

Insideview

The Financial Crisis – Consequences for Online Banks

INTERVIEW WITH DR. MARKUS WALCH, DAB BANK

The crisis left many clients underinvested due to continuing uncertainty in securities markets and extremely low interest rates in money markets. Could you please first of all illustrate what has changed for DAB bank as an online bank/broker during and in the aftermath of the financial crisis?

Investors are still very cautious following the financial crisis. Since autumn 2008, turnover figures of German exchanges indicate investors' reluctance to place securities transactions, which is also reflected in our customers' behavior.

Since our credit business is limited to margin loans, we are having a high debit carryover on hand. Investing those funds in a safe and sustainable manner has been a real challenge throughout the financial crisis.

But we mastered that challenge: a strong and independent product range, a balanced portfolio strategy within our treasury portfolio, and strict cost discipline lead to profitability in 2009

with earnings before taxes of 26.5m EUR already after 9 months.

Has the clients' demand for investment advice increased?

It definitely has. Typical customers of online banks can be classified as "self-directors" who look after their financial investments in a self-determined manner. For this customer base, we offer a broad set of information services and market-leading trading applications.

At the same time, one can also take notice of customers' growing demand for an "investments sparring partner" and for fair and independent advice. As a direct bank, we cover a wide range of investment advice: Either via telephone through our Private Banking Team or face-to-face through Asset Managers with whom we liaise closely in our B2B business.

What is the impact of new regulatory guidelines on the process of providing investment advice?



Dr. Markus Walch
Member of the Board
DAB bank AG

Online banks can respond to regulatory changes with clever solutions. For instance, we developed a process to communicate counseling minutes immediately after the interview. Subsequent to the counseling session, these minutes are sent to the customer via email, who is then able to confirm them through a personalized URL.

What is the impact of the crisis on the competitive playing field between direct banks/online brokers and bricks-and-mortar banks?

The financial crisis revealed to many clients that they had previously been badly advised, for instance in cases where customers' portfolios at bricks-and-mortar banks mainly held in-house products. Direct banks like DAB bank, in contrast, are better able to position their product range independently.

A recent study exposed that five million customers of bricks-and-mortar banks are currently thinking of switching to a direct bank. We assume that the financial crisis will rein-

force this trend. It will also be amplified by the growing number of online users in Germany and the increasing price sensitivity of bank customers.

Is "independent advice" in B2C business a model for the future and what is the impact on B2B relations?

It is our goal to offer every customer type appropriate investment advice and support depending on financial know-how, portfolio volume and investment horizon. This may include advice via telephone by B2C-personnel or on-site support by independent financial advisors. These approaches are not meant to compete, but rather to complement and to strengthen one another.

As you can see, online banks offer a broad range of products, which make them well prepared for the future.

Thank you for this interesting conversation.