

CASE STUDY 2

From e-banking to e-business at Nordea (Scandinavia)

The world's biggest clicks-and-mortar bank

Nordea company background

Our philosophy is both high tech and high touch, not either or.

(Bo Harald, Head of Electronic Banking, Nordea)¹

Customers entering Nordea's main branch in Helsinki at lunchtime on a busy weekday encounter something very different from what is typically seen at banks in other capital cities. Those long lines in front of the counter, so common at its competitors, have disappeared – even during peak hours.

During the past two decades, Bo Harald, Nordea's Head of Electronic Banking, has steadily and patiently moved the bank into the electronic age. As *Business Week* pointed out: 'Forget flash, fanfare and giant ambitions. This small Scandinavian outfit [Nordea] has quietly built the world's most successful Internet bank.'² Now that e-banking has become a reality at Nordea, the next big challenge for Harald is to move the bank into e-business:

We are moving from e-banking to e-business. We are not moving into market places as such. What we are doing is taking our e-banking services and bringing them to the e-business value chain. We are an enabler for e-business.³

Company history

Nordea Bank is the product of several mergers between banks from four Scandinavian countries. Domestic mergers in Finland accelerated after a sustained economic crisis in the early 1990s caused by the collapse of the Soviet Union and the downturn of the global economy. The crisis strained Finland's timber-based economy and forced banks to cut costs.

The mergers took place over several years (see Exhibit 1). In 1997, the Swedish Nordbanken and the Finnish Merita merged to form Merita Nordbanken. In 1999, the Danish Unidanmark acquired TRYG and, later, Vesta. In 2000, Unidanmark and Merita Nordbanken merged to form Nordic Baltic Holding, which became Nordea after merging in 2000 with the Norwegian Christiania Bank Og Kreditkasse.

1 Nordea company presentation at Caisse d'Epargne Group, 13 June 2003.

2 'The dynamo of e-Banking', *Business Week* online, 16 April 2001.

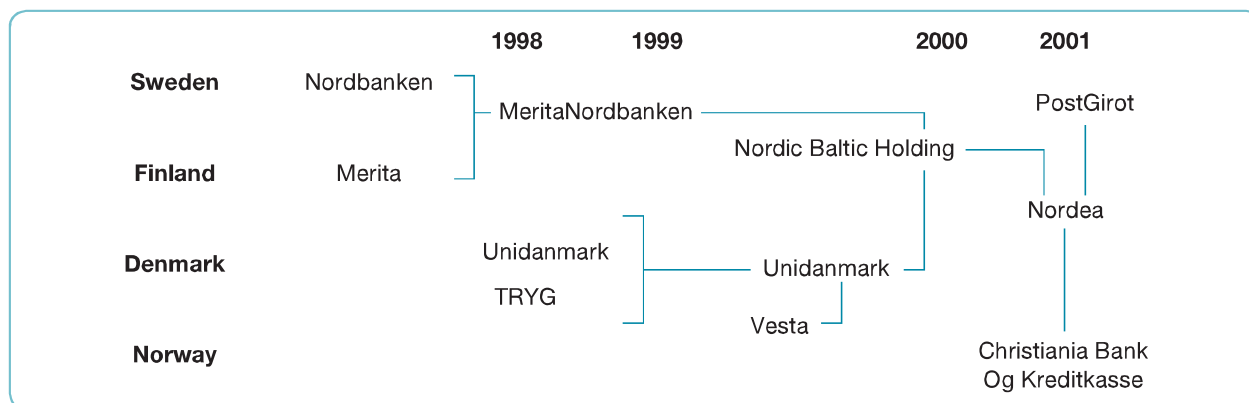
3 Unless stated otherwise, quotations from Bo Harald were gathered during company interviews made in Helsinki in September 2003.

This case study was written by Albrecht Enders, Research Fellow at INSEAD (Fontainebleau), under the supervision of Tawfik Jelassi, Affiliate Professor of Technology Management at INSEAD, and Charles Waldman, Senior Affiliate Professor of Marketing at INSEAD. It is intended to be used as the basis for class discussion rather than to illustrate effective or ineffective handling of a management situation. This case study was made possible by the cooperation of Bo Harald, Head of Electronic Banking at Nordea.

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Part 4 Case studies

Exhibit 1 The creation process of Nordea through mergers of Scandinavian banks



Source: Nordea Bank.

On completion of the merger process at the end of 2002, the market capitalisation of Nordea reached €12.6 billion, making it the fifth largest company in the Nordic region and the fifteenth largest bank in Europe. Today, it is the largest financial group in the Nordic region with approximately €262 billion in total assets. Its market share in the Nordic banking markets ranges from 40% in Finland, 25% in Denmark, 20% in Sweden, to 15% in Norway. In the life insurance market, Nordea has a market share of 35% in Finland, 10% in Denmark, 9% in Norway and 6% in Sweden. Retail banking represents the most important business area, constituting 74% of Nordea's income in

2002. Corporate and institutional banking accounted for 19%, asset management for 4%, investment banking for 2%, and group treasury for 1%.

