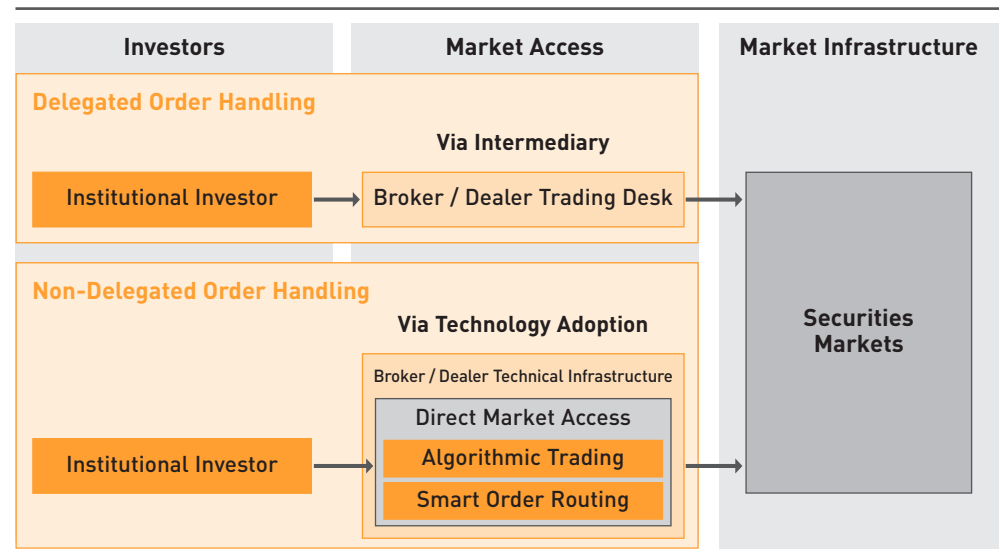

Figure 1: New opportunity set for the handling of institutional orders

79.5% are convinced that technology is a necessity to be successful in a competitive environment. This is crucial, as a vast majority perceives an intense competition for market share (94.2%) and net performance (88.2%) in their industry. More than two-thirds of the respondents assess this pressure to be even increasing and about half of them believe that institutional investors making use of non-delegated order handling are more competitive. Another 48.6% state efficiency gains to drive the adoption decision concerning new trading technologies.

NDOH is compatible with trading requirements – 60.6% perceive non-delegated order handling to be suitable for their order flow characteristics in general (see Figure 2). These characteristics can be further detailed by requirements concerning large order sizes as well as high demands for urgency and anonymity: The typical problem of large orders is that they incur market impact. Urgent orders lead to a similar effect as they try to benefit from short-lived information, which precludes distributing their execution over time. Finally, demand for anonymity exists if institutional investors have to trade large volumes while keeping the initiator of the order and the overall trade intention secret. Concerning these characteristics, Figure 2 highlights that 42.4% of the institutional investors assess non-delegated order handling adequate for large order sizes, 45.5% for high urgency demands and even 66.7% for high anonymity requirements. Finally, 64.6% see non-delegated order handling to provide trading control, e.g. to allow for quick modifications and cancellations in volatile markets.

Positive effects are attributed to NDOH – In general, 72.2% of the process owners regard non-delegated order handling to be useful for their trading activities: They claim that this kind of order handling increases the success of their trading desk (65.7%). More than half of the respondents believe this concept to increase execution quality. Thereby returns anticipated by asset managers (portfolio alpha) can be preserved.

Fear to miss valuable broker services – Among the respondents, 52.7% are engaged in commission sharing agreements. These are special arrangements which determine how e.g. broker-provided research services are compensated by trading commissions. Nevertheless, a majority of over two-thirds does not perceive their brokers' financial conditions to be too attractive to omit non-delegated order handling. But 51.5% of the process owners are concerned that by performing this way of order handling they might miss valuable services provided by their brokers.

