



# History of Svenska Handelsbanken

**Handelsbanken**

# History of Svenska Handelsbanken

## The early years

The history of Handelsbanken goes back to the spring of 1871 when a number of prominent companies and individuals in Stockholm's business world founded Stockholms Handelsbank. This was the result of a personal conflict at Stockholms Enskilda Bank which culminated in April 1871 with the resignation of eight board members who shortly after decided to form a new bank.

The bank began operations on 1 July 1871 in rented offices located in the Old Town district of Stockholm, which at that time was still the commercial and financial centre of the city.

At the outset, the bank proclaimed that it would pursue "true banking activities" with deposits and loans and that it would focus on the local bank market, in other words the business activities of Sweden's capital city. The bank's first year of operations was very successful and after only a couple of years, Handelsbanken held a strong position among Stockholm banks.

Handelsbanken's shares were listed on the Stockholm Stock Exchange in 1873. A couple of years later, the first branches were opened in Stockholm: 1876 in the Södermalm district (Götgatan 16), 1878 in Norrmalm (Fredsgatan 32) and 1882 in Östermalm (Humlegårdsgatan 24). The bank opened a branch in the town

of Jönköping in 1874, but it was closed in 1895.

## The Frænckel period

During the early 1880s, the bank grew more rapidly than its competitors. The crash in the construction sector in Stockholm in 1885 and the downturn in the economy that began in the same year seriously affected the previously expanding bank. With results still poor in the early 1890s,



**Stockholms Handelsbank's first branch at Kornhamnstorg, in the Old Town of Stockholm.**

the bank's owners demanded new management. In 1893, Louis Fraenckel, a private banker, was appointed as the new managing director of the bank. He would lead the bank for 18 years up to 1911. The business connections of Fraenckel's old firm, including international ones, were transferred to Stockholms Handelsbank.

A year or so after Mr Fraenckel's appointment, rapid economic development in Sweden created strong demand for banking services. The economic boom presented opportunities for higher profits, but



**Stockholms Handelsbank moved its head office to Kungsträdgården in 1905.**

also risks which were difficult to assess. In the midst of the stiff competition between the banks, Stockholms Handelsbank, under Louis Fraenckel's leadership, was the one that succeeded best. The bank was able to acquire a large number of corporate customers and to develop its international contacts. Mr Fraenckel focused on what we would today call merchant banking. Increasing profits was one of his major goals, and his strategies included greater focus on bond and foreign exchange business.

Fraenckel did not want the bank to be the direct owner of branches outside Stockholm. Instead, it was an active participant in founding new local banks with which Stockholms Handelsbank had close collaboration and ownership interests. In 1895, the branch in Jönköping was closed down and transferred to the new Jönköpings Handelsbank. In 1896, Skånska Handelsbanken was founded, and in the following year Göteborgs Handelsbank. Collaboration agreements were entered into with these banks, and also with Sundsvalls Handelsbank.

When Louis Fraenckel became managing director, Handelsbanken was the tenth largest commercial bank in Sweden. When he left, the bank had risen to second place.

In 1896, the head office was moved from the Old Town to rented premises in the new business centre of Stockholm in the lower Norrmalm area. Not until 1905, long after its two major competitors, did Handelsbanken move into its own prestigious building located on Kungsträdgårdsgatan. Since then, these premises have served as the bank's headquarters, now greatly expanded. At this time, the bank had some 50 employees working at six branch offices.



The bank's octagon symbol after the facelift in 1956. An octagon was frequently used as the bank's symbol from 1919 until the late 1970s.

### Stockholms Handelsbank expands to become Svenska Handelsbanken

The first decade of the twentieth century was an era of bank mergers in Sweden and the rest of Europe. The number of banks in Sweden was reduced by more than one-half.

As far as Handelsbanken was concerned, the first major acquisition occurred in 1914, when the bank took over Bankaktiebolaget Norra Sverige. The merger significantly expanded the bank's operations in the strongly developing northern parts of the country, giving it branch offices in 36 new towns, primarily along the coast. In connection with the acquisition, operations were split into two divisions: a Stockholm operation and an equally important provincial operation. The provincial centre which reported directly to the managing director and had the task of managing the acquired operations in the provinces was situated at Kungsträdgårdsgatan 16 in Stockholm.

