

CHAPTER 29

Checking Accounts

The Dynamo of E-Banking

While others chase the dream, Nordea is making it work

by William Echikson

Five years ago, lunchtime queues at the dozen teller windows of the Nordea bank branch in Helsinki's financial district would have stretched to a half-hour. But shortly after noon on a recent Monday, only four tellers serve customers—and even then, no lines. The reason for the change? Simple: Nearly two-thirds of Nordea's Finnish clients bank on the Internet. "There's nothing more natural than banking with your computer," says Bo Harald, Nordea's director of electronic banking.

Forget flash, fanfare, and giant ambitions: This small Scandinavian outfit has quietly built the world's most successful Internet bank, upstaging upstarts and established players alike. Nordea's 2.3 million Net customers complete 6.9 million online transactions such as paying bills and buying stock each month. That's twice the online activity of the runner-up, Charlotte (N.C.)-based Bank of America, which benefits from a home market that's 12 times larger. And it's nearly 14 times more transactions per month than the largest Net-only bank, Britain's Egg. "When it comes to Internet banking, Bo Harald and Nordea are the best," says banking analyst Amit Mehta of Morgan Stanley Dean Witter in London.

And while most e-banks have yet to earn a dime, Harald's prudent, step-by-step e-banking strategy already is boosting the bottom line. The Net has helped Nordea eliminate half of its branches and 5,000 jobs in Finland over the past five years, even as the bank has increased its number of transactions by a third. Profits jumped to \$2.2 billion last year from \$1.8 billion in 1999, largely due to its Net initiatives. Now, Harald is transferring his Finnish expertise to the Scandinavian banks that have merged since 1998 to form Nordea. He estimates that will lift the bottom line by \$250 million over the next three years, half from cutting costs and half from increased revenues.

Think of it as the revenge of the bricks. A year ago, the smart money in Europe was pouring into

online banks that didn't need costly downtown real estate for branches or legions of back-office workers to run them. They went by funky, colorful names such as Egg, Ze Project, and Cahoot. These branchless financial-services companies figured they could flit across borders, attracting new customers by leveraging their cost advantage to offer higher interest rates and lower transaction fees. Today, though, many of the e-banks are struggling.

Their advantages were no match for Nordea's range of services, greater capital, and existing customer base. The biggest hurdle for the upstarts was simply winning customers. Internet-only banks have to lay out as much as \$225 in marketing costs to woo each new client, according to researchers Jupiter MMXI. By contrast, Nordea needed little more than a postage stamp or a word from a branch employee to sign current customers up for Net services. It was an easy sell. Since the bank benefits from lower costs via the Web, it passes some of the savings on to clients in lower fees. Over the past half-decade, Nordea has spent only \$18 million directly on its Finnish Net initiatives, while Egg needed to invest \$650 million to get off the ground. "We didn't need to attract new customers, we already have 9 million potential Internet users," Harald says with a smile. And Nordea's long-time customer relationships mean it doesn't have to compete with upstarts on price: Even its online fees, which are lower than branch fees, are in some cases four times what Net-only operations charge.

Still, some say Nordea should be even more aggressive. The bank is the product of mergers between Finland's Merita, Sweden's Nordbanken, Denmark's Unidanmark, and Norway's Christianabank, but its greatest Web success so far has come in Harald's home country, Finland. Even there, critics say, Nordea could better tap the Net to cut costs internally. In Finland, Nordea has an average of 10 employees per branch, and systemwide it averages 14. The bank should trim excess staff both in Finland and across Scandinavia, says analyst Kian Abouhoussein of J.P. Morgan & Co. in London. He's also urging the bank to enter a bigger European market such as Germany—giving it a larger potential customer pool for both its online and offline operations. "You must get new customers," Abouhoussein says. Harald counters that the bank, at least in Finland, is lean enough and that expansion abroad isn't imperative. "We have enough work at home," he says.

Indeed, it's clear that a home field advantage pays off. The upstarts believed that the single European market would give their virtual model a leg up. Despite European Union convergence, though, banks still need a separate license for each country. For example, Dublin-based Net bank first-e lost a precious year obtaining licenses. Nordea, on the other hand, is well-connected across the entire Nordic region. And its branches are a plus for Web customers who also like to do some transactions with tellers. "I get all my information about my account online, but I still like to come here and deposit money," says cafe owner Wojtek de Rzewuski as he visits a Nordea branch in Stockholm.

