

## Editorial

# Retail Banking: Successful Financial Engineering “Made in Germany”

Carsten Dirks

Innovations in financial services are mostly attributed to the US or UK which is comprehensible based on their importance especially in investment banking. But often groundbreaking innovations and the respective financial engineering in retail banking in Germany are hardly recognized. There are at least two competitive advantages that might be well suited to be acknowledged as leading factors:

The efficiency in which client services are executed and the innovative services and products offered in the retail brokerage segment – both from a client point of view.

Compared to other continental European nations – and even to a substantial extent compared to UK – Germany has rapidly adopted the internet as an important sales and service

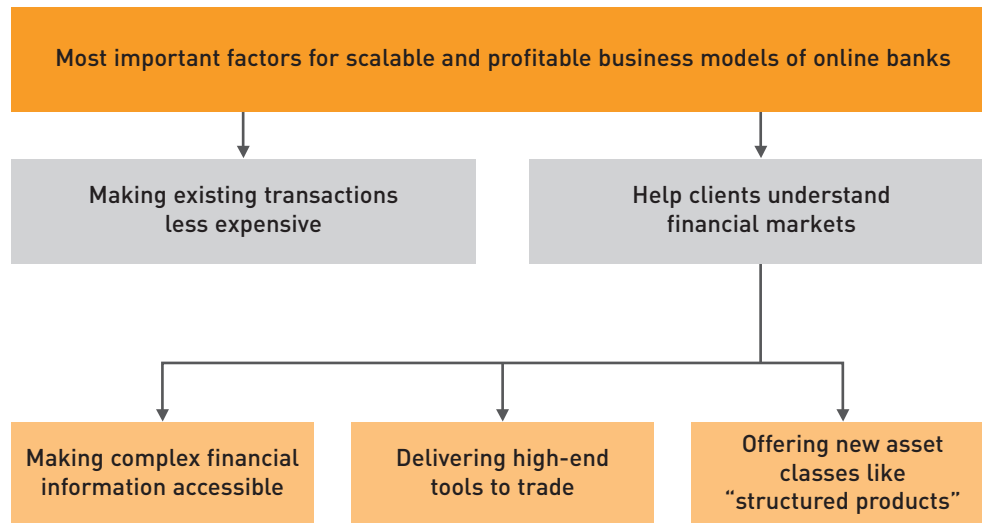


Figure 1: Factors for scalable and profitable business models



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channel for banking and brokerage. Today many banks are pure online banks and their business models have become scalable and profitable. The most important reasons especially for the profitability have been twofold (Figure 1):

1. Making existing transactions much less expensive (for the bank) if the client becomes electronically integrated in the process – and as a part of the cost reduction strategy the prices for bundles of retail banking transactions in Germany are very low compared to other nations.
2. Help clients understand financial markets by (a) making complex financial information accessible to the end-user, (b) delivering high-end tools to trade, and (c) offering complete new asset classes like “structured products” that enable investors to trade following professional investment strategies and access to commodities, currencies, and foreign equities.

Especially the added services for retail brokerage are a serious competitive advantage of the German market and are well suited to be “exported” into Europe and also to up and coming markets. The existing offering today is able to support a range of end-users, for instance a client who wants to save in mutual funds for his retirement up to semi-professional traders with several hundred transactions every day. Key to this success has been to make information (especially financial information) not only accessible (including very often providing it free-of-charge) but also to be innovative in designing tools to make complex products understandable to different target groups. We are still in an early phase of finding new ways to engage clients in their own investment decisions but we have already a magnitude of offerings to educate investors.

The next phase has already started and the focus will be to make the investment process more transparent especially in areas like risk exposure and portfolio allocation. With these developments banks can use new legal regulations like MiFID to their competitive benefit and not just administrative burden. These developments combined with the extraordinary success of structured products have given the banks in Germany a very powerful edge that can be used much stronger than today to foster the international growth.

Taking it all together there are good reasons why “Made in Germany” has become a hallmark for the retail banking industry, too.