

## KEYNOTE INTERVIEW

Putting tech at the forefront  
of financial services

*An early mover in online banking, the Scandinavian financial services sector's ongoing digitalisation continues to offer opportunities for investors, say Nordic Capital's Christian Frick and Christopher Ekdahl*

In late May, against a backdrop of uncertainty and financial market volatility triggered by the covid-19 pandemic, Nordic Capital announced it was acquiring Swedish financial advisor Max Matthiessen. Financial Services is one the firm's focus sectors and this acquisition marks its tenth investment in the space. We caught up with Nordic Capital's Christian Frick, partner and head of financial services, and Christopher Ekdahl, principal, to discuss the financial services investment landscape in the Nordic region, the sector's early adoption of technology, and the continuing importance of digital transformation as a value creation lever.

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**Q What's driving the direction of the Nordic financial services market?**

**Christian Frick:** There are four significant trends. The first is unbundling and intermediation. This refers to the dismantling of traditionally very integrated banking models where one institution serves all of a customer's needs. Today, customers are moving towards sourcing different products from different providers. In terms of intermediation, we think about the financial

services value chain – producers, distributors and service providers. At the producer end of the chain, we have seen the arrival of challenger banks, for example, and at the other end of the chain we have seen the emergence of brokers and advisors intersecting between customers and the bank. That changes the market dynamic and rearranges profit pools.

Digital transformation is an obvious second theme. In general, technology is an enabler in terms of reaching customers, improving services, and updating and sharing information with customers. It boosts efficiency and reduces a business's physical footprint. We

think of digitalisation in terms of external and internal transformation. The former refers to improving the digital interface between the institution and the customer. The latter involves the digital makeover of internal processes to render them more efficient and/or scalable, and to accelerate the data processing that assists customers in making better product decisions.

A third trend is regulation. Following the global financial crisis [in 2008-09] there has been an enormous amount of regulatory change that has forced banks to reorganise their balance sheets to protect them against future market stress, including how they treat non-performing loans. In addition, there has been a lot of new regulation around 'open banking' and customer transparency, most notably the EU's Payment Services Directive II. While it is cumbersome for the banks to adjust to new regulation, it is generally positive for the sector. From a competitive perspective, it increases barriers to entry and creates opportunities for players with modern IT systems that can rapidly adjust to the new regulations.

**Christopher Ekdahl:** Sustainability is the fourth driver, covering both products and the way the financial institution is run. Sustainability is important to all key stakeholders and it is baked into Nordic Capital's value creation plans. Attention to these issues boosts employee and customer satisfaction, is vital in attracting top talent, and means the business will not be caught on the back foot with regulators as the landscape changes. For example, in 2018 the EU launched an action plan on sustainable finance, standardising green investments and increasing transparency.

Nordnet, a pan-Nordic digital savings platform which was acquired by Nordic Capital in 2017, is one example of an investment where we have been

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particularly active on sustainability. The online bank's mission is to be a climate positive institution that contributes to society. It actively encourages customers to invest in sustainable products and we measure its progress. Ultimately, building a sustainable business widens the pool of possible future buyers, including those who only consider green businesses.

### **Q What niches do you target within the financial services space?**

**CF:** Historically, Nordic Capital has been most active in retail lending, savings and wealth management and private savings in particular, as well as credit management services. We are constantly assessing potential new subsectors where we think there could be attractive underlying growth fundamentals and an opportunity to operate in a new, digital way to capture market share.

Typically, we look for challenger banks that offer the benefits of an established customer base, critical scale, and are not burdened with legacy IT systems as some incumbent banks are. We like nimble and adaptable institutions where it is easier to unlock potential by deploying new technology, products and distribution mechanisms.

### **Q How digitised and tech-savvy is the financial services sector in the Nordics?**

**CE:** Banks in the Nordic region were early adopters of online services supported by widespread internet penetration. Subsequently, this infrastructure has been built out with, for example, electronic ID software and other tools that smooth out customer processes. Technology is increasingly important. To an extent, banks today are IT companies with a banking licence.

For Nordic Capital, technology is always central to any value creation plan. For instance, with Nordnet our

thesis was to make a major investment to build the best customer experience in online savings, especially in the Nordic region, but also globally. Since Nordic Capital invested three years ago, Nordnet has upgraded its IT platform and improved the customer interface. We have already seen this pay off. Last year, momentum picked up and year-to-date 2020, the bank gained 100,000 new customers, bringing the total to more than one million. Nordnet entered the covid-19 crisis in good health and has seen revenues and profitability accelerate throughout the crisis.

**Q Is growth in Nordnet being driven by new digital initiatives or by the switch to online during the pandemic?**

**CE:** In times of market volatility, there is more interest in saving. The Nordnet platform has benefitted from this, demonstrating that the business is counter cyclical. But there was already strong growth before covid-19. The Nordics has one of the highest savings rates as percentage of disposable income in the world. People are saving more than they spend and that money is being invested into different products. There is very strong underlying growth in this segment, which exceeds the economy as a whole. Overall, consumers are increasingly choosing digital solutions in all different segments, not only savings. This is a