

A Smart Way to More Transparency
How Incentive-based Customer Acquisition
Affects the Value of the Customer Base
Readiness and Maturity of
Service-oriented Architectures in
the German Banking Industry –
A Multi-Participant Case Study
Securities Transaction Banking –
A European Model





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Editorial

A Smart Way to More Transparency

Bernd Skiera

Lutz Horn

The financial crisis currently disrupting the economic system and banking worldwide often gets blamed on securitization. Banks commonly use securitization to manage their portfolio risk and funding position by transferring loans and the credit risk of their loan portfolios to other investors. In return, the banks do not hold the loans until their maturity in their own books but instead receive earnings from them directly at their net present value. That is, instead of following a “traditional” banking business model, called “buy and hold”, banks switch over to an “originate and distribute” model.

The move toward short-term profit realization, at the expense of long-term value creation, yields additional, largely ignored threats. The transformation of periodic loan payments into one down payment enables a bank to realize earnings immediately instead of doing so over the lifetime of the loans. Basically, this corresponds to the behavior of soccer clubs such as Schalke 04 which started to sell revenues of future ticket sales to

Manuel Bermes

banks and whose coach just recently realized the corresponding lack of income in the upcoming periods. Ambiguous requirements for financial statements provide limited means to detect such value shifts and make the consequences of securitization for long-term value creation not transparent, because banks (as well as other firms) are not required to report future earnings. Instead, they generate incentives to use securitization excessively to boost short-term profits. Such a lack of transparency can lead to severe problems. For instance, supported by accounting rules, managers have incentives to adjust the bank’s earnings streams through securitization to better reach personal goals. Unfortunately, the problems that arise from such shifts in profit realization continue to be largely ignored in current discussions of the financial crisis.

In fact, our empirical results illustrate that many banks fail to provide sufficient transparency about their securitization activities. This lack of transparency makes it difficult for stakeholders, if not impossible, to evaluate



Prof. Dr. Bernd Skiera

E-Finance Lab

Chair of Cluster 3

which earnings come from ongoing banking business and which result from the one-time effects of securitization. Hence, an evaluation of the consequences for long-term value creation has to be omitted.

Reports about customer equity, however, can depict a smart way of creating that demanded transparency in financial statements. Research has accumulated enough knowledge over the past decade to calculate customer equity, i.e. the value of a customer base, so that the predominant ignorance of future earnings is no longer justified. Based on that approach, we propose two means to reach more transparency.

- **Customer Equity Reporting (CER)** provides stakeholders with valuable information about the long-term value of a bank’s current customer base and its develop-

ment over time. It publishes detailed customer structures with related earnings and costs in absolute numbers to issue a forward-looking statement.

- **The newly developed Customer Equity Sustainability Ratio (CESR)** compares the likely future profit of the existing customers to the current profits. It identifies shifts in value realizations over time and reports the sustainability of the bank’s earnings as a relative number in a simple and substantial way.

Both means provide the bank with an opportunity to offer stakeholders sufficient information regarding the time horizon of the bank’s business model without disclosing possibly confidential information. The results of our recent counterfactual analysis of Countrywide (US) show that this bank shifted from a situation in which approximately 75% of the value created is realized in the future towards a situation in which 80% of the value creation is immediately realized.

Research Report

How Incentive-based Customer Acquisition Affects the Value of the Customer Base

USING VERY APPEALING INCENTIVES TO ATTRACT NEW CUSTOMERS IS A COMMON APPROACH IN THE FINANCIAL SERVICE INDUSTRY. WHILE THIS CERTAINLY LEADS TO MANY NEW CUSTOMERS, THE PROFITABILITY OF THESE ACQUIRED CUSTOMERS IS LARGELY UNKNOWN IN MANY BANKS.

Jeanette Heiligenthal

Introduction

Financial service providers often attract new customers by offering very appealing incentives, such as credit cards that are free of charge in the first year, a large bonus for opening a checking account, or high interest rates for saving accounts for the first months. Those incentives should increase the awareness among prospects and, ultimately, the number of acquired customers. Yet, most incentives provide only a benefit for a limited amount of time. Therefore, these incentives can attract especially deal-prone customers who are primarily fascinated by the incentive and not by the product offered. While the number of acquired customers is likely to be high, their higher churn and lower investment volume are also likely. The crucial question is whether ultimately these customers are really profitable.

