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Interactive Data Managed Solutions

August 2010

Holistic Approach

**Integrated Solutions to
provide Individual and
Competent Customer Advice**

Interview with Professor Bernd Lahno

**“Customer Interests
have to come first”**

Post Financial Crisis

**Trust – The Key Factor in
Wealth Management**


Interactive DataSM



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Responsible for the Contents	Carsten Dirks
Editors	Anke vom Berg, Christina Lotz
Art Direction, Production	Karin Lange, Design Intelligence
Image Sources	Interactive Data, Karin Lange (Composing), iStockphoto, Prof. Bernd Lahno
Contact	Interactive Data Managed Solutions AG Sandweg 94 ■ 60316 Frankfurt am Main ■ Germany Tel: +49(0) 69 505030 0 ■ Fax: +49(0) 069 505030 505 www.interactivedata.com ■ info-ms@interactivedata.com

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Editorial

Ladies and gentlemen,

Financial market crises are often crises of confidence. The ups and downs on the exchanges, the bankruptcies of traditional bank houses and the scandals involving investment fraudsters such as Bernard Madoff have cast an entire sector in a bad light and undermined its credibility. At the individual level, both financial losses and unfulfilled expectations of returns have added to the woes of private clients. This puts the financial economy in a tight spot, since it is the financial economy, more so than other sectors, that is dependent on the trust of market participants.

At present, there is much discussion about how best investor trust can be restored. "Greater controls and transparency," demand the State and consumer protection agencies in unison, calling for even stricter financial market regulation. Opinion polls on the topics of trust and investment advisory services, however, reveal yet again that it is not the State but dependable personal relationships that play a pivotal role for the majority of the poll participants. Participants have a palpable desire to rely on the competence, knowledge and fairness of an individual or an institution. Bank clients first and foremost want technically competent contact persons who take their requirements seriously and offer needs-based advisory plans.

We too wish to structure our client relationships in accordance with this principle. Many of our relationships have developed over the years into trusting partnerships with a regular exchange of views on the solutions deployed and the implementation of new requirements playing an important role. We find it important to remain in constant dialog, for only thus can we continue to offer our clients individualized, comprehensive solutions designed to best meet their requirements.

Bernd Lahno, Professor of Philosophy at the Frankfurt School of Finance & Management, Germany, has studied the concept of "trust" for many years, and in 2002 qualified as a professor with a paper on this topic. He explains on pages 10 and 11 why financial market regulation is by itself insufficient to combat uncertainty among individuals, and the measures that banks should adopt at this time.

Sincerely,
Carsten Dirks



Carsten Dirks

Global Managing Director
of Wealth Management
Products,
Interactive Data
carsten.dirks@interactivedata.com



Post financial crisis

Trust – The Key Factor in Wealth Management

The consequences of the financial crisis will continue to keep the financial sector occupied for a long time and lead to fundamental changes. Numerous studies, such as the latest report from the European Economic Advisory Group (EEAG), a panel of experts which has been providing advice on important matters of economic policy to European policy makers since 2001, show a pronounced loss of trust in the financial sector on the part of consumers. According to this report, the percentage of people who trusted banks, stockbrokers and investment funds was 30 percent in 2007 shortly before the crisis broke out, then fell to a mere five percent and has not recovered since.



This destruction of trust, of pivotal importance primarily in wealth management, has a significant effect on investor conduct and consequently on the future growth of the financial markets. As the EEAG report shows, the readiness to invest in complex financial instruments is tapering off in favor of proven securities, at the same time that cash investments in trusted domestic markets and companies are gaining importance. In addition, there is a discernible trend towards risk diversification with investors choosing a greater number of financial services providers and reducing volumes allocated to individual business relationships.

The conduct of advisors is what counts

Based on a current study by GfK Marktforschung (a market research company), 58 percent of bank clients believe that their investment advisors sold them products they do not need in the least out of self-interest and with a view to quick profits. They further criticized their advisors for not paying sufficient attention to their requirements and providing financial planning with a cookie-cutter approach. In addition, two thirds of individuals surveyed expressed a desire to understand financial products better in addition to being able to trust their financial consultants and understand what they had to say. Meanwhile, clients are extremely interested in customized investment products and customized forms of investment and wish to fully understand the mode of operation and the interplay of such products and investments.