The organisation with a Stockholm operation and a provincial operation was retained until the end of the 1960s.

While Handelsbanken's competitors expanded to the west and south during this consolidation period, the bank's management continued to look to the north where the forestry industry was booming. In 1917, Handelsbanken further strengthened its position in this promising area through the acquisition of Norrlandsbanken and its 79 branch offices. As with Bankaktiebolaget Norra Sverige, Norrlandsbanken was a product of the merger of several smaller banks.

Although the acquisitions in Norrland improved the ratio between deposits and loans, such a strong concentration in northern Sweden soon proved to be unwise. In 1918, Handelsbanken opened new branches in Göteborg and Malmö. The Stockholm banks found that there was also an attractive deposit surplus in southern Sweden, and in 1919, Handelsbanken acquired Bankaktiebolaget Södra Sverige with its 67 branch offices.

Following the merger with Bankaktiebolaget Södra Sverige, the bank changed its name to Svenska Handelsbanken. In addition, Svenska Handelsbanken adopted the octagon symbol from Bankaktiebolaget Södra Sverige, which would function as its own logo for many years



Handelsbanken's branch in Ånge around 1930.

### A major bank during the interwar period

During the first world war, the long period of growth that had blessed the Swedish economy since the 1890s was broken. The deflation crisis in the first few years of the 1920s, with price falls of over 30 per cent, put a severe strain on banks. Many of the bank's customers with loans ran into trouble and the collateral held by the bank in many cases proved to be inadequate due to the slump in prices.

In 1921, Handelsbanken celebrated its fiftieth anniversary, but the annual report did not bring good tidings. Instead, it was filled with concern about economic trends. The board pointed out in its report that "business has suffered under extreme conditions, which have directly affected the bank's operations." It stated that "substantial amounts ... are proposed for write-downs due to losses."

In the following year, the situation became even worse and 1922 turned out to be a major crisis year for the banks. The major write-offs the bank was forced to make in 1922 were the result of the previously expansive lending policy. Borrowers inclu-

ded Svenska Emissions AB, a company associated with the bank and companies in which it had significant ownership interests. But in the late 1920s, the economic situation became more favourable, and the bank's operations progressed well.

The worldwide depression in the first half of the 1930s led to renewed problems for many of the bank's borrowers, and its profits were more than halved. However, there was a recovery in the last few years before the outbreak of the Second World War.

During the financial crises of the 1920s and 1930s, Handelsbanken took over the majority of the shares in several industrial companies in Sweden for the purpose of protecting its loan claims. In the late 1930s, after the companies were reconstructed, the bank began to plan for a co-ordinated phase-out of these ownership interests. A holding company was formed in the winter of 1943/1944 to which these shareholdings were transferred. One of the largest holdings transferred was the engineering company, L M Ericsson. The new holding company was called Industrivärden. The shareholders of the bank were offered the opportunity to subscribe for shares in the new company on favourable terms. The company was listed in 1945.

Consolidation continued on the Swedish banking market during the interwar era. With acquisitions such as Mälarebanken in 1926, Handelsbanken was generally able to maintain the number of branch offices at a stable level of just over 260. At the same

time, the other banks drastically reduced their number of branch offices. As a result, one out of every four Swedish bank branches was a Handelsbanken branch when the Second World War broke out. There were over 2,000 employees.

### Expansion continues

Handelsbanken continued to expand on an increasingly consolidated Swedish bank market in the post-war period. The acquisitions of Vänersborgsbanken and Norrköpings Folkbank during the 1940s were followed by the purchase of Luleå Folkbank and Gotlandsbanken in the 1950s.