The upshot? Outfits such as France's Ze Bank and Britain's Cahoot are struggling to get off the ground. Egg and first-e are doing a bit better, but remain far smaller than Nordea. Even financial heavyweights that broke out their Internet operations into separate subsidiaries have had a rough go. In Germany, Commerzbank's Internet-based Comdirect saw its profits fall by 75% last year, to a mere \$2.4 million. Switzerland's Vontobel scrapped its ambitious Y-O-U e-bank after investing more than \$150 million. One problem: Orphaned e-bank subsidiaries don't have direct access to their parents' all-important customer relationships.

It helps to be in Europe, too. Many U.S. online banks have been hobbled because Americans are reluctant to give up paper checks—they still write 69 billion of them yearly—in favor of electronic systems. Worse, even when Americans pay bills electronically, as often as not the bank that does the transaction simply prints out a check and mails it to the company being paid. And until recently, American banks couldn't offer such nonbanking services as mutual funds and insurance, ceding much of the online finance business to upstarts such as Charles Schwab & Co. and E*Trade Group Inc. Europe's "universal banks," by contrast, handle all sorts of transactions, including stock trading and insurance sales. "The big banks here are giant, multiheaded dragons—they offer so many more services than American banks," complains Mattias Miksche, president of E*Trade's Swedish subsidiary.

Dragons such as Nordea couldn't be further in style or substance from the hip Net startups. Harald, 53, runs Nordea's online operations from a century-old edifice that Finns simply call "the old bank building." His offices are furnished with Victorian chairs and tables. The dark, paneled walls show off portraits and landscapes by 19th-century Finnish artists. They depict the sort of bleak, Arctic Circle countryside where Harald grew up on a dairy farm without plumbing. "I got pretty good at hitting a cat's eye while milking a cow," he chuckles.

His conservative upbringing gave Harald a deep respect for the Establishment. While studying economics and law during the turbulent '60s, Harald spurned the left-wing activism that attracted so many fellow students. His grandfather had struggled against Marxist forces during the 1918 Finnish Civil War. Instead, Harald formed a group called Action 70 that opposed student communists.

As the son of a poor farmer, Harald had to work to pay off his student loans. During the summers, he got a job as a bank teller. Then, after a stint in the Finnish army—he still serves as a reserve officer—he joined the Union Bank of Finland. During Harald's long career, he earned a reputation as a builder, helping to open the bank's first foreign office, in Luxembourg, in 1977, and in 1980 setting up its first Asian office. Back in Helsinki, he bought a home where he spent every summer working with his hands, renovating and adding a second-floor bedroom. His house is now complete, but he still enjoys trundling off to the forest to cut wood to burn in his sauna.

It may sound rustic, but it's emblematic of Harald's down-to-earth approach to his work. He doesn't love technology for its own sake. To Harald, the Internet is like his treasured buzz saw—a tool like any other. "We don't dream about the Net, we use it," he says. Harald sees himself as a field officer carrying out a well-planned offensive.

It's an attack that started early. To cut costs, his Union Bank installed an electronic payment system and started to phase out checks in 1982. And it launched PC banking—using dial-up modems—in 1984. When the Internet took off, Finland and the rest of the Nordic region adopted it fast. Today, 42% of Finns use the Internet, vs. 27% of all Europeans and half of Americans, according to Jupiter. That gave Harald a wired customer base—a huge advantage in his Internet quest. "We got a great head start," he says.

A final outside shove forced the bank into even faster change. When the global economy cooled and the Soviet Union collapsed in the early 1990s, Finland's then timber-based economy was hard hit as its trade with the former communist bloc plummeted. Banks throughout the region, including Harald's Union Bank, nearly failed, saved only by government intervention. The banks rushed to merge and cut costs. In 1995, Union Bank merged with its main rival, Kansallas-Osake-Pankki, to form Merita Bank—which would later become the heart of Nordea's Finnish arm.