Bernd Skiera

Number versus Value

In many banks, the number of acquired customers is a commonly used metric to measure the success of customer acquisition activities. However, this success measure disregards the value of those customers. An important measure to evaluate long-term profitability of a customer is the customer lifetime value, which reports the net present value of all revenues and costs over the entire customer relationship.

The value of the incentive affects the customer lifetime value in three ways (see Figure 1). First, a higher value of the incentive leads to higher acquisition costs and, subsequently, to a lower customer lifetime value. Second, a higher incentive attracts more deal-prone customers who are probably less loyal. The resulting shorter duration of the customer-firm-relationship also yields a decrease in

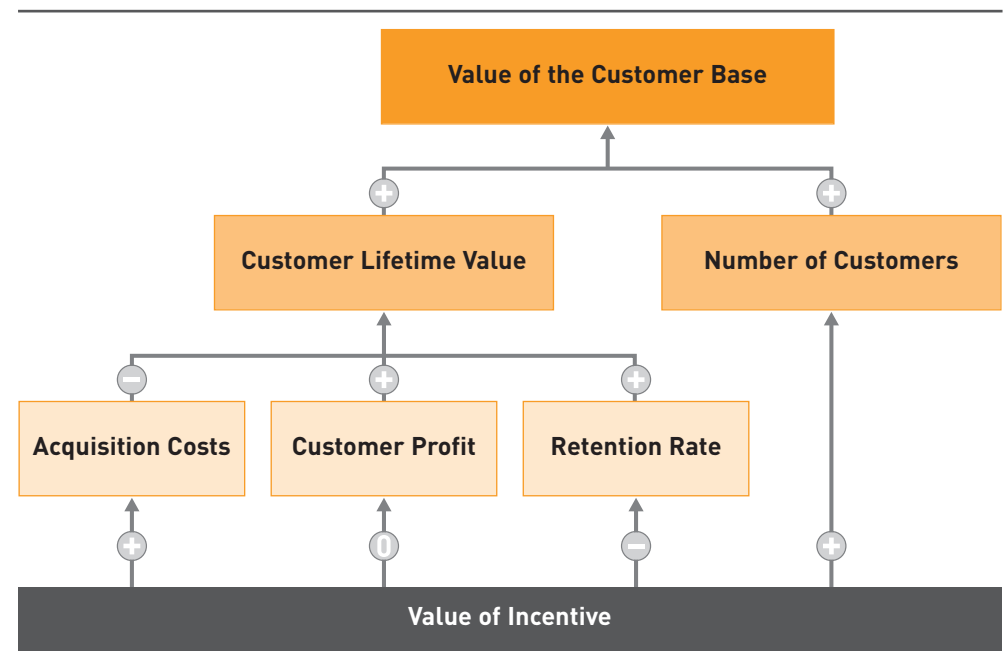


Figure 1: Estimated Effects of Incentive-Based Customer Acquisition

the customer lifetime value. Third, customers that are primarily fascinated by the incentive use the bank's products less intensively. Yet, this effect is likely not to occur for incentives whose value depends on the intensity of product usage.

To assess the overall profitability of incentive-based acquisition activities, it is essential to consider both, the positive effect on the number of acquired customers as well as the negative effect on the value of those customers.

Results of an Empirical Study

In our empirical study we analyze six acquisition activities of a major European bank

regarding the offering of a savings account. New customers were offered a high interest rate for a few months, afterwards the interest rate dropped to the regular level. The acquisition activities varied in the value of the incentive, which is measured by the difference between the offered interest rate and the market interest rate. In total the acquisition activities led to several thousands of new customers.