At the end of 2002, Nordea had 10.6 million private customers, which the bank considers to be its main asset. Some 45% of the total population in the Nordic countries has either a main or secondary account with Nordea. At least 3.2 million customers are active e-banking customers (see Exhibit 2). In addition to its retail business, the bank also serves 950,000 corporate customers. Nordea employs 35,000 people and has 1260 branches throughout the Nordic and Baltic region (see Exhibit 3).

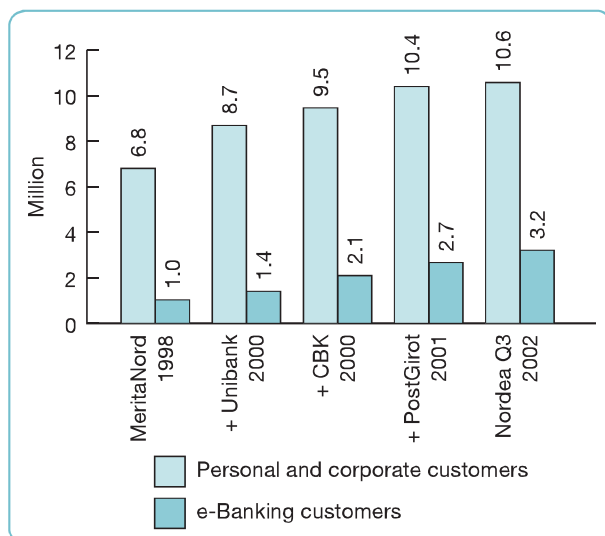
To outline the bank's purpose and goals, Nordea has formulated the 'Nordic Idea' and the 'Nordea Vision'. Its Nordic Idea states that:

- We share and exchange Nordic ideas.
- We are Nordic in operations while personal and local in delivering services. We think Nordic and act locally.
- Our market is of a size that makes it worthwhile to develop joint concepts, products and services.⁴

Nordea's Vision for the future is built upon three main pillars:

- We will be valued as the leading financial services group in the Nordic and Baltic financial market with a substantial growth potential.
- We will be at the top of the league or show superior profitable growth in every market and product area in which we choose to compete.

Exhibit 2 Evolution of Nordea customers and e-banking



Source: Nordea Bank.

⁴ Taken from Nordea company website.

Case study 2 From e-banking to e-business at Nordea (Scandinavia)

Exhibit 3 Nordea's European branch network



Source: Nordea Bank.

- We will have the leading multi-channel distribution with a top world ranking in e-based financial services and solutions.⁵

Nordea's approach to e-banking

Bo Harald has been the main architect of Nordea's approach to e-banking. He joined the Union Bank of Finland in 1975 after studying law and economics, and opened the bank's first foreign office in Luxemburg in 1977 and in Asia in 1980. His job assignments pushed him to use computers to carry out banking transactions:

While away from home, I started using the computer to authorize payments. The beginning of PC banking in 1984 was a blessing for me. It became so much easier to do things from a distance.⁶

Union Bank introduced electronic payment systems and started to phase out cheques in 1982.

I think the secret of our success was to start early. We started back in 1982 with telephone voice commands. By 1984, we added PC banking with a dial-up modem. It was like black

and white compared to the color Internet, but it was a start and it gave us the experience.⁷

Starting out early also helped to keep costs down. Harald says:

e-Banking is not expensive if you start early and you build it up gradually. . . . However, it can be very expensive if you wake up in the middle when things are already happening, because then you need to ask expensive consultants for advice and you end up buying all the expensive bells and whistles to outshine your competitors.

With the advent of the Internet, Bo Harald became Head of Internet Services at Merita Bank with the explicit mission to put as much business as possible on the Web in order to reduce costs and free up branch employees to focus on selling complex, higher-margin financial products.

⁵ Taken from Nordea company website.

⁶ 'Online extra: Q&A with Nordea's Bo Harald', Business Week online, 16 April 2001.

⁷ 'Online extra: Q&A with Nordea's Bo Harald', Business Week online, 16 April 2001.

Part 4 Case studies

Nordea's e-banking strategy evolved through different stages. The first was the creation of an 'e-habit' among its customers. To achieve this it was crucial to involve the 35,000 branch staff who enjoyed the trust of customers and were in frequent face-to-face contact with them. In addition, the bank strived to keep e-banking simple to understand and use in order to create a higher level of customer satisfaction. The underlying principle was that the bank's website should be designed in a way that would be easy even for 65-year-old customers to understand. Harald explains:

I met the CEO of an important corporate customer. He had said before that he would never use a PC and that he would never retire. Now, at the age of 78, he had decided to retire. Then he came to me and said: 'Now that I am retired, I don't have my secretary doing my banking transactions anymore, so I have to do it myself. And I started using your Solo service [the Nordea online banking system] and it works extremely well.' Now he is really fond of our basic e-banking service. He is even talking about it to the people of his own age group. They tested it [Solo] themselves, and they also like it. That's how it works: first, our customers become believers [in e-banking] and then they become preachers.