While the appeal of banks has taken a beating in general, the client's own institution has garnered comparatively good confidence numbers at 60 percent. By contrast, only 34 percent of people surveyed trust their personal contact. While this is clearly better than the rating for the industry as a whole, it also indicates that personal advisors rather than institutions are blamed for negative experiences.

More regulation does not automatically foster trust

This theory is underpinned by a market study by the Bundesanstalt für Finanzaufsicht (BaFin) in Germany, which has conducted research on the implementation of regulations regarding the documentation of investment advisory services to private clients that have been in place since the beginning of the year. A clear need for improvement can be seen: At 15 credit institutions and 37 financial service provider institutions, forms for recording client interaction listed pre-formulated choices alone and did not leave any space for clients to state their personal circumstances or investment objectives. Employees were not sufficiently trained either to appropriately document individual client details.

The EEAG report states that, while strong market regulation is required, the restoration of trust can succeed only through a quality offensive by industry.

Measures for financial regulation are scheduled to be discussed at the global level in the context of the G20 summit and the Financial Stabilization Committee. According to the EEAG report, in addition to the well-known European initiatives, the US government under President Barack Obama is considering a Consumer Protection Authority as well as an entity to combat financial crime in the USA. Regulatory measures are meant to protect investors. Otherwise they will remain abstract for consumers, and a direct positive effect on lost trust cannot be unconditionally assumed.

Banks themselves taking an active role

Initiatives by the financial sector to reinforce their reputation with consumers and restore lost trust in the entire system and in the delicate area of wealth management in particular have been more promising by far. Concepts such as honesty, reliability, safety and fairness towards clients play an important role and decisively affect success in the marketplace. Some institutions are reconsidering the investment advisory services that they currently offer, and feel that fundamental client objectives should take priority and be accompanied by matching financial products and individual advice. Clients should be made to feel that the person sitting opposite him puts himself in their place, works out individual solutions with them and includes them in the investment process. Documentation that is easily understood and a clear presentation of products, including comparisons, are musts.

In addition to reinforcing advisory competencies, optimized processes, sustained quality management and the intelligent use of information, technology can contribute to the success of trust initiatives at many institutions. Well thought out workflows can be generated through the use of networked systems, bringing an entirely new quality to the advisory process. Information retrieved through a central database in a short span of time and presented in the relevant context can convey a sense of security to the client.

The client of the future will be mobile and more informed. Transparency, credibility, social awareness and sustainability will be high on his list of priorities. Banks can adopt these fundamental business trends in the interests of their clients and their business to differentiate themselves successfully in the hotly contested wealth management area and contribute to restoring and durably stabilizing lost client trust. ◀

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What is Trust?

When Image, Integrity and Emotions come together

Numerous opinion research institutes and scientific studies charge the financial sector with a massive collapse of trust and emphatically recommend action to recover from this loss of client trust. "Trust" is a "soft" concept in a market made up of hard financial facts. A common definition of trust is "the expectation that one will not be disadvantaged by another's conduct". This explains why the years 2008 and 2009, during which governments had to put together packages worth billions to defray the costs of risky transactions by a few financial institutions, have damaged these institutions' standing in the eyes of the general public and investors. There is widespread agreement that the sector faces a problem of trust. What creates trust, though, and how can trust be regained? Various factors must come together for financial institutions to be viewed as trustworthy, and different scientific disciplines offer differing views.