The same year, Harald was named director of Internet services with the goal of shifting as much business as possible to the Net. That would help the bank cut costs and free up branch employees to sell more valuable services. Before the Net kicked in, the 15 staffers at Nordea's branch in the Jumbo Shopping Mall near Helsinki spent almost all their time on

deposits or withdrawals. Today, about 96% of such transactions are done electronically, “so we have time to call customers, say hello, and see what we can do for them,” says branch manager Jukka Koski. The branch has boosted revenues in the past two years by 50%. “Instead of just doing manual work, it’s much more interesting to sell loans and stocks,” says Paivi Ryonakoski, a former teller.

Customers love the new e-bank, too. Even though Nordea charges \$2 per month for basic Internet banking, clients ultimately save because transaction fees are lower online. Foreign-currency wire transfers made from branches cost \$14, compared with just \$7 on the Web. And Nordea allows customers to pay bills online for free but charges \$3.50 for the same service in a branch.

Even with the lower fees, Nordea saves. Online transactions cost the bank an average of just 11 cents each, compared with \$1 for transactions in branches—resulting in \$40 million in annual savings, Harald says. And online customers use the bank’s services more often. Online bill payments have quintupled in the past two years, while Net customers make twice as many stock trades as unconnected ones do—reducing the bank’s costs on those trades by more than 90%.

Better yet, Nordea’s loyal customer base means the bank doesn’t have to get into price wars with online competitors. For stock trading, E*Trade’s \$10-per-trade fees are just a quarter of Nordea’s typical price. The online upstart also pays more than 3% interest on brokerage accounts, compared with none for Nordea. Yet E*Trade only has 27,000 Swedish customers, vs. more than 45,000 trading accounts for Nordea in Sweden, the country where they’ve been competing the longest. All told, Nordea has 220,000 online brokerage accounts. “Nordea’s fees just aren’t high enough to make a difference,” says Magnus Grann, a 40-year-old software engineer who has banked at Nordea for years and now trades stocks via its online arm.

Business customers also benefit by moving online. Four years ago, Nordea set up an electronic marketplace on its Web site called Solo Market. It has become the largest e-tailing venue in Finland, hosting some 600 retailers who together make more than 60,000 sales a month. Kari Taina signed up his Helsinki lighting shop, Valotaina, in 1996. “I got immediate access to all of Nordea’s customers,”

he says. Taina sells \$1 million a year in lights that combat depression stemming from Finland’s long, dark winters—about 10% of that online. The numbers aren’t huge, but Taina says it’s well worth the \$150 connection charge and \$18 monthly fee he pays Nordea for the service. Nordea profits further because Taina pays his company’s bills and salaries online, generating more fees for the bank.

Harald’s new challenge is to export his successful Finnish model to Nordea’s operations in other countries. When the Swedish bank Nordbanken came aboard in 1998, fewer than 10% of its customers were on the Net, compared with more than 70% of Finnish clients. One of the problems was that Nordbanken customers had to install special software and a smart-card reader before going online. In Finland, regular Web browsers and a straightforward password system suffice. As soon as the simple Finnish system was introduced a year ago, subscriptions in Sweden soared. Today, nearly half of Nordea’s Swedish customers, or about 1 million accounts, are online.

Then there’s the mobile phone. The Nordic countries are the world’s hottest cellular market, with 76% of Finns using mobiles. Harald introduced stock trading and bank transfers via cell phones last year, although the service has yet to take off. Fewer than 20,000 Nordea customers have set up mobile-phone accounts. Harald, though, believes offerings that take advantage of the phone’s mobility will give the service a boost. One example: The bank now lets customers use their phones to buy movie tickets, with purchases debited directly from Nordea accounts.

Although such ideas may sound futuristic—and they may never get off the ground—the key to Harald’s success comes from his ability to tap the potential of technology without overstepping its commercial limitations. He and Nordea are evolutionaries, not revolutionaries. Does he want to take his cutting-edge services and sell them to other banks? “It’s outside our core business,” he says. Does he want to become a global player, changing the world with the Net? That’s not in the cards, either. It sounds so modest. Perhaps even lacking in ambition. But these days, it’s the realistic Haralds of the world, not wide-eyed Internet prophets, who are showing the way forward.

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