The goal of the second stage was to interconnect customers by integrating the different banking channels: e-banking, mobile e-banking (or m-banking), branch-based banking, contact centre and providing different types of e-services such as e-payment, e-billing, e-signature, e-ID, e-salary and e-invoicing. All the Internet services are concentrated in Nordea's Internet bank, 'Solo', which provides the following banking services: account management, transfers between own accounts, domestic and foreign invoice payments, equity (domestic and foreign), mutual funds and bond investments, electronically signed credit facilities, as well as life and general insurance.

The goal of the third stage is to personalize further the e-banking services and customise offerings by tapping into the value of data-mines. But for Bo Harald, when developing new products and services at Nordea: 'We avoid asking customers directly. We would rather use our colleagues and their experience in the branches.'⁸

Getting top-management support for e-banking has not always been easy, Harald acknowledges:

Either you have a CEO who supports e-banking right from the beginning and has the staying power to see it through, or he lets you take care of it yourself. I can't say that our CEOs early on were particularly excited about it. If you have

someone on a high enough level who pushes e-business, then the CEO does not have to do it. Actually, I am a little bit afraid if CEOs become too obsessed with something. They have such a big voice that it might be overdoing it. It must be planted somewhere in the bank, and I have been lucky to have that role at Nordea. I would love to have had more support in the past, though. We would have taken off much earlier!

While Nordea and other Scandinavian banks were developing their e-banking know-how, their e-customers simultaneously built up other assets important for the success of e-banking. These included 'e-trust' (in the security and reliability of electronic banking channels) and 'e-habit' (the routine use of the Internet for bank transactions).

Sustaining Nordea's Internet lead: from e-banking to e-business

The e-trust and e-habit have prompted Nordea to leverage the competencies built up for its e-banking services to also provide e-business solutions. In fact, Harald believes that e-banking alone is no longer a way for a bank to differentiate itself from its competitors:

e-Banking services are kind of passé. Every bank offers them. The really important thing is launching e-banking services for e-business. It's a huge market! Banks are getting their acts together but very slowly. So I am worried that banks are losing their opportunity to earn substantial income from e-business.

Nordea started to move into e-business by leveraging the capabilities it had built up for e-banking. Bo Harald explains:

The underlying principle is that we try to reuse technologies that we already have. For instance, we have file transfers for accounts, so why not have file transfer for bills as well?

The main e-business services that Nordea currently offers to its private and corporate customers include e-identification, e-signature, e-billing, e-salary and e-payment.

e-Identification

Through Nordea's e-identification services, Nordea customers can identify themselves on the websites of other participating companies and governmental agencies. For the latter, the Finnish Ministry of

⁸ 'Learn from the largest Internet bank of the world', accessed at www.tietoenator.lv

Case study 2 From e-banking to e-business at Nordea (Scandinavia)

Finance has officially stated that if customers need reliable identification, they can and should use the bank's identification standards. For example, consider the case of citizens who want to access the state pension system to find out the balance of their pension in order to decide how much to save for retirement. Initially, they access the state pension system's website with links to all major banks in Finland that provide e-identification services. They then choose their bank, access the respective website and identify themselves with their one-time password. Upon registering there, they can switch to other services, including the state pension service, while staying within the identified area. 'This state pension site is accessed 2000 times a day', says Bo Harald.

Our e-identification service is so convincing that the Finnish post office has stopped its own identification service. They use banks because it's very expensive to have a reliable identification service only for the post office. Why should they do it themselves?