At an early stage, alongside its traditional banking business of lending and deposits, Handelsbanken broadened its operations to include more product areas. In 1955, the mortgage company SIGAB was purchased, which subsequently changed its name to Handelsbanken Hypotek. In 1963, Handelsbanken was the first Swedish bank to form a finance company providing leasing and factoring services. The name Säljfinans was changed to Svenska Finans in 1973, and in 1991 to Handelsbanken Finans. In 1971, Handelsbanken took over the general agency for sales of the "Koncentra" funds from Åhlén & Holm AB. This was the start of the mutual fund operation, Handelsbanken Fonder.

The acquisition of a long series of Swedish provincial banks was completed with the acquisition of Skånska Banken in 1990. With its 76 branches, Skånska

Banken contributed to an increase in Handelsbanken's service level and business volumes in southern Sweden. This acquisition was aptly described as a milestone at the time it was announced. Handelsbanken's expansion would certainly continue, but it was about to take a new path.

### The evolution of IT at the bank

In the 1960s, work volumes at the bank increased considerably. In particular, the increasing use of cheque accounts contributed to the number of lending and deposits transactions close to quadrupling between 1957 and 1966.

With the aim of rationalising laborious bookkeeping routines for customer accounts, Handelsbanken started up its computer operations in the early 1960s. For the first few years, the computer centre was based at the bank's Grev Turegatan 44 premises in Stockholm, but was later transferred to Tegeluddsvägen in the Gärdet area of Stockholm. In 1964, the computer centre changed its name to the computer department and after 1967 it became part of the department for administrative rationalisation.

In 1966, Handelsbanken purchased two computers in the modern IBM 360 series, which were to play a key role in the bank's data processing.



In the middle of the 1960s, the idea of creating an online system for transfers and processing of monetary transactions was born. The idea was to connect the branches via the telecom network to the bank's central computer at Gärdet. By providing the branches with cash and query terminals it would be possible to collect the numerous monetary transactions from the cash desks and then book them centrally. The development work for the project lasted several years.

For the staff, a major change came in 1973-75, when the first terminal systems were introduced at branches. The terminals facilitated faster service to customers, such as immediate information on the account balance. This system, referred to in-house as HTS, was used for many years, but was replaced in 1986-89 by a new terminal system called HTD (in Swedish: Handelsbankens Terminal och Datorsystem). With this multi-function terminal, most procedures at a branch could be carried out from a single workstation, faster than before and with higher quality. But it was not until the early 1990s that the bank approached a figure of one terminal per branch employee. In the late 1990s, when the concept of Electronic Data Processing support made way for IT, HTD was supplemented with networks of personal computers.

The technological advances also benefited customers. In the 1970s, Bankomat ATMs were launched. In late 1991, the bank's telephone banking service started up, under the name Datasvar: customers were able to carry out routine procedures such as transferring money between their accounts, and checking balances and recent transactions.

The bank's range of automated services entered a new era on 19 December 1997, with online banking. Customers were offered the opportunity to carry out all standard banking procedures, including payments and securities trading, via the internet.



**Jan Wallander, Handelsbanken's CEO 1970-1978 and Chairman of the board 1978-1991.**

### Jan Wallander decentralises

In 1969, Handelsbanken ran into a major crisis. The management resigned and in early 1970, Jan Wallander was recruited from the Norrland provincial bank Sundsvallsbanken as the new CEO of Handelsbanken. Mr Wallander introduced new ideas which Sundsvallsbanken had started to practise. A decision was made to extensively decentralise Handelsbanken's organisation. But in order to meet the requirements of larger customers, the branches needed specialist support. Therefore the branches were grouped into larger units, about the same size as Sundsvallsbanken, so they would not be unmanageably large. Thus, the bank's branch offices were divided into a number of regional banks, each consisting of about 70 branch offices. The new regional banks had their own boards and a high degree of independence.

In the new, decentralised organisation, many of the previous tasks of the head

office were transferred to the regional head offices, while other functions were no longer needed. This latter group included the central unit that worked on budgeting. Wallander considered budgets to be not only an unnecessary evil, but in some cases outright dangerous. Instead, a new economic reporting and management system was developed based on the actual profit outcome.