Studies by marketing and communications specialists on trust and image in the economy show that the significance of individual

» Trust is a particular level of the subjective probability with which an agent assesses that another agent or group of agents will perform a particular action, both before he can monitor such action and in a context in which it affects his own action. «

Diego Gambetta in „Can we trust Trust“?, 1988

» Trust is a background to everyday interaction through which the predictability, legibility and reliability of collective order is sustained, while the perception of its complexity and uncertainty is restricted. «

J.B. Barney and M.H. Hansen, *Strategic Management Journal*, 15, 1994

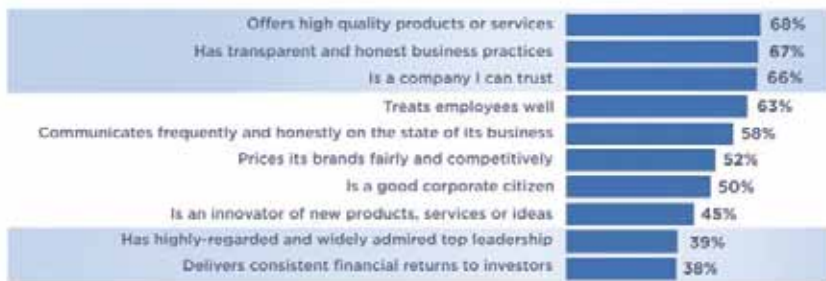
» Trust is the expectation that partners in interaction will carry out their fiduciary obligations and responsibilities, that is, their duties in certain situations to place others' interests before their own. «

Bernard Barber, „The Logic and Limits of Trust“, 1983



trust-building criteria varies. The latest version of the annual international Edelman Trustbarometer shows that at this time, robust financial results from a company are significantly less capable of projecting a positive image of a company than transparency and integrity, product and service quality, and the organization's communication style.

Globally, trust and transparency now drive corporate reputation as much as quality



Source: Edelman Trust Barometer

Since trust is as a rule very closely linked to a company's reputation, much is invested in marketing and public relations in order to build and maintain a positive image through targeted communications. This must then be followed up by direct contact, though. Many financial institutions tackle this through attempts to increase product transparency and quality on the one hand, and measures to get to know clients better on the other. Frequently, technological solutions such as CRM applications, computer-generated product document-

ation or intensive client reporting are resorted to. In addition to the practicability of such approaches and the technical verifiability of results, the fairly positive image of information technology also benefits banks. In the Edelman Trustbarometer, over 70 percent of individuals polled in the industrialized nations of the West report having confidence in the technology sector. The corresponding figure for the financial sector is only 24 percent on an average, however.

When all is said and done, objective facts and emotional factors must be merged for trust to be confirmed. Programs to enhance client orientation and transparency will be successful in the medium short term only if they become a way of life for advisors and resonate with clients at the emotional level. ◀



INFO: <http://www.edelman.com/trust>

Compliance

Implementing Compliance Requirements in a Reliable and Cost-Conscious Manner

Over the past few years, the financial industry in Europe has been faced with a flood of regulatory guidelines and amendments intended to help protect private clients from making poor investment decisions. The need for prompt implementation of these guidelines has garnered further impetus due to the financial crisis and the resulting loss of trust in banks, both among investors and in policy-making circles.

The implementation of these guidelines poses new challenges for centralized service areas in financial institutions such as support, advisory services, sales and new client acquisition, and not just administratively. Technical and organizational adjustments as well as investments in employee training represent a significant cost factor.

In addition, globally active companies need to take a good look at country specific regulations, which are not always harmonized even within the European Union. Besides the EU Commission, international financial regulatory authorities, such as the German Federal Financial Supervisory Authority (BAFin, Bundesanstalt für Finanzdienstleistungsaufsicht) or the British FSA (Financial Services Authority) are working under heavy pressure to create a better environment for transparency and comprehensibility in investment advisory services.

The Directive on Markets in Financial Instruments (MiFiD), laid down in 2007, is expected to be amended next year to plug loopholes in the regulation of securities trading. Compliance and risk management departments in banks, as well as regulators and providers of compliance software solutions with a presence in the MiFiD environment, require historical financial market data for their analyses. Interactive Data provides



historical intraday market data and prices from a number of stock exchanges on a tick-by-tick basis, which can be used for a variety of tasks, from back-testing investment strategies or new products to risk management for proprietary investments or client funds, and from assessments of the best execution of client orders (Best Execution) to market conformity tests.