We investigate the influences of the value of the incentive on the number of new customers and their customer lifetime value. In line with our expectations, we observe a positive relationship between the value of the incentive

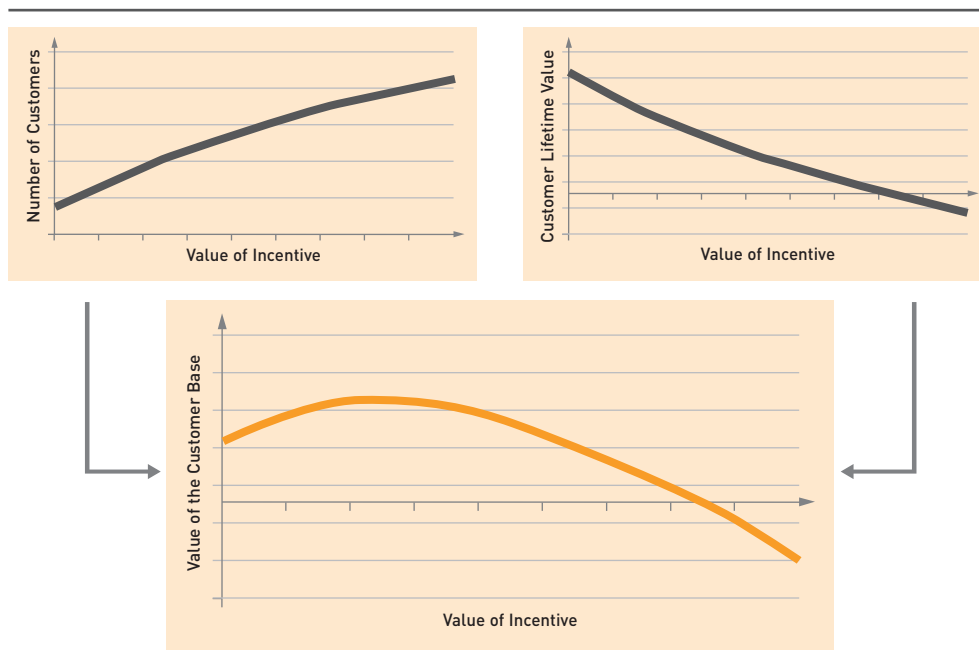


Figure 2: Effect of Incentive on the Value of the Customer Base

and the number of acquired customers, i.e. the higher the incentive, the more customers are acquired.

The effects of the incentive on the metrics of the customer lifetime value are different. Regarding the retention rate, we observe many customers who churn (i.e. cancel the relationship) right at the end of the promotion period, i.e. at the time when the interest rate drops to the regular level. Afterwards, we observe a nearly constant retention rate. The fraction of customers who churn right at the end of the promotion period is higher for higher values of the incentive. This effect is even stronger when we account for customers who do not churn,

but decrease their saving volume to a rather low level.

Thus, we can see that the percentage of less loyal customers increases with the value of the incentive. However, we observe no significant differences in saving amounts for different values of the incentive so that the profit per active customer before acquisition costs is not affected by the value of the incentive. This result might be different for other kinds of incentives. In our empirical setting, the customer's utility of the incentive is linked to his saving amount. Therefore, even customers who are very likely to churn after the promotion period have no interest in decreasing the saving amount. Yet,

deal-prone customers do not only have a higher probability to switch to another bank after the promotion period, but also a smaller probability to use other products of the bank. Therefore, customers acquired through a high value of the incentive have lower cross-selling rates than customers acquired with a small or even without an incentive. Nevertheless, customers who use more than one product at the bank are less likely to churn. This finding holds for customers who differ in terms of their cross-selling rate during the promotion period, but are acquired by the same value of the incentive. Customers who use additional products have significantly higher relationship durations.

Conclusion

On the one hand we can see that a high incentive is able to attract a higher number of new customers. On the other hand, financial service providers also have to consider the loss in the value of those customers resulting from higher acquisition costs and shorter relationship durations, possibly even accompanied by lower customer profits. Figure 2 shows the estimated relationship between the value of the incentive and the resulting value of the customer base. For low values of the incentive we find a lower number of acquired customers, but those customers have a relatively high customer lifetime value. In contrast, for a very high value of the incentive the negative effect on the customer lifetime value outweighs the positive effect on the number of new customers. Quantifying the influences of the value of incentive on the number of acquired customers as well as on the resulting customer

lifetime values allows financial service providers to find the optimal value of incentive.

The negative effect on the customers' relationship duration may be lower for other financial products offered by incentives as switching costs are relatively low for saving accounts.