Results of the causal model

For the identification of factors that facilitate or hinder the adoption of non-delegated order handling a causal model has been developed. It is based on theoretical constructs that have been measured via the process owners' assessments. Each of them is composed of questions trying to grasp an individual aspect of the respective construct: For instance, performance expectation shall capture all kinds of performance enhancements for an institutional investor employing non-delegated order handling. Therefore this construct captures whether the new technolo-
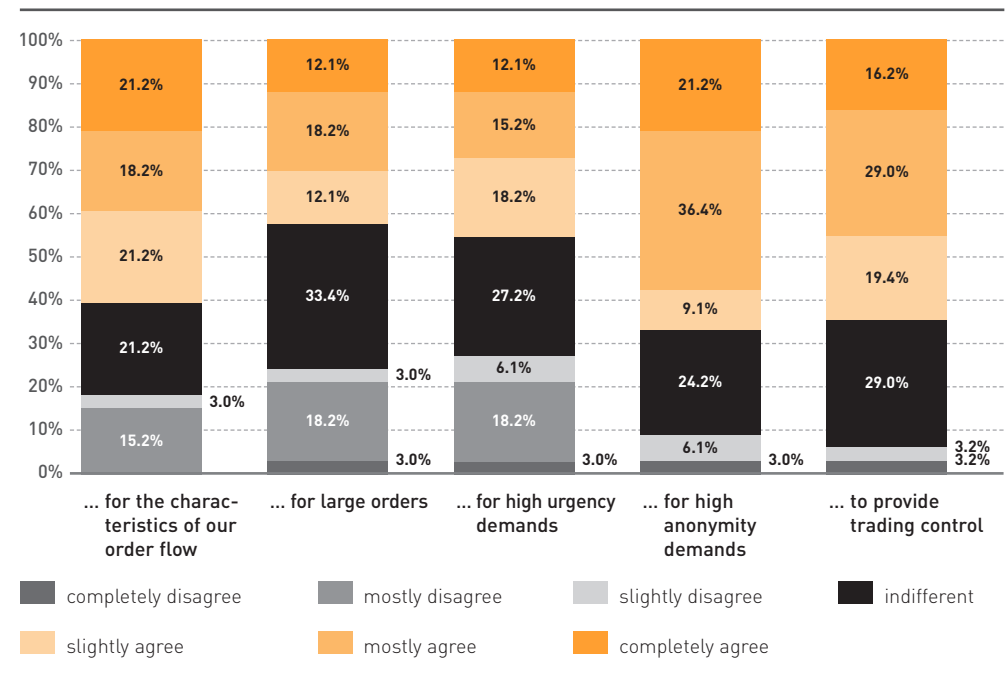

Figure 2: Suitability of non-delegated order handling ...

gies ease the trading task, improve its outcomes by preserving portfolio alpha or improve execution quality.

Based on existing literature on technology adoption and by performing expert interviews potential effects among constructs were hypothesized. The surveyed data was then used to statistically validate these theoretical relationships among the constructs. Both, factors inherently originating from the trading task (internal factors) as well as environmental ones that cannot be controlled by the institution (external factors) were considered: Internal factors include assessments of how the capabili-

ties of non-delegated order handling fit to the trading requirements, assessments of the expected performance as well as assessments of the efforts involved with its utilization. External factors consider assessments of competitive pressure and contractual barriers.

Task-Technology-Fit is the strongest driver – It emerges that the fit between the perceived capabilities of non-delegated order handling and the trading task requirements is the main driver for a process owner's adoption decision. That way fit affects this decision on two levels (see Figure 3): On the one hand it drives performance expectations and on the other it
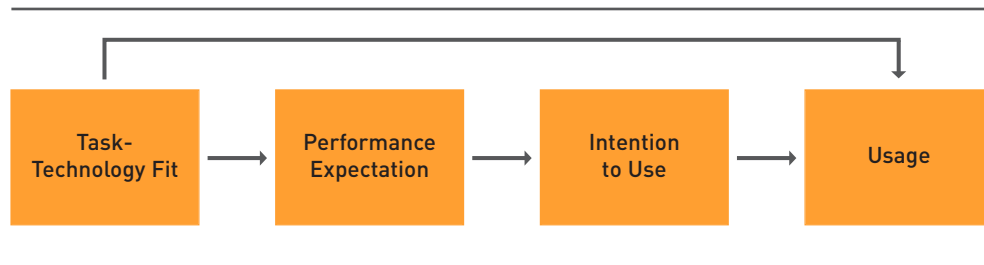
Figure 3: Chain of strong causations among internal factors

directly enforces the actual usage of new trading technologies. The results of an investigation of the factors that determine the task-technology fit are shown in Figure 4. This fit is mainly determined by the ability of non-delegated order handling to increase trading control. The second strongest factor is its ability to satisfy high anonymity demands. Finally, the fit also incorporates a technology's capability to comply with varying urgency demands of an institutional investor. Thereby, trading control allows fast responses to changing market conditions. Increased anonymity helps institutional investors to protect their large orders from being exploited by other market participants. Last but not least, the ability to satisfy varying urgency demands enables institutional investors to take advantage

of special trading venues, e.g. Crossing Networks that are designed for less urgent orders and that avoid market impact at the cost of lower execution speed and likelihood.