Information Sheet for Financial Products

In anticipation of an international "Key Information Document" currently under review by the Committee of European Securities Regulators (CESR) and expected to become binding in 2011, several associations and financial institutions have reacted proactively to the EU Guidelines on Investor Protection and developed a standardized information sheet to explain in detail the structure of investment products and the risks involved. Such an information sheet, which lays out a comparison of financial products in layman's terms, will presumably be published soon primarily in areas of popular investment products, such as mutual funds, and complex products that need more explanation such as derivatives.

Interactive Data supports its clients in the specification, design and development of fact sheets, in the selection and set-up of appropriate data management interfaces, and in choosing appropriate methods of documentation and their implementation. This is designed to assist advisors with documentation requirements within the client advisory processes, allowing the costs, risks and opportunities of investments to be presented to clients in a manner that is easy to comprehend and visually attractive.

Companies that make timely use of new regulatory provisions to bring about long overdue changes can gain competitive advantage while simultaneously optimizing their front and back office processing in a cost-effective manner. ◀

EU directives planned for the investment sector

The following regulations are anticipated to be incorporated into national law throughout Europe by 2012.

- ▶ **Revision to the MiFID (Markets in Financial Instruments Directive):** The revision seeks to verify the extent to which this directive has been implemented in national law and to identify areas where reforms may be required. Special paths, such as the brokerage of investment funds under Paragraph 34c GewO (German Industrial Code) in Germany, have been scrutinized.
- ▶ **UCITS IV (Undertakings for Collective Investments in Transferable Securities):** Investment funds regulated by the EU may be sold in all member countries of the Union after notifying the appropriate supervisory authority.
- ▶ **AIFM (Alternative Investment Funds Managers):** Directive for the supervision of alternative investment fund managers, which also considers closed-end funds that have hitherto remained unregulated.
- ▶ **PRIPs (Packaged Retail Investment Products):** An initiative for standardized investor information and sales regulations for funds and derivatives and other structured investment products. The first measure resulting from this initiative: KID (Key Information Document), a two page product information sheet under European standards providing information about product profitability, risks, charges, guarantees and mode of operation.

Source: European Capital Markets Institute (ECMI), CFA Institute Centre for Financial Market Integrity, European Commission Services

As of: April 2010

Business Entity Service

With the intense focus on compliance and risk management in the financial sector, especially in times of volatile markets, corporate data (business entity data) becomes increasingly important. Financial services providers are obligated to provide information, such as company holdings, at any time. This requires expensive and time-consuming manual comparisons, since data is frequently maintained in isolated silos within companies.

The Business Entity Service from Interactive Data provides information regarding a company's capital structure and securities. Details regarding the relationship between security, issuer and parent company can be retrieved simply by entering an ISIN code.

This can help companies effectively manage and minimize their counterparty and investor risks and also to satisfy compliance requirements under UCITS III, the 3rd EU Directive on Money Laundering, Basel II and the Directive on Markets in Financial Instruments (MiFiD).

<http://www.interactivedata.com/index.php/productsandservices/content/id/Business+Entity+Data>





Holistic Approach

Integrated Solutions to provide Individual and Competent Customer Advice

Investors want comprehensive and individualized support from advisors who are trustworthy, well informed and able to explain products clearly with investment recommendations that are easy to understand. The demand for quality advice is nothing new, but has increased as a result of the financial crisis. Trustworthy relationships between bank and investors are a sine qua non precisely in the area of wealth management.



Multiple internal and external data sources are combined and integrated into a financial dashboard. Authorizations for feature sets, administrative functionality and data depth can be customized which allows the software to be precisely tailored to the requirements of individual advisors.

A well connected and well informed investment advisor plays a key role, since private investors depend on such advisors to filter through, verify and assess a variety of sources.