e-Signature

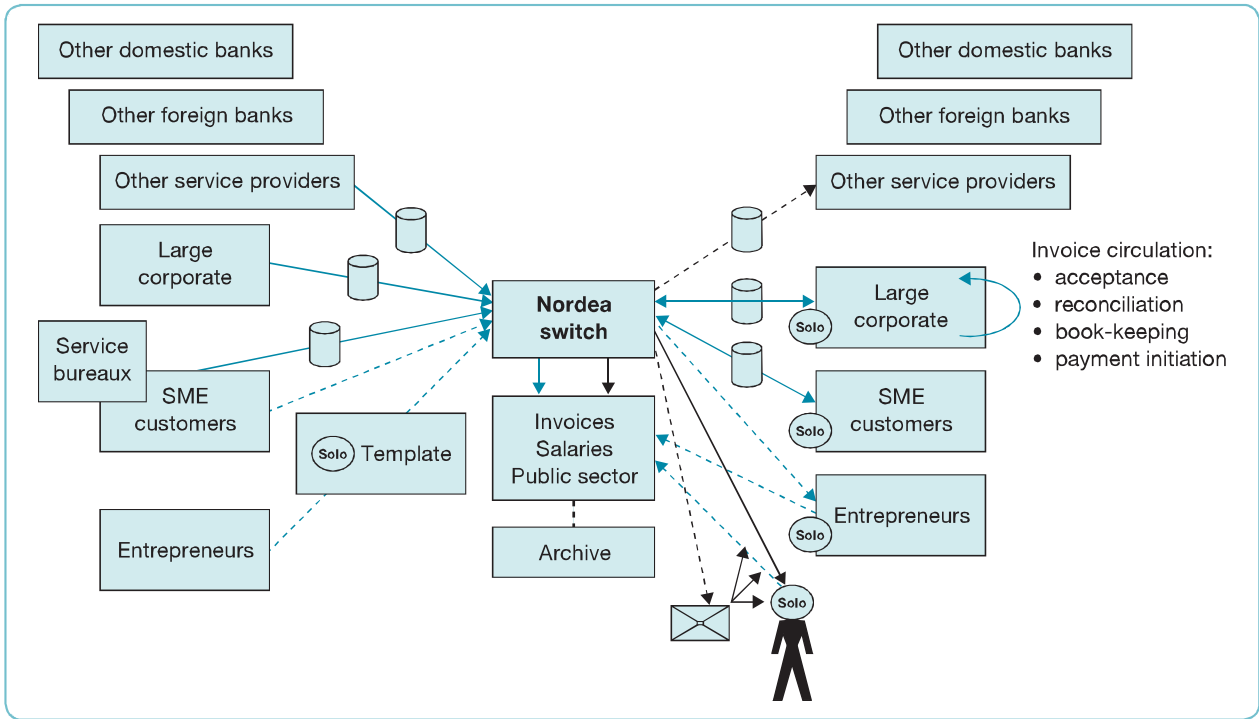
The e-signature service came about 'by accident'. When Bo Harald told executives from Sonera, the

largest telecom operator in Finland, that customers could get a loan online, they said: 'Look, if you can sign up for loans through your system, you should also be able to sign a phone subscription contract.' Within a few weeks, Nordea reached an agreement with Sonera to send all interested customers an online phone contract through a link to Nordea's Solo Internet bank website where they could identify themselves and then sign the contract. This system was later extended to other businesses that wanted to provide e-signatures for their contracts.

e-Billing

Through Nordea's e-billing services, companies can send their invoices electronically to the bank, which then forwards them to their customers who have e-banking agreements, while those customers without e-banking accounts automatically receive a printed invoice via the mail (see Exhibit 4). Customers who get their invoice through their e-bank connection are asked: 'Do you want to pay this bill?'; they approve the payment with a mouse-click and the bill is paid. This service was first used in 1998 by Finland's main

Exhibit 4 Nordea switchboard for invoice processing



Source: Nordea Bank.

Part 4 Case studies

telephone companies to send invoices to customers via Internet. Bo Harald comments:

In Europe, there is a cost of \$50 billion every year for paper invoices. Who pays for that? In the end, it is always the customer. We can eliminate that when we go to electronic invoicing. In Sweden, we are sending out invoice files to a Nordea switch, which are then distributed to private and large corporate customers [e.g. a telecom company that sends invoices to its customers]. In the future, you will see it with other banks as well. What's fantastic about this is that if you are an entrepreneur you can pay your bills online and you can also send out your invoices easily and quickly. The party that is sending the bills doesn't have to worry. Isn't that the obvious way? We are already sending these bills to other banks in Finland, Sweden, soon to other banks in Denmark and Norway, and later to the rest of Europe.

e-Salary

Through the e-salary function, companies can send income statements straight to the e-bank of their employees, thereby eliminating the need for printed salary statements sent via mail.

If you have enough staff, say 10,000 employees, it makes sense for the employer to send out e-salaries instead of paper salaries. That's where getting to a critical size really starts to matter.

e-Payment

The e-payment function is an adaptation of the invoicing function, which online merchants on the Solo platform can use for settling payments. It allows customers to go to the website of any online store in the Solo marketplace, place an order and click on a link to Nordea's e-payment system where they request an electronic invoice. After approving the payment with a mouse click, the amount is instantly transferred to the seller's account. This method has a twofold benefit: the merchant does not need to send out paper invoices or to worry whether the buyer pays. To ensure that there is no fraud on the merchant's side, Nordea conducts a reliability check on all 2000 merchants who sell goods in the Solo e-marketplace. Says Bo Harald:

For corporate customers, the value of the Solo e-marketplace grows exponentially with the increase in the number of retail customers . . . We have achieved a critical mass among our retail customers so we now have people who want to buy all kinds of things – from CDs and stereo systems to kitchen appliances and bicycles. That's what we need for the e-marketplace. As part of this move into e-business, we see the evolution of value chains in which the banks are supplying essential parts. In the future, this is the most

important reason for going into e-banking because each and every company and governmental agency is increasingly moving to digital value chains and the bank has a big role to play there for customer identification, direct payment in real time, invoicing, e-salary, e-pension and e-signature.