Due to the fact that cross-selling has a positive effect on customer retention, acquiring customers through high incentives accompanied by high cross-selling efforts may counteract the negative effect on the relationship duration.

Nevertheless, financial service providers need to account for the trade-off between the number of new customers and their value when determining the optimal value of incentive – in our empirical example the difference between the market interest rate and the interest rate offered to new customers – which maximizes the value of the acquired customer base.

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Research Report

Readiness and Maturity of Service-oriented Architectures in the German Banking Industry – A Multi-Participant Case Study

SOA REMAINS AN IMPORTANT AND CURRENT TOPIC, BUT THE AMOUNT OF SERVICE-BASED PROCESSES IN GERMAN BANKS VARIES. IN THIS CASE STUDY, FOUR GERMAN BANKS ARE EXAMINED IN ORDER TO DETERMINE THE STATUS QUO OF THEIR SOA READINESS AND MATURITY AND TO COMPARE THE FINDINGS.

Marc Bachhuber
Julian Eckert

André Miede
Ralf Steinmetz

Introduction

Service-oriented Architectures (SOAs) have emerged as a major topic in various kinds of businesses. The suspicion that SOA just represents a hype, could not be verified and the topic remains important and current. In addition to its many advantages, the SOA paradigm poses significant functional and technological challenges, i.e., the assessment and reduction of issues during the adoption of a SOA in an organization (Bieberstein et al., 2008). Thus, measuring both the readiness for implementing a SOA and the maturity of existing SOA solutions becomes a crucial point.

In order to evaluate the importance of SOA for

the banking industry, the E-Finance Lab in cooperation with IBM Global Business Services GmbH has conducted a case study regarding SOA readiness and maturity in German banks.

The three major research questions in the case study were determined as follows:

1. How are SOA adoptions in the German banking industry realized?
2. How appropriate are SOA operations in the German banking industry?
3. Which consequences does the adoption of SOA imply during mergers and acquisitions (M&A)?

In the following, major findings of the case study will be presented.

Organization of the Study

The study is based on the results of personal interviews with four Chief IT architects. Questionnaires have been created which could be used as guidelines during the interviews.

Figure 1 shows how the interview results were evaluated, which consists of the interview analysis, key aspect identification, case composition, and the findings evaluation. This last activity comprises the development of new propositions derived from the previous findings, which facilitates the development of new perceptions on the SOA topic. Therefore, this may trigger a reaction on both theoretical foundations and current focus areas.

Case Study Findings

Although the number of already implemented services and SOA-supported processes varies, the findings of the different cases are not contradictory to each other, but the single cases complement one another. Therefore, it is possible to give a generalized overview of the SOA maturity and readiness of the German banking industry, which is presented in the following.

SOA Adoption – The first aspect under investigation is *SOA Adoption*. An initial finding is that the basic technical platform has already been developed for each bank. However, only few processes are completely implemented using services. Instead, services are often implemented as single, separate “islands”, where

communication is restricted to some legacy applications which are enhanced by service functionalities. In addition, services are mostly used in parts of the architecture intended for interaction with the customer, i.e., supporting sales processes with service-based web applications.

The general motivation for implementing a SOA was always driven by the bank itself and not by external consultants or vendors. However, in the actual SOA implementation phase, external consultants have often been involved.

Differences emerge with regard to both the Enterprise Service Bus (ESB) and the Service Registry. Only one of the interviewed institutions can offer both of them, while the others cannot. This is exactly the institution which integrated an off-the-shelf-product. In contrast to that, the SOAs of the other banks are self-developed solutions.

When buying standard SOA technology, the ESB and the Service Registry are mostly included. By contrast, in self-developed SOAs, the development objective is rather the creation and enhancement of single services than the implementation of appropriate tools for organizations. Therefore, often no standard-based ESB is available in self-developed SOAs and the services are mostly organized in simple sheets, e.g., using MS-Excel. However, all technical issues could be solved appropriately.

Another important aspect is the conformance of processes. Our study shows that process

documentations have partially been created. However, a holistic process documentation – triggered by the SOA adoption – has never been made. Documentation was created for single projects or single divisions only.