Chain of strong causations among internal factors – Fit is not only the strongest driver for a process owner's adoption decision. It also marks the starting point for a chain of strong causations which highlights the mode of action among internal factors (Figure 3): The better the employed trading technology fits the trading task, the more performance enhancements an adopting process owner can expect. Thus, fit drives performance expectations which in turn are the strongest predictor for the intention to adopt non-delegated order handling.
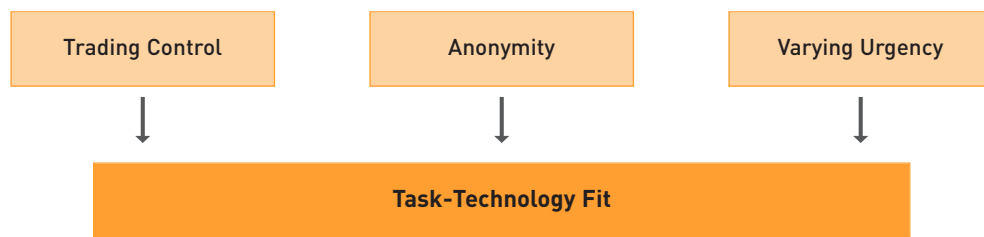
Role of efforts remain unclear – Whereas performance expectations exhibit a strong impact on the intention to adopt, no clear conclusion can be drawn concerning the effect of effort expectancies. For the costs involved in setting up and operating non-delegated order handling no effect on the intention to use could be shown. Only a weak negative influence on performance expectations could be proven. This phenomenon might be attributed to the focus of the survey on large institutional investors and the strong economies of scale for non-delegated order handling.

External factors exhibit weak influence – Although descriptive statistics depict the perception of strong competitive pressure among institutions, this exhibits only a weak influence on the process owners' intentions to adopt non-delegated order handling. The same holds true for the usage of commission sharing agreements that might be interpreted as inhibitors for a substitution of broker intermediation by technology-driven execution opportunities. Nevertheless, contractual barriers like these agreements or other financially attractive broker contracts exhibit a slightly higher influence on the intention to use than the competitive environment.

Conclusion

Institutional investors are well aware of the potential that the concept of non-delegated order handling, i.e. the usage of technologies like Direct Market Access, Algorithmic Trading or Smart Order Routing, provides for their order execution tasks. They see it to be compatible with their trading requirements and to be useful for their trading activities.

From the causal model, one can conclude that the decision to adopt non-delegated order handling is mainly driven by internal factors, i.e. expectations concerning the performance of the trading technology in question and its fit to the given trading task. Thereby, the fit of the employed technologies is of utmost importance. It is mainly determined by the ability of technologies to provide trading control, anonymity and to satisfy varying urgency demands. As the expected effort associated with non-delegated order handling could only be explained partially, it seems to be obvious that there have to be additional factors exerting an impact on the perceived effort. Such a factor might be the risk perceived to be associated with the adoption, which is an avenue for future research in this domain.

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Figure 4: Factors whose satisfaction determine the notion of fit

Insideview

Trends in European Securities Settlement

INTERVIEW WITH TOMAS KINDLER, LINK UP MARKETS

Tomas Kindler
Managing Director
Link Up Markets

Securities settlement is said to be inefficient for cross-border transactions in Europe. Different initiatives like the Code of Conduct for Clearing and Settlement, TARGET2-Securities (TS2) and Link Up Markets aim to improve European post-trading processes.

First, please give us an insight on your view of the current European post-trading landscape.

While domestic post-trading in Europe is generally considered to work well and to be cost competitive, customers indeed face significantly less efficient processing and higher cost for cross-border securities settlement and safekeeping of foreign securities. Driven by a lack of interoperability and harmonization, investors typically need intermediaries for an efficient access to foreign markets. These obstacles have been identified as so-called Giovannini barriers. While some improvements in their removal have been achieved over the last eight years, the overall progress is disappointing and in many cases stops at recommendations only. Looking at concrete implementation initiatives removing the obstacles and improving efficiency, two approaches have

crystallized: the consolidation route taken by Euroclear's Single Platform and the European Central Bank's T2S and the interoperability route taken by Link Up Markets and fostered by the EU Commission. Both approaches are not mutually exclusive and could complement each other.