Banking channels at Nordea

After introducing online banking in 1984, Nordea continued to introduce new customer interfaces such as Internet banking, TV banking, WAP-enabled⁹ mobile phones and digital TV (see Exhibit 5).

According to Bo Harald:

When adding channels, a bank's main goal should be to add value . . . But it is also crucial that all channels and services have the same look and feel so as to offer customers a consistent user experience. The key is to have one core to our electronic bank and then to keep adding doors to it.

Kaisa Juhanni, a Nordea customer from Finland, considers Nordea's reliable multichannel services to be a major asset of the bank:

I like the quick and instant access without having to queue up at a branch. I also like the flexibility of being able to do my banking any time and any place, be it from home, the office or through the mobile phone. The Solo system is also very reliable. The system has probably been down just once during the past six and a half years. Finally, Nordea has also a very large installed base of users in Finland which allows me to transfer money to them without any delays.

ATMs and pay terminals

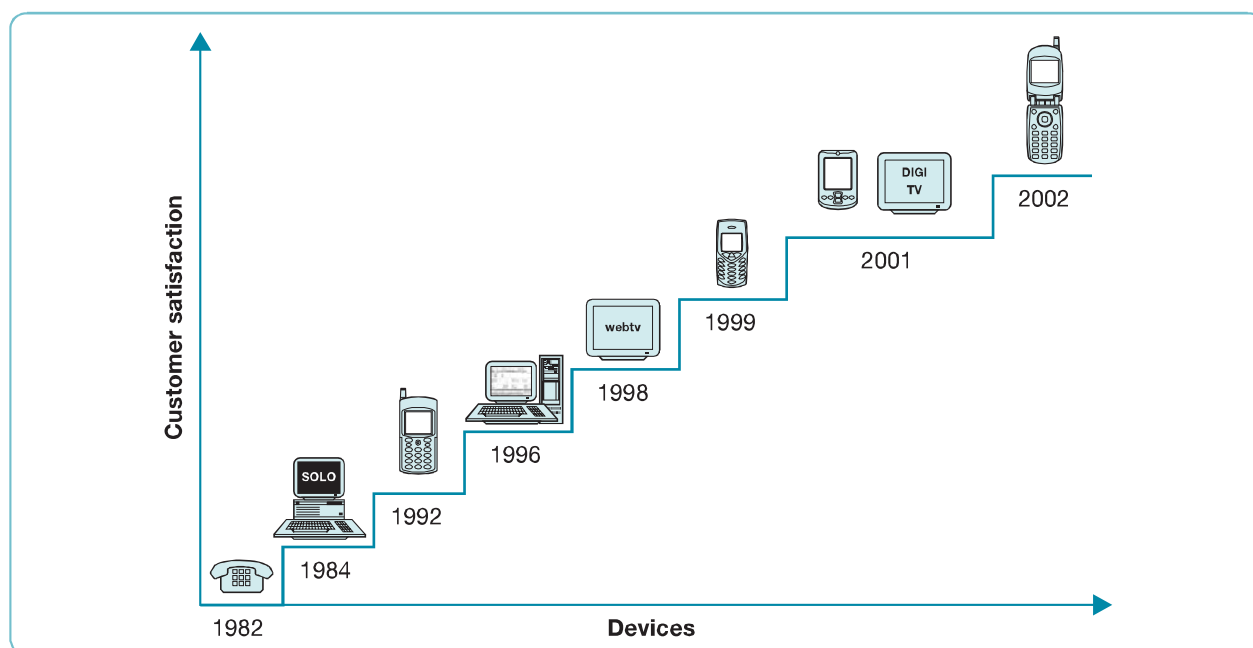
Automatic teller machines (ATMs) and pay terminals still play an important role in cash withdrawal and other transactions. However, as card payments and Internet transactions become more important, the role of ATMs and cash in general becomes less relevant (see Table 1). Bo Harald explains:

In our Danish organization, we have the highest number of card payments per capita in the world; the second highest is our Finnish organization. Actually, Finland has the lowest amount of cash in relation to GNP [gross national product]. As a result, ATMs have become less important. Earlier this year, we saw a fantastic development in Finland, which we consider as a laboratory. Compared to 2002, cash withdrawals have gone down by 15–16% in our branches and 8% from our ATMs. That's excellent because ATMs are very expensive:

⁹ Wap stands for Wireless Application Protocol, a secure specification that allows users to access information instantly via handheld wireless devices.