Integrated solutions from Interactive Data are designed to support advisory workflows in multiple ways and open up new opportunities for holistic customer support and increased efficiency in the investment process. Besides broad global data coverage, a variety of analysis and reporting tools are available that help to meaningfully consolidate this diverse and complex set of information, present it in a visually appealing way and calibrate it to client investment objectives and client risk capacity. Customer relationship or portfolio management systems can be integrated just as seamlessly as in-house research and product information. This integration brings significant additional value to existing applications as well. If no client-specific portal solutions need to be deployed, the web-based financial desktop PrimeTerminal Professional from Interactive Data can be optionally integrated into existing system architectures. In addition, the fact

that authorizations for feature sets, administrative functionality and data depth can be customized allows the software to be precisely tailored to the requirements of individual advisors.

All systems are designed to be intuitive to use and to be integrated flexibly into existing workflows. Innovative visuals help to highlight information about new and existing investments in a relevant context while improving quality.

Transparent representation, analysis and optimization of portfolios

An integrated system facilitates a coherent, holistic advisory approach that can be tailored to client requirements. The system is based on a combination of multiple internal and external data sources integrated into a financial dashboard.

The Portfolio Reporting solution from Interactive Data can be included on such a dashboard. Client portfolios that are updated daily can be retrieved at any time, along with reports, purchase recommendations and sophisticated analyses tailored to the portfolio structure. The innovative application with attractive and user-friendly visuals and navigation allows both advisors and investors to access the portfolio. Both can communicate directly through the application, analyze the latest developments in the client's investments and jointly coordinate steps to be taken.

The portfolio solution is designed to provide valuable support in reinforcing client trust and creating strong long-term relationships with advisors and financial institutions with a high level of transparency.



Financial portals of the future - networked in an interactive environment

Financial portals and websites can join the trend towards greater transparency and networking, for example, by integrating the presentation of important market data and figures with articles by finance editors. Appropriate context setting and visuals are designed to make the task of understanding and comparing complex instruments much easier. With just a few mouse clicks, users can construct personalized pages and views reflecting their interests where personal notes and assessments can be recorded.

The next generation of clients will be "digital natives" who use multiple channels every day to network and exchange information. Unlike their parents and grandparents, their loyalty to any one banking institution cannot be taken for granted, they can be "enticed away" intelligently, that is to say, they can be pursued in these new channels with proprietary banking solutions integrated into social networks.

Monolithic bank websites and financial portals have outlived their purpose as stand-alone sources of information. Only those that exploit the channels of the "Social Web" can remain competitive from a long-term perspective. Client-specific solutions are key in the form of applications for personal homepages, social networks such as Facebook or Twitter, and mobile devices such as iPhone and BlackBerry. All of these offer access to the financial portal and the price information, charts, portfolios and watchlists on the portal, and allow banking transactions even when traveling.

Holistic approach

In order to integrate and manage both the various sources of incoming market data and information and the large number of communication channels, a holistic approach and a comprehensive data consolidation strategy is called for. Interactive Data's market data platform is designed to deliver a variety of content to interactive interfaces using Rich Internet technologies such as JavaScript, Flash and AJAX. Interactive Data also brings its long-standing expertise in workflow optimization to bear, providing support to financial service providers from concept and design through the deployment of state-of-the-art technologies for their mobile clients.

This approach allows data to be oriented to target groups, and users can obtain pinpointed information where they need it. Users can interact with one another and can tap expertise in the form of contextual information. User-friendly applications that are intuitive to use and accessible from anywhere are an important factor in bringing structure to the increasingly complex daily flood of information and can contribute decisively to the client's perception of the financial institution as a trustworthy partner. ◀

NESTLE

Stocks (4)

Name	ISIN
NESTLE SA	CH0038863350
NESTLE ADR	US6410694060
NESTLE IDR	BE0038863350
NESTLE (MAL)MYR1	MYL470700005

Funds (689) with „NESTLE“ in Top-Holdings

Name	Weight %
ISHARES DJ STOXX 600 FOOD & ...	34.04%
LYXOR ETF DJ STOXX 600 FOOD ...	33.50%
DB X-TRACKERS DJ STOXX 600 F...	33.06%
UBS-ETF SMI Inhaber-Anteile o.N.	24.30%
ISHARES SMI (DE)	23.03%