How will Link Up Markets improve the efficiency of European securities processing?

Link Up Markets is a pragmatic approach to improve interoperability between Central Securities Depositories (CSDs). The project is going live on March 30, only 12 months after the initial announcement, and implementation cost are very reasonable.

Rather than building another CSD or settlement engine, Link Up Markets is providing a central "adapter" for the CSDs to "plug in" and leverage their domestic infrastructures. The current "spaghetti model" of mostly inefficient bilateral CSD links is replaced by a single access per CSD to all other participating markets. As opposed to consolidation initiatives, harmonization is not a prerequisite for the

launch but an ongoing objective. Link Up Markets is committed to be a catalyst for standardization, fostering the implementation of the Giovannini protocol and harmonizing the services of the participating CSDs.

How does Link Up Markets harmonize with TARGET2-Securities and the Code of Conduct for Clearing and Settlement?

While many of the access requests raised under the Code might never be implemented, Link Up Markets is recognized as a showcase for interoperability between CSDs.

Acting as a facilitator to T2S, Link Up Markets will prepare both the CSDs and the market participants for a world with T2S, and will deliver part of the benefits much ahead of 2013. Assuming the local settlement systems are replaced by T2S, Link Up Markets will complement the service scope by asset servicing

and other CSD services and will deliver the necessary CSD interaction.

What are the key benefits of the Link Up Markets concept for your customers?

Rather than being present in all markets themselves or managing their network of intermediaries, customers have a single window to all participating markets via their CSD of choice. Existing CSD accounts can be leveraged with basically no adaption cost. We estimate that – depending on market and service requirements – customers could save up to 80% by using a Link Up Markets CSD as their cross-border settlement and custody service provider. Fees on existing CSD links that are migrated to Link Up Markets are reduced in the area of 30%, underpinning the value of improved interoperability.

The current eight members of Link Up Markets reflect 50% of the European securities processing volume and we are in discussion with various CSDs to extend market coverage, in Europe and beyond.

Thank you for this interesting conversation.

Infopool

News

Awards

Nicolas Repp, André Miede, Michael Niemann, and Ralf Steinmetz (cluster 2) have received a Best Paper Award at the Third International Conference on Systems and Networks Communications with their paper „WS-Re2Policy: A policy language for distributed SLA monitoring and enforcement". Congratulations!

Christian Schulze (Ph.D. student of cluster 3) won the third prize of the "Best-Paper-Award" at the Campus for Finance Research Conference 2009 for the joint work with Prof. Dr. Bernd Skiera and Assistant Prof. Dr. Thorsten Wiesel on "Customer-based Firm Valuation". Congratulations!

Student Case Competition

In cooperation with the COO of Deutsche Bank, Hermann-Josef Lamberti, cluster 1 carried out a student case competition, analyzing the implications of bank mergers for the integration of diverse and historically homegrown IT systems. Together with Prof. Dr. Wolfgang Koenig a seminar was conducted at the House of Finance with the winners of the case competition. This new initiative shows how the E-Finance Lab bridges the gap between teaching, research, and practice, preparing today's students for tomorrow's markets.

Team Members

In February 2009, Fabian Gleisner, Felix Schwarze, and Ralf Gerhardt of cluster 4 received their Ph.D. All three left the E-Finance Lab to pursue careers in banking and consulting. We congratulate them on their Ph.D., wish them all the best for the future and welcome them as new E-Finance Lab alumni!

Since 01.03.2009, Jens Kruk and Markus Fischer have joined the cluster 4 team as new research assistants. Since April 2009 Sven Weber has joined the "FinGrid" team of cluster 1 as research assistant.

The E-Finance Lab fall conference 2009

The E-Finance Lab fall conference 2009 will be held at the Westend Campus of the Goethe-University (Casino), Frankfurt, on September 17th, 2009.

Selected E-Finance Lab publications

Berger, S. C.; Gleisner, F.:
Emergence of Financial Intermediaries on Electronic Markets: The Case of Online P2P Lending.
Forthcoming in: Business Research (2009).