The new Handelsbanken organisation would focus on profitability rather than volumes. The objective was, and still is, to have a return on equity that exceeded the average for the other listed banks. From having lower profitability than its competitors in the late 1960s, Handelsbanken managed to achieve the same level of profitability as the other banks in 1971. Since 1972, Handelsbanken has met its objective of being more profitable than the average for other listed banks.

The achievement of higher profitability than other banks active in the same market, while working under similar conditions requires that employees be more productive than is normal for the sector. Consequently, the bank's management thought it was reasonable that employees shared in the extra profits. During this period, there was lively debate in Sweden on how employees could gain more influence in companies. For the financial year 1973, the bank's board decided to allocate SEK 10 million to a profit-sharing foundation called Oktogonen formed by the bank's trade union club. The funds were placed



in Handelsbanken shares, thus giving the employees owner representation on the bank's board. Since the managed funds are not paid out directly but at the time of retirement, Oktogonen became an informed, long-term, major owner – something that is lacking in many companies. The bank's favourable profit growth enables new allocations in the years ahead and a large part of the funds were invested in Handelsbanken shares. By 1998, Oktogonen held 10 percent of the votes in Handelsbanken.

### **The Swedish banking market is deregulated**

During the second world war, state control of the Swedish financial market was tightened up, and in the ensuing decades, the credit market became a vital part of government policy. The Riksbank (Swedish central bank) came to control not only interest rates but also credit volumes. Lending in Swedish kronor was strictly regulated. The banks' ability to grant loans for purposes other than mortgage financing was limited, as the Riksbank decided to what extent lending volumes were allowed to increase. Naturally, this restricted free competition and led to a deadlocked competitive situation between the banks.

However, in the mid-1980s, it became clear that the lending ceiling was an ineffective way of preventing credit expansion, since an increasing amount of lending was being granted outside the banking system. Therefore, in 1985, the credit ceiling was abolished, which led to bank lending in-

creasing sharply. One result of this was that the banks were able to win back some of the borrowers who had sought credit from other sources. In the last three years of the 1980s, Handelsbanken's lending volumes doubled.

### **Handelsbanken pulls through the Swedish banking crisis**

During the extended boom of the 1980s, bank lending in Sweden had grown exceptionally fast. A large share of the lending went on speculative investments. In autumn 1990, a serious crisis emerged in Swedish banking as a result of a deep recession. Corporate loans were the primary cause of huge loan losses in the Swedish banks. The Swedish government's costs for supporting the bank sector were an incredible SEK 66 billion. During the banking crisis, Handelsbanken was the only major Swedish bank that was not forced to discuss applying for a state guarantee.

Handelsbanken was able to utilise the situation to advance its positions on the Swedish banking market. For example, Handelsbanken's share of deposits from Swedish households increased from 11 percent in 1990 to more than 17 percent by the end of the decade.

In 1997 – a year of several restructuring transactions in the banking sector – Handelsbanken utilised its strong capital situation for a cash acquisition of the mortgage company, Stadshypotek. In summer 1996, when the government had declared that the government's Stadshypotek

shares would be sold, the bank made an offer to acquire all shares. In December 1996, the government agreed to accept Handelsbanken's offer and on 26 February 1997 the bank became the owner of Stadshypotek AB. The total purchase price was SEK 23 billion. Stadshypotek's lending operations were immediately integrated with the bank's branch network.



Many newspapers used banner headlines when describing the Swedish banking crisis in the early 1990s.

### Expanding in the Nordic countries

Swedish currency regulations were lifted in 1989, and a couple of years before that it had become possible for Swedish banks to open branches abroad. This led to an increased internationalisation of the Swedish banking market. Handelsbanken was well prepared for this change. During the 1980s, the bank had built up its international operations with branch offices and subsidiaries in locations such as London, New York and Singapore.

Could Handelsbanken's successful Swe-

dish model also be used to provide full-service banking in other countries? Based on these considerations, Handelsbanken decided to start up operations in Norway. In early 1990, the bank made a cash offer for Oslo Handelsbanken. Through organic growth and the acquisition of Stavanger Bank in 1991, Handelsbanken was able to take advantage of a historical opportunity for expansion created by the banking crisis in Norway in the early 1990s. During the 1990s, the bank created a nationwide network of branch offices in Norway, supplemented by the purchase of Bergensbanken in 1999.