[other funds with "NESTLE"](#)

Derivatives (448)

Type	quantity
Bonus Certificates	51
Outperformance Bonus Certificates	34
Discount Certificates	189
Express Certificate	3
Knock-Out with stopp loss	142

[further derivatives to "NESTLE"](#)

News

Date	Headline
30.03.10 15:32	Die Welt: Swiss Stocks Fall as U.S. Economy Grew Slower Than Expected
27.03.10 12:17	Dow Jones: Nestle to save orangutans, tropical forests, and our climate
20.03.10 09:39	Aktiencheck: Nestle buys Kraft pizza business for \$3.7 bn - Corporate News
19.03.10 17:54	Dow Jones: America's 25 Favorite Candies: Top-Selling Sweets
11.03.10 13:41	FT: Nestle CEO declines comment on bid for Cadbury

[more News](#)

Recommendations (25) Analysts & Community

Target	Analyst / Community - Rec.	Hit rate
63.75 CHF	community: farmertschoh #16 My recommendation today is Nestle (ISIN CH0038863350 / WKN A0Q4DC)	+62.19%
57.53 CHF	community: HotelAdlon Nestle expected to post 18% jump in Net profit The company in its latest research report revealed	+86.47%
--	Analyst: JP MORGAN JP Morgan downgrades the company on expectations that Nestle would miss its 2009 sales	+58.73%
--	Analyst: UNICREDIT Stock Alert for Nestle SA Issued by MicroStockProfi	+68.22%
--	Analyst: UBS European Stocks Are Little Changed; EADS Declines, Nestle Gains	+61.90%

[more recommendations](#)

Users can obtain pinpointed information where they need it and can tap expertise in the form of contextual information.





Interview with Professor Bernd Lahno

“Customer Interests have to come first”

In contrast to the usual view in economics and decision theory, that trust is a rational expectation, Professor Bernd Lahno defines it as an emotional attitude. An attitude that makes the individual vulnerable, but without which social life would be impossible.

Bernd Lahno was promoted to professor 2002 at the University of Duisburg with a work on trust. Since September 2006 he has been professor of philosophy at the Frankfurt School of Finance & Management, where in addition to his research, he is involved with establishing a new Bachelor of Management, Philosophy & Economics. The program is designed to teach executives how to make sustainable and socially acceptable decisions in the midst of an increasing interdependence of business, politics and society.

compass talked with Bernd Lahno about the trust concept and the importance of responsible action in the financial industry.



Bernd Lahno
Professor of Philosophy
at the Frankfurt School
of Finance & Management,
Germany

Professor Lahno, numerous studies show that the financial crisis has led to a considerable loss of trust by citizens in the State, the economy and corporations. How does this affect the financial world, which is especially dependent on trust in relationships?

Not all areas of the financial economy depend on trust in the same way. It is my impression that actors in the financial economy are increasingly focusing their activities in areas such as investment banking that are relatively unaffected by the increasing corporate uncertainty or areas where profit can still be made from such uncertainty with some skill. This is completely understandable but has disastrous consequences. For the impression is also gaining that the financial economy as a whole can no longer do sufficient justice to its key social responsibilities, such as the provision of liquidity to medium-sized enterprises. There is the danger of a vicious spiral, which is naturally fed by uncertainty.

Social theory defines trust as “a readiness to rely on the actions of another.” Can this principle work in the free market economy at all?

Not only can it work, the market economy is in fact dependent on individuals relying on the actions of others. Every exchange of goods and services is rooted in uncertainty. A party must effect an advance performance without any certainty of counter-performance. The quality of services can be directly assessed only in rare

cases, and during declines, one has to trust that the other party will fulfill its guarantee obligations honestly. Every market participant has to trust that the opposite party either carries out its transactions honestly on its own initiative or is effectively required to do so by third parties. Trust is a mechanism that allows us to deal with such risks to everyone’s benefit. It is not the sole reason why one should rely on others, but trust is indispensable when risks cannot be cognitively managed. Several theoretical analyses show that it is precisely in complex markets that this is frequently the case, and empirical studies show that trust is the key to solving such problems, and very clearly, in the economic context as well.