Case study 2 From e-banking to e-business at Nordea (Scandinavia)

Exhibit 5 Evolution of banking devices at Nordea



Source: Nordea Bank.

you have to keep the money there, you need to protect them and sometimes they are destroyed. Cash is actually the most expensive way to pay for things. Transactions at pay terminals are also quickly decreasing. We have started to charge people for using these terminals, so this year they should go down quite drastically. Just like ATMs, pay terminals are also unprofitable. Actually, I don't want to see them at all five years from now. People shouldn't be paying their bills in the street; they should do it at home. Why should people use cash at all? It's unhygienic, it's unsafe to carry around and there is a high risk of counterfeit money. It's irrational!

Table 1 Household transactions in Finland

	Transactions (millions)				% change 1999–2002
	1999	2000	2001	2002	
Manual transactions	184.9	163.9	141.0	125.3	–32.2
Pay terminals	35.5	35.6	34.3	31.7	–10.7
Card payments	234.3	263.1	306.9	363.0	+54.9
Cash-withdrawal ATMs	197.9	202.5	207.2	204.4	+3.3
Direct debit	69	75.3	78.5	81.5	+18.1
Solo payments	32.7	58.2	78.2	97.6	+198.5
Total	754.3	798.6	846.1	903.5	+20

Source: Nordea Bank.

m-Banking

Nordea's wireless service started out with WAP phones in 1999. Through WAP-enabled phones, Nordea customers can track their account and credit card transactions, transfer funds between accounts, pay bills both domestically and abroad, trade equities and read customer mail. The WAP service extends to the mobile phone Nordea's Internet services originally available through Solo. In 2000, Nordea introduced stock trading and bank transfers via mobile phone and also made it possible for customers to purchase movie tickets which are debited directly from their Nordea account. Adapting Internet services to the WAP cost Nordea less than €500,000; it mainly required adding a server for wireless services. However, Harald sees a lot of potential for wireless banking:

I firmly believe that, with Nokia, Finland will continue to play a leading role world-wide in mobile phone technology. I was recently on a train from Arlanda airport [in Stockholm] and I saw a group of teenagers all using their mobile phones. These are our future customers.¹⁰

¹⁰ 'Online Extra: Q & A with Nordea's Bo Harald', Business Week online, 16 April 2001.

Part 4 Case studies

In January 2002, Nordea expanded its wireless services by providing a more elaborate m-payment version for Finnish customers who have GPRS¹¹ handsets and are connected with Telia's, Sonera's or Radiolinja's wireless communication networks. This service was made possible via a joint launch with Nokia of a dual-SIM¹² handset for mobile transactions. The phone has two separate slots: one for the operator's SIM card, the other for the m-payment card issued by Nordea, which is based on wireless identification module (WIM).¹³ Harald believes that customers should be free to choose the supplier of their banking services:

You don't buy groceries from a furniture store, so why should you buy your banking services from the mobile operator? Plus, it's really not a big deal nowadays to make a handset with two chips.¹⁴

PC banking

Wells Fargo, Citibank and Bank of America have, similarly, as many customers as our Internet Bank 'Solo'. But with 124 million payments over the Internet in 2002, no other bank can keep up [with us]! This number might be about twice as large as those of the previously mentioned banks combined.

(Bo Harald)¹⁵

Online banking at Nordea started as early as the mid-1980s when Nordea allowed its customers to start doing transactions from computers at their workplace. Harald explains:

In the mid-1980s, people didn't have computers at home, and if they did, they didn't have modems. So we asked our large corporate customers: 'Can't you allow your employees to log on to their banking account through the workplace computer? That will save you a lot of time and money because people won't have to go to the branch any more.' Ever since, workplace access has been a very important pillar for our e-banking.

e-Banking and bricks-and-mortar banking have never been in competition at Nordea. Rather, they are considered to be complementary, as Harald emphasizes:

One of the main reasons for our success is the fact that we made e-banking already part of our branch business in 1982. We never considered it to be a competitor. e-Banking is not a separate profit center. That is important in order to quickly achieve a crucial size. Without the support of the branch employees, one is not able to reach that goal.¹⁶

However, direct online consultation from bank employees either in a branch or a call centre is kept to an absolute minimum:

Nordea decided consciously to offer no consultation on the Internet and very little on the phone. You must keep your offer simple to succeed in Internet business and to gain the necessary confidence and trust of your customers. That's difficult but necessary, and if your offer is simple, you don't need to provide expensive instructions over the Internet. For complex [financial] products, customers go to the branch anyway. However, the shift of transactions to electronic channels frees up resources for improved service levels in the branch.¹⁷

Tuukka Seppa, a Nordea customer from Finland, is fond of Nordea's banking services:

What I really like is the simplicity of the authentication process and the website itself. It is also very helpful that it offers immediate transactions between two Nordea accounts.