With regard to the organization, only in one case the entire organization has been involved in the SOA implementation, so that each employee could gain the required SOA awareness. In the three other cases, only the divisions of the banks responsible for SOA adoption were involved, while SOA awareness of other employees – which are potential end-users – is missing. In these cases, SOA is regarded as a technical topic only.

SOA Operations – The second focus of our research is on already established SOAs, which is the so-called *SOA Operations* phase. Since SOA adoption in the examined German banks is nearly completed, the next step is to check the SOA Life Cycle Management as well as competitive advantages and challenges.

In order to guarantee a high level of security, external services are used only for special cases like SCHUFA requests. However, in all other cases, if an external service is involved, the provider is also part of the bank group or the service is specified together with the provider. A registry based on the common UDDI-standard is used in none of the cases while also no services are included in a flexible and loosely coupled manner.

Although none of the interviewees assumes that SOA represents a general security issue,

they state that it must be ensured that the used SOA does not lead to any security issues as it evolves. According to the interviewees, keeping track of security issues as the SOA grows is critical. Further issues are the poor reusability of services, the change to newer versions, and low performance of services in the core banking functionality. Performance monitoring is seen by the interviewees as an appropriate method to check and enhance the value of the SOA. However, in practice this is done rarely since either no monitoring components exist or they are not in use yet. Reusability is almost always the only metric which exists in a SOA and which is measured.

Another objective was to investigate competitive advantages. Concerning this matter an often mentioned argument is that SOA makes the outsourcing of processes easier. In fact, all interviewed banks agreed on this argument. As explained by one of the participating banks, process orientation is a key objective for adopting SOA, thus, process outsourcing represents rather a requirement than solely an advantage. Another bank could already achieve a reduction of complexity due to the outsourcing of SOA-supported processes. In spite of its high potential, process outsourcing with SOA is used to a low extend in practice. The most important issue in this context is the coordination and the definition of standardized services in the banking industry, which are actually accepted by all German banks.

All in all, in the initial phases, a SOA incurs a lot of costs, thus, SOA should be seen as an investment for the long-term. Since the observed SOAs

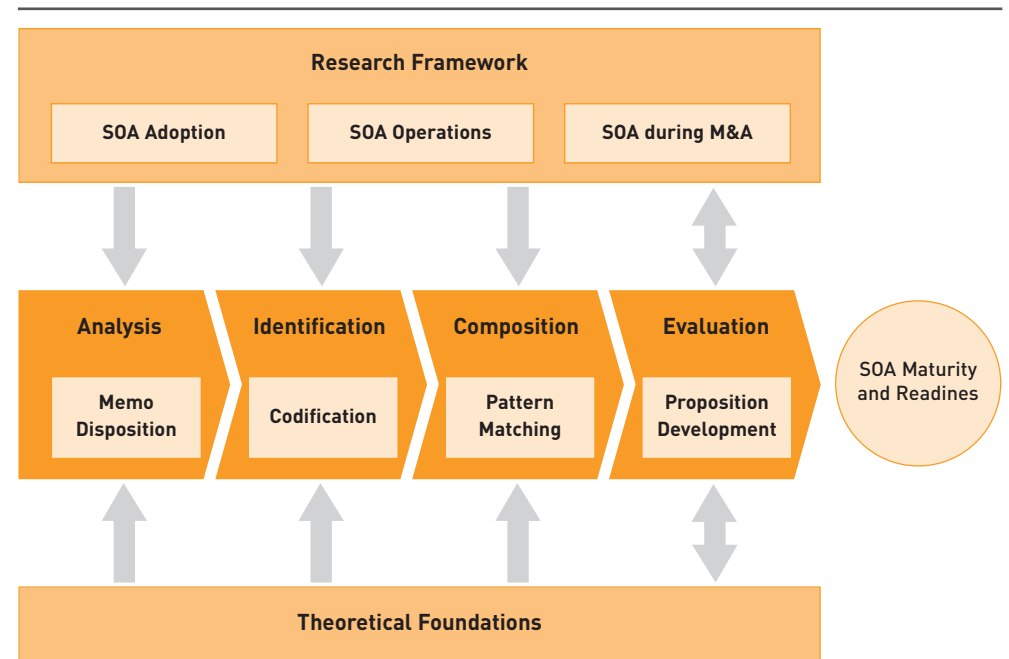


Figure 1: Evaluation Process

have not been in operation long enough, competitive advantages could not be proven yet.