Is greater state regulation of the markets an appropriate measure for regaining lost trust?

There are no markets without rules. State regulation is required if market participants cannot come to agreement on rules for mutually advantageous interaction. In the present situation, regulation is completely and absolutely essential. But the financial economy should not leave this to politics alone. Clients will participate with confidence in a game played according to rules only if they both find that their interests are represented in the rules and discern that the financial economy perceives these rules as “their” rules. The financial economy is therefore required to set and communicate workable objectives, values and limits for its actions. Policy makers can and must assist the enforcement of such rules through appropriate measures. However, controls and sanctions alone are inappropriate in restoring the required trust.



Talking about “Value Changes”: The new generation of clients lives in a culture of communicative networking and trusts the judgment of its “peer group” above all. Credibility, independence and participation are high on the list. To what extent will the current consumer society change as a result of these factors?

The fact that communication is easier today and complex information is rapidly available to all is commendable. But let us not deceive ourselves. These factors will not be able to eliminate the information asymmetries that make trust necessary. A bank advisor will generally continue to sit face to face with clients that have an extremely imperfect understanding of his business and are therefore vulnerable to the results of his actions. Values such as credibility, independence and participation are a wholly suitable basis for trust in this case.

What concrete options do banks have to regain the trust of their clients?

What services should a trustworthy investment advisor provide?

The answer is obvious: Banks must place the interests of the client first. In particular, a trustworthy investment advisor must provide optimal advice to clients that is in the clients' interest. Two things are necessary. First, he must have outstanding technical qualifications, and second, he must use these qualifications in the interests of clients. Quality assurance to ensure that investment advisory services are provided professionally is important, but will be of use to the client only if he can be confident the services are used to further his objectives. In view of the fact that banks are obviously better informed, the investment advisor can be an effective agent between bank and client only if he positions himself in the client's shoes. My impression is that the organization of investment advisory services must be fundamentally reworked. Commission payments for the sale of products in the interests of the bank are absolutely counter-productive. Instead, one should consider tying variable salary components to results and measuring results solely on the basis of the achievement of client objectives. If consultants were relatively independent in comparison with other operating departments within the bank and had an opportunity to share their experiences, they could and would represent client aspirations and proposals professionally in their respective institution. Client interests must be effectively integrated into a financial firm's strategic decision process. The more conducive the conditions for doing so, the simpler it will be to regain the trust of clients, benefitting both the client and the company. ◀



Bernd Lahno:
Der Begriff des Vertrauens
Mentis, Paderborn, Germany,
461 pages

**About Interactive Data Corporation**

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For more information, please visit www.interactivedata.com

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Frankfurt
Sandweg 94
60316 Frankfurt/Main
Germany
Tel: +49(0)69 505030 0
Fax: +49(0)69 505030 505

Helsinki
Merimiehenkatu 36 D
00150 Helsinki
Finland
Tel: +358(0)9 6860 6717
Fax: +358(0)9 6860 6710

London
Fitzroy House, 13-17 Epworth Street
London EC2A 4DL
United Kingdom
Tel: +44(0)20 7825 8000
Fax: +44(0)20 7825 7701

Madrid
C/ María de Molina 37
28006 Madrid
Spain
Tel: +34(91)7452 105
Fax: +34(91)7452 106

Milan
Via Mauro Macchi, 44
20124 Milan
Italy
Tel: +39 02 671915 1
Fax: +39 02 671915 40

New York
100 William Street, 17th Floor
New York, NY 10038
United States of America
Tel: +1 212 269 6300
Fax: +1 212 771 6987

Paris
9, Rue de Téhéran
75008 Paris
France
Tel: +33(0)1 56 69 50 70
Fax: +33(0)1 56 69 50 79

Zurich
Loewenstrasse 2
8001 Zurich
Switzerland
Tel: +41(0)44 276 46 11
Fax: +41(0)44 276 46 01