Blumenberg, S.; Wagner, H.; Beimborn, D.:
Knowledge Transfer Processes in IT Outsourcing Relationships and their Impact on Shared Knowledge and Outsourcing Performance.
Forthcoming in: International Journal of Information Management (2009).

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MiFID Umsetzung in Deutschland – Eine Analyse der Grundsätze der Auftragsausführung.
In: Zeitschrift für Bankrecht und Bankwirtschaft 1 (2009), pp. 72-82.

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Supporting Investment Management Processes with Machine Learning Techniques.
In: Proceedings of the 9th Internationale Tagung Wirtschaftsinformatik 2 (2009), pp. 275-284.

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Towards a Service Governance Framework for the Internet of Services.
Forthcoming in: Proceedings of the 17th European Conference on Information Systems (ECIS). Verona, Italy, 2009.

Miede, A.; Behuet, J.-B.; Repp, N.; Eckert, J.; Steinmetz, R.:
Cooperation Mechanisms for Monitoring Agents in Service-oriented Architectures.
In: Proceedings of the 9th Internationale Tagung Wirtschaftsinformatik 1 (2009), pp. 749-758.

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In: BANKMAGAZIN 4 (2009), pp. 10-16.

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In der Fernbeziehung den Kundenertrag steigern.
In: BANKMAGAZIN 4 (2009), pp. 52-54.

Prifling, M.; Gregory, R.; Beck, R.:
Project Control in IT Offshore Outsourcing Projects: From Behaviour Control to Output Control to Good Client-Vendor Relationship.
In: Proceedings of the 9th Internationale Tagung Wirtschaftsinformatik 2 (2009), pp. 677-686.

Vogt, K.; Gregory, R.; Beck, R.:
Measuring Client-Vendor Distance in Global Outsourcing Relationships: A Conceptual Model.
In: Proceedings of the 9th Internationale Tagung Wirtschaftsinformatik 1 (2009), pp. 35-44.

For a comprehensive list of all E-Finance Lab publications see:
http://www.efinancelab.com/publications

Infopool

RESEARCH PAPER: MARKET SIDEDNESS: INSIGHTS INTO MOTIVES FOR TRADE INITIATION

Trades on a securities market can be either buyer-initiated or seller-initiated. Sarkar and Schwartz infer motives for trade initiation from market sidedness. Defining trading as more two-sided if the correlation between the number of buyer- and seller initiated trades increases and one-sided, if the correlation decreases, the authors assess changes in sidedness around events that identify trade initiators. The results are twofold: first, consistent with asymmetric information, trading is more one-sided before merger news. Second, consistent with belief heterogeneity, trading is more two-sided before earnings and macro announcements with greater dispersion in analyst forecasts, and after news with larger announcement surprises.

Sarkar, Asani; Schwartz, Robert A.
In: The Journal of Finance 64 (2009) 1, pp. 375-423.

RESEARCH PAPER: EVOLUTIONARY CHANGES IN SERVICE ATTRIBUTE IMPORTANCE IN A CRISIS SCENARIO: THE URUGUAYAN FINANCIAL CRISIS

Recently, financial services suffer great exposure and vulnerability to crises. This is not only due to the intensity of interactions but also to the interdependency among the elements of the financial service industry. This paper identifies and assesses the evolution of consumers' differential reactions to major service attribute classes that resulted from and were propagated by a severe financial crisis. Using three different time periods the results from the data close to the crisis indicate the growing importance of credence attributes rather than search attributes. Findings of the long-term data analysis indicate a reversal and greater importance of the search attributes that were important in the precrisis period. The results also reveal correlations with the type of banking organization. The implication for financial service institutions is that managers have to realize the shift in consumers' attitudes. Bank management should not continue to tout yields in the banks advertising, as consumers were no longer interested in search attributes such as yields and instead sought credence attributes such as trust and security.

Kim, Moshe; Lado, Nora; Torres, Anna
Forthcoming in: Journal of Service Research (2009).

Electronic newsletter

The E-Finance Lab conducts two kinds of newsletters which both appear quarterly so that each six weeks the audience is supplied by new research results and information about research in progress. The focus of the printed newsletter is the description of two research results on a managerial level – complemented by an editorial, an interview, and some short news. For subscription, please send an e-mail to eflquarterly@efinancelab.com or mail your business card with the note "please printed newsletter" to

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