Today, all Internet banking activities at Nordea take place through Solo, the company's online banking service, which has become increasingly popular (see Table 2). This is demonstrated by the following statistics (figures correspond to the highest month of usage):

- *Student loans:* 84% of all student loans are completely paperless. Students apply online by providing information about their financial status and the loan is approved within one hour through a computerized scoring system. Once approved, students sign by keying in their customer number once more and a one-time password.¹⁸
- *Equity orders:* 80% of all equity orders are made through Solo.
- *Mutual funds:* 65% of all mutual funds are managed by Solo.

11 General Packet Radio Service (GPRS) is a technology used to send and receive data via packet delivery over a wireless network allowing the user to stay connected to the Internet.

12 A subscriber identity module (SIM) is the smart card inside a mobile phone that identifies the user account to the network, handles authentication and provides data storage for user data such as phone numbers and network information. It may contain applications that run on the phone.

13 WIM allows users to identify themselves with digital signatures to confirm their banking transactions.

14 'Two slots are better than one', Silicon.com, 23 May 2002.

15 'Learn from the largest Internet bank of the world', accessed at www.tietoenator.lv

16 'Learn from the largest Internet bank of the world', accessed at www.tietoenator.lv

17 'Learn from the largest Internet bank of the world', accessed at www.tietoenator.lv

18 For more information on the one-time password, refer to the authentication section below.

Case study 2 From e-banking to e-business at Nordea (Scandinavia)

Table 2 Evolution of online usage at Nordea

	Jan-July 00	Jan-July 01	Jan-July 02	Jan-July 03
Log-ons				
Denmark	6 091 418	8 924 759	11 721 765	14 659 759
Finland	17 495 518	20 582 125	24 671 753	28 199 328
Norway	1 595 000	3 562 704	4 528 822	6 118 581
Sweden	4 640 100	11 562 033	16 738 683	22 863 322
Nordea	29 822 036	44 631 621	57 661 023	71 840 990
Online payments				
Denmark	2 773 192	5 186 359	7 220 065	8 781 289
Finland	20 774 000	26 293 637	30 712 994	35 626 067
Norway	2 150 000	4 121 013	5 236 914	6 641 027
Sweden	6 660 147	18 845 501	25 202 502	31 401 953
Nordea	32 357 339	54 446 510	68 372 475	82 450 336

Source: Nordea Bank.

- *Foreign payments:* 59% of all private and small business foreign payments take place via Solo. Customers key the account number of the recipient into their computer (or mobile phone) and the money is received as fast as international transfers travel – within Nordea one day at most. Fees are €15 in a branch and €7 for online payments.
- *Currency deposits:* 30% of all currency deposits take place through Solo.
- *Foreign exchange:* 35% of all foreign exchange transactions occur with Solo.
- *Car finance:* 25% of all car financing takes place through Solo.
- *Home mortgages:* 24% of home mortgages come in through the Internet.
- Bo Harald summarizes Nordea's challenge for 2005: 'All the numbers mentioned should be up to 80% or 90%. That's the challenge in our bank.'¹⁹

TV banking

TV-based banking was launched in 1996 through the use of a set-top box that connected to normal household TVs. Through this box, Nordea customers could log on to the Nordea banking system and carry out basic banking transactions. The underlying idea was that those people who disliked computers would use the TV to write emails and to check their account balance. However, as it turned out, TV banking has

not so far fulfilled the high expectations associated with it. Says Bo Harald:

Clearly, every family has a TV in their house, so in principle it should work well . . . but we believe that people just do not want to check emails or do their banking in front of the whole family. Those are rather private things and that's why the TV in the living room is not well suited. That's the reason why we haven't invested more in this channel. We only offer basic services for e-payments. With the continuing convergence of the TV and the PC this might change, though.

Branch-based banking

The role of branch offices at Nordea has changed in recent decades. While in the past bank clerks spent most of their time keying in transactions manually, this has drastically decreased (see Table 1). For 2003, Bo Harald expects a further reduction of 20 million manual transactions:

If every transaction takes one minute, what can you do with this time once customers start banking online? It frees up the branch staff to give customers advice. We use our branches primarily for establishing personal relationships with our customers, which is important when making a big decision (such as purchasing insurance or a pension scheme) that requires personal trust. In a sense, banking is local but it doesn't always require an expensive branch. Sometimes an office is enough. You don't have to offer transfers there but you will never be able to replace either the personal sales nor the fostering of personal relationships. To achieve this it is absolutely paramount not to create separate profit centres for Internet and branch banking because the two have to feed each other. There mustn't be competition but co-operation between the two channels. Combining and leveraging high-tech and high-touch is the key to success.