SOA during M&A phases – The third focus of our research is *SOA during M&A phases*. The investigation has shown that the motivation for involving SOAs during such phases is almost always driven by aspects of cost reduction. Especially, when both the buyer and the acquired company can offer a well established SOA, the actual conduction of the M&A becomes easier from a technical perspective and the cost reduction becomes significant.

An often mentioned motivation for SOA adop-

tion is that in phases of M&A a best-of-breed approach can be used. However, such an approach was used by none of the interviewed banks. The interviewees argue that it is too difficult, time-consuming, and expensive in practice to decide which of the available services offers the highest value contribution. Additionally, the already existing services ensure a higher level of compatibility to the existing architecture of the buyer than the others. Often, these issues result in choosing poorer services instead of superior ones.

Currently, the observed German banks prefer to keep only the architecture of the buyer and

SOA-State	B1	T	O	P	B2	T	O	P	B3	T	O	P	B4	T	O	P
Initial	1	+	+	+	1	+	+	+	1	+	+	+	1	+	+	+
Managed	2	+	+	+	2	+	+	+	2	+	+	+	2	+	+	+
Defined	3	+	0	0	3	+	0	0	3	+	+	0	3	+	0	0
Quantitatively Defined	4	0	-	-	4	0	-	-	4	0	0	-	4	0	-	-
Optimizing	5	-	-	0	5	-	-	-	5	-	-	-	5	-	-	-

+ = Already achieved
 0 = In progress
 - = Not achievable soon

Table 1: SOA TOP-View (TOP = Technical, Organizational, and Procedural Aspects)

to import all required data of the IT architecture from the acquired company. As a consequence, most parts of the IT architecture from the acquired company will be discarded.

While no best-of-breed approach is used in practice, a SOA could offer some other advantages in M&A phases. Prior to the M&A phase, organizing the SOA adoption results in a good high-level overview of the bank's IT architecture. The interviewees argue that this overview enables the bank to make decisions easier regarding the merger of both IT architectures. However, this advantage is just a subjective perception of the interviewees and could not be quantified in practice.

Determination of the SOA Maturity Level

To sum up the findings of the case study and to offer a high-level overview, the SOAs of the investigated German banks have been rated

using the SOA Maturity Model from Johannsen and Goeken (2007).

Table 1 depicts the results of the maturity levels visualized as SOA TOP-Views (*Technical, Organizational, and Procedural Aspects*). This kind of visualization enables the reader to get a quick high-level overview of the SOA maturity in the examined German banks. The rows are very similar to the common Capability Maturity Model Integration (CMMI) model. "Initial" means that no SOA exists. In level "Managed" some processes are already implemented in a service-oriented way. The SOA is "Defined" as soon as the entire enterprise is covered by the SOA. "Quantitatively Defined" means that performance measuring tools are commonly integrated and used. Finally, when the level "Optimizing" is achieved, the SOA is getting refined continuously.

Fields containing a plus (+) display already achieved levels, fields marked with a zero (0) denote levels which are not yet achieved, since they are still in progress, and the sign minus (-) means that this level of maturity probably cannot be achieved in the short-term.

The results from the investigated banks are very similar to each other. Although the technical aspect can always offer the highest level of maturity, all in all the investigated banks can be assigned to maturity level two.

A special case represents the first bank (B1) and its procedural aspect. This is due to B1 having an institution for optimizing IT and SOA. These are exactly the requirements for reaching level five for the process aspect. However, since level four has not been achieved yet, the overall maturity of B1 cannot reach the next level.

Conclusions and Outlook

This article presents the findings of the SOA readiness and maturity case study for the German banking industry. It builds on an already established research framework regarding SOA maturity and SOA readiness. The evaluation of the conducted interviews has shown that SOA readiness is already present in the German banking industry. On the other hand, the maturity levels of SOAs in the observed German banks are very similar to each other: a basic technical platform is established, but a holistic and mature enterprise SOA including a well established SOA Life Cycle Management could not be found – therefore, all investigated banks are assigned to maturity level two, making progress towards level three.

