Chapter XIX

Banks and Financial Consulting in the Internet Age

George Peters
Munich University of Applied Sciences, Germany

INTRODUCTION

In our analysis we concentrate on the effects of the Internet on private banking and abstract from other effects that may have changed private banking. We limit our analysis to the aspects of financial consulting; we do not discuss the pros and cons of traditional and online banks in the field of order placement. In the chapter we focus on the German private banking sector.

The private banking sector has changed dramatically since Internet technologies have been introduced. Online banks have been founded and grown rapidly (Consors, Comdirekt, Direktanlage Bank, etc.). They do not have branch networks, but they offer their services via telephone and Internet. Most online banks do not offer financial consulting services (Advance Bank, a subsidiary of Dresdner Bank in Germany is an exception) but they provide extensive financial information on their Web sites. They are high-tech companies in comparison to the over-the-counter business of traditional banks.

In the business model of traditional banks, the private investors do not have to pay for the labor and cost-intensive, face-to-face financial consulting services directly. The order and depot fees for shares and funds not only cover the transaction costs but also consulting services. The consulting services of the traditional banks are fully subsidized by the order and depot fees.

It is often discussed how independent the advice of a bank really is. Banks not only sell and buy stocks on behalf of their private investors. They sell and buy stocks for themselves, they often deal with companies on the one hand and analyze the same company on the other hand. So some doubt whether the consulting service of banks is objective or if there is a certain bias in it.

Since online banks do not offer face-to-face consulting services like traditional banks, their order fees can be significantly lower–even traditional banks offer banking services without consulting and reduce their fees today.

In comparison to a branch network or even a call center the placement of an order via the Internet is less labor intensive. Obviously online banks have a high degree of automation and computerization. Therefore their transaction costs for the placement of an order of a private investor are much lower than the costs of traditional banks. The abandonment of consulting and the placement of orders via the Internet lead to order fees that are about 50%-95% cheaper than the fees of traditional banks.

In the chapter we argue that the traditional banks are facing the following challenge. While some traditional banks “force” their “poor” private investors to leave, they are very keen to keep their “rich” private investors. Normally the order fees generated by a “poor” private investor do not cover the consulting costs, while the order fees generated of a “rich” private investor not only cover the transaction costs of the bank but also the consulting services (Balzer, 2000).

But today all private investors, whether “poor” or “rich,” have alternative ways to place orders and get consulting services. Today a private investor can have his account with an online bank, where he only pays for the transaction–without any “hidden” subsidy for consulting. If the private investor needs financial information and consulting, he can get it from independent sources.

In the following section we discuss the principle role of online banks. We then analyze the quality of financial consulting services and discuss traditional and advanced communication channels in private banking. That is followed by a section on traditional and Web-based financial consultants.

**The Role of Online Banks**

Since their introduction online banks have grown rapidly and gained a significant market share (afp, 2000a; Weber and Park, 2000). In some studies it is anticipated that in 2010 online banking will be fully established (Bongartz, 2000). Online banks offer lower fees in comparison to traditional bank. They can offer these low fees because they do not have an expensive branch network like traditional banks.

At online banks orders are placed via the Internet. Such an order process is highly automated and therefore cheap in comparison to the labor-intensive placement via telephone or over the counter. Online banks normally do not offer traditional financial consulting services (expensive face-to-face consulting). But they provide Internet-based information that is much cheaper to generate than face-to-face consulting.
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