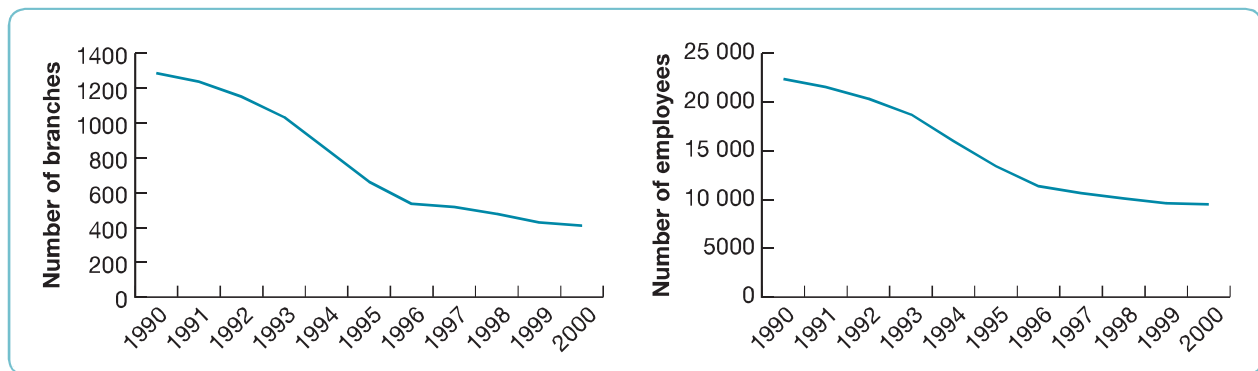
Nonetheless, the number of Nordea branches in Finland decreased significantly during the last decade – down from 1300 in 1991 to 400 in 2000. The number of employees shrunk to less than half during the same period, falling from 22,000 to 10,600 (see Exhibit 6). Getting strong and influential labour unions to agree to such staff reductions has not always been an easy task. Bo Harald recalls:

We had to speak to the unions in great length and we had to hand out very generous packages since no employee was actually fired . . . But we also tried to show that Solo [the Nordea Internet bank] had led to a great increase in customer satisfaction and that this would make Nordea a more competitive and stable institution in the future. We

¹⁹ 'Learn from the largest Internet bank of the world', accessed at www.tietoenator.lv

Part 4 Case studies

Exhibit 6 Evolution of Nordea's staff and branches in Finland



Source: Nordea Bank.

also showed the [labour] unions that Finland is absolutely world-class when it comes to Internet banking and that it was necessary to make changes in our organizational structure in order to maintain this lead. Finally, we pointed out that it was problematic to have people do this type of manual, repetitive, low-paid work and that it would be much more valuable if we educated these people to do a more creative and interesting job.

Today, Nordea operates 1,288 branch offices throughout the Nordic region and employs 34,600 people (full-time equivalents). In addition to the Finnish branches, there are 267 branches with 8,500 employees in Sweden, 151 branches with 4,400 employees in Norway and 348 branch offices with 9,400 employees in Denmark. Says Bo Harald:

We have been cutting branches for a long time, partly thanks to mergers and now thanks to the Internet... Finland used to be over-branched, but now it is almost under-branched. The future is to change the way branches work: we are now opening teller-less branches in places such as shopping centers. The idea is to use the branch to sell and provide services, not to make transactions. The branch staff should add value for customers. They shouldn't do routine, uninspiring work.²⁰

Marketing

Due to its early start in e-banking, Nordea has spent little on marketing its Internet initiatives in comparison with other online banks. From 1996 to 2001, Nordea spent about €18 million to market its Finnish Internet initiatives. This money was not directed primarily towards attracting new customers but instead towards getting the nine million branch customers to move to the Internet.

Because of its large size, Nordea takes a mass-market approach to its banking activities. Bo Harald explains:

If you are as big a bank as we are, you can't afford not to target all customers... There is also a misconception that there is a clear distinction between profitable and unprofitable customers. Of course, there are customers who come to the branch every day. They are unprofitable, but there is no way to get rid of them, so you might as well not even try. Another typical feature of less profitable customers is that they are young. However, soon enough they'll need a mortgage and a retirement plan. If you look at the older segments, you don't find that many unprofitable customers. Thus, when you want to talk about profitability, you really need to take a dynamic view of customers.

In its marketing activities, Nordea differentiates between two types of customer:

- *Internet believers.* These customers have been online for years and have the know-how and trust to navigate the Internet, to shop online and to do their banking online. To them e-banking is a normal day-to-day activity; something that is not worth talking about with their friends. From a marketing perspective, these customers are therefore considered to be 'infertile'.
- *Non-believers.* These customers are just starting to surf the Internet. They require substantial convincing to build enough trust and know-how to start doing e-banking. Friendly branch employees are best suited for removing that insecurity. Once

²⁰ 'Online extra: Q & A with Nordea's Bo Harald', Business Week online, 16 April 2001.