The case study shows that SOA in German banks has some room for further improvements. Therefore, it would offer interesting insights to conduct a longitudinal analysis by repeating this investigation again in a few years in order to compare the findings and to observe the improvements over time.

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Insideview

Securities Transaction Banking – A European Model

INTERVIEW WITH DR. RALF GISSEL, DEUTSCHE WERTPAPIERSERVICE BANK AG

As the historical development of transaction banks in the German market shows, bundling securities post-trade processes and volumes at bank level leads to efficiency gains. In a European context, the growing harmonization of legal and procedural conditions is opening the door to the cross-border settlement of securities transactions without barriers.

What do you see as the key drivers for change in the national and European securities services markets?

Impetus for change has emerged from various corners. As a result of the integration process in Europe, the European Commission has launched a range of initiatives aimed at harmonizing the conditions for the cross-border settlement of securities transactions, strengthening competition and cutting costs. One notable example is the intensity with which market participants are working to remove the remaining “Giovannini barriers” for efficient cross-border clearing and settlement. The Target2-Securities project initiated by the ECB and the participating national

central banks has given an additional boost to harmonization efforts and the general structural debate in the area of post-trading.

Due to the current situation in the banking sector, further cost savings – particularly among back office functions – are also helping to determine the agenda. As a result of these developments, the future-oriented, cost-cutting solutions offered by transaction banks are becoming increasingly important.

Could the transaction banking concept that is prevalent in Germany be a viable model for the rest of Europe?

In the German market, developments at user level, e.g. banks, are setting an example that could be rolled out in other markets. With the transaction banking business model, the banking sector has created an industrialized solution for the extensive automated bundling of volumes, processes and technologies. Independent, cross-association, user-led service providers are increasingly establishing themselves in this area. The example of dwpbank demonstrates that



Dr. Ralf Gissel
CEO
Deutsche WertpapierService Bank AG

successful system consolidation is a means of ensuring competitive structures.

It will not be possible to transfer this proven German model to every other market in its present form. However, the basic transaction banking model has potential for Europe-wide implementation thanks to the harmonization of the relevant rules and regulations. The business benefits experienced in Germany become exponentially greater when extended to the rest of Europe. As such, European initiatives such as Target2-Securities are just the start of a dynamic development that will continue over the coming years.

Will this consolidation within Europe not serve to increase systemic risk? What will be the role of risk management at transaction banks, particularly in light of recent developments on the financial markets?

As the largest German transaction bank, bundling and managing operational risk is a key element of the value creation process for dwpbank. We are one of the six German banks to apply the Advanced Measurement Approach

(AMA) for the quantification of capital requirements for operational risk. To this end, the German Federal Financial Supervisory Authority (BaFin) has issued retrospective approval with effect from 1 July 2009. The legal basis for this process is the Basel II rules that have been implemented at European level, which are reflected in Germany in the form of the Solvency Ordinance.

By outsourcing their security services to dwpbank, banks can reduce their own risk profile by transferring the relevant risk to a specialized transaction bank, as well as bundling audit procedures.

In the crisis conditions and market volatility that have been prevalent since autumn 2008, these structures have proven to be crisis-resistant in spite of the dramatic upheaval on the financial markets and the need for rapid response times for the settlement of securities transactions.

Thank you for this interesting conversation.

Infopool

News

Dipl.-Wirtsch.-Inf. Immanuel Pahlke joined Prof. Dr. Wolfgang König's team in cluster 1 of the E-Finance Lab on July 1st, 2009. He holds a degree in Information Systems from the Technische Universität Darmstadt where he completed his studies in May 2009. He worked in the IT consulting competence center at zeb/rolfes.schierenbeck.associates for 2 years alongside his studies. In his research, Immanuel will focus on mash-up applications in the financial services industry.

On July 3rd, 2009, Björn Imbierowicz (cluster 4) has received the doctoral degree with his dissertation on "The Interrelation of Prices, Ratings and Models in Credit Default Swap and Equity Markets". Björn will stay at the Chair of Banking and Finance as an Assistant Professor (Habilitation). We congratulate him on his PhD, and are looking forward to continue our cooperation with Björn.