In 1985, a representative office was opened in Helsinki in Finland and a subsidiary was formed five years later, which in 1991 became a branch of Handelsbanken. In 1994, the first street-level branch was opened and in 1995 Handelsbanken acquired the healthy parts of Skopbank. At the same time, it decided to open branch offices in several major Finnish cities, making Handelsbanken Finland's fourth largest bank.



In Denmark, a representative office was opened in Copenhagen in 1990. Handelsbanken's first Danish branch started in 1996. The opening of the Copenhagen office was soon followed by further openings in other parts of the country. In 2001, Handelsbanken purchased Midt-bank, which had a very strong presence in the Jutland area of Denmark. With this acquisition, Handelsbanken became the fifth largest bank in Denmark, with 32 branch offices.

#### An increased interest in life insurance

The 1990s was also a period of realignment between the financial services and insurance sectors. Pension savings represented an increasingly important share of long-term savings of the bank's customers. Given this development, the bank acquired the mutual life insurance company RKA in 1992. The company changed its name to Handelsbanken Liv in connection with the purchase. Following a change in the law, Handelsbanken Liv was demutualised on 1 January 2002, thus becoming a for-profit life insurance company. This

was the first demutualisation of its kind in Sweden. Before demutualisation, customers who would be affected by the change were given the opportunity to vote on it. Of these, 98 percent voted in favour of demutualisation.

In March 2001, Handelsbanken acquired the life insurance company SPP. The company was a leader in the field of occupational pensions in Sweden. But this market changed very quickly, one result being that independent insurance brokers had a stronger position and the ability to reach the mass market was of increased importance for a successful insurance company. This led to fewer points of contact between SPP and the bank's branches. On 3 September 2007, the bank therefore entered into an agreement to sell SPP to Storebrand, a Norwegian insurance company. During the six years that Handelsbanken owned SPP, the company was completely changed. SPP's operating costs were halved, and on 1 January 2006, the company was converted into a for-profit insurance company.

### Breaking into the British market

In the early 1980s, Handelsbanken started banking operations in Great Britain. In 1989, the branch in London was complemented with a representative office in Manchester. A third branch was opened in Birmingham in 1994. Initially, operations focused on Nordic-related corporate business, but in the autumn of 1999, the bank decided to extend its operations and offer personal and corporate customers in Great Britain a full range of banking services.

During 2001-2003, two branches per year were opened. Since mid-2002, the British

operations have been run as a regional bank, based on the same principles as the Nordic branch operations. The expansion rate increased and during 2004-2006, the bank opened five new branches a year in Great Britain. In 2007, it decided to speed up the organic expansion rate further and almost doubled the number of branches, bringing the total close to 50. This brought the regional bank to a size where it was sufficiently large to start up another regional bank. Thus, on 1 January 2008, a regional head office started up in Manchester with responsibility for the branches in northern Great Britain.



**Handelsbanken's London operations have been located in Trinity Tower since 1997. As of 1 January 2008, this is where the regional head office for Southern Great Britain is situated.**

### Handelsbanken today

Handelsbanken is one of the leading banks in the Nordic area with total assets of approximately SEK 2,000bn. The number of employees is over 10,000.

Handelsbanken is a universal bank which offers a complete range of financial services such as traditional private and corporate services, investment banking, trading, financing, investments in the equity and fixed income markets and life insurance. With over 460 branches, Handelsbanken is strong in the Swedish market. The bank also has an almost nationwide branch network in the other Nordic countries. In Great Britain, Handelsbanken now has some 50 branches.

The Group consists of Handelsbanken Fonder (mutual funds), Handelsbanken Finans (finance company), Handelsbanken Liv (life insurance), Stadshypotek (mortgage company).



**In 1905, Stockholms Handelsbank moved to its own prestigious building near Kungsträdgården in central Stockholm. The head office is still situated there.**