Dipl.-Wirtsch.-Inform. Nicolas Repp (cluster 2) has received his doctoral degree on July 20th, 2009 with a dissertation on "Überwachung und Steuerung dienstbasierter Architekturen – Verteilungsstrategien und deren Umsetzung". Congratulations!

On August 28th, 2009, Sven Christian Berger (cluster 3) successfully defended his PhD thesis "Zum Strukturwandel der Wertschöpfung im Bankgeschäft". Congratulations!

On September 1st, 2009, Dr. Oliver Hein (research project partner of cluster 1) was appointed Professor of Business Informatics at the University of Applied Sciences Giessen Friedberg. In the Department of Mathematics, Natural Sciences and Information Processing he will focus on the general research field of simulation technology and specifically the simulation of investor behavior on stock markets. Dr. Hein worked for some years in the investment banking sector in Germany, Switzerland, and the US, before starting his own business with a consulting firm for enterprise investments.



Selected E-Finance Lab publications

Beimborn, D.; Joachim, N.; Schlosser, F.; Streicher, B.:

The Role of IT/Business Alignment for Achieving SOA Business Value – Proposing a Research Model.

In: 15th Americas Conference on Information Systems (AMCIS). San Francisco, USA, 2009.

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In: 17th European Conference on Information Systems (ECIS). Verona, Italy, 2009.

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In: Southern Finance Association Annual Meetings. Captiva Island, Florida, USA, 2009.

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In: 15th Americas Conference on Information Systems (AMCIS). San Francisco, USA, 2009.

Rauch, C.; Hankir, Y.; Ueber, M.:

Investors' Favorite Merger Motives in Bank M&A. In: Southern Finance Association Annual Meetings. Captiva Island, Florida, USA, 2009.

Wranik, A.:

A Trading System for Flexible VWAP Executions as a Design Artifact.

In: 13th Pacific Asia Conference on Information Systems (PACIS). Hyderabad, India, 2009.

For a comprehensive list of all E-Finance Lab publications see:

<http://www.efinancelab.com/publications>

Infopool

RESEARCH PAPER: CREDITOR CONTROL RIGHTS AND FIRM INVESTMENT POLICY

The authors extend the research on how the reliance on external finance affects firm investment. By examining a large sample of syndicated loans for public firms from 1996 to 2005, the authors firstly find that 32% of the agreements contain an explicit restriction on the firm's capital expenditures and that secondly creditors are more likely to impose a capital expenditure restriction as a borrower's credit quality deteriorates. Therefore the authors' findings indicate that the use of a restriction appears at least as sensitive to borrower credit quality as other contractual terms, such as the interest rate. Furthermore, capital expenditure restrictions cause a reduction in firm investment, and firms which obtain contracts with a new restriction experience subsequent increases in their market value and operating performance. Overall, the authors present convincing empirical evidence that conflicts of interest between creditors and their borrowers have a significant impact on firm investment policy.

Nini, Greg; Smith, David C.; Sufi, Amir

In: *Journal of Financial Economics* 92 (2009), pp. 400–420.

RESEARCH PAPER: ENHANCING THE QUALITY OF FINANCIAL ADVICE WITH WEB 2.0 – AN APPROACH CONSIDERING SOCIAL CAPITAL IN THE PRIVATE ASSET ALLOCATION

Social capital can be a substantial proportion of a private investor's total capital. Therefore, the negligence of this aspect could lead to systematically wrong recommendations with respect to an asset allocation strategy. This paper proposes a social software-based concept that allows for an integration of social capital in the asset allocation process. The objective is to discuss a conceptual approach from a design science oriented perspective for an integration of social capital in a generic advisory process for a financial services provider based on existent social software-based data sources. Thereby, specific emphasis is devoted to an adequate operationalization of information provision and processing. This includes the identification and measuring of appropriate indices for characterizing individual social networks (e. g. the number of ties an actor disposes of, the strength of the individual ties etc.), which is recognized in literature under the topic of social network analysis (SNA).

Kundisch, Dennis; Zorzi, Robin

In: 15th Americas Conference on Information Systems. San Francisco, CA, USA, 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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Further information about the E-Finance Lab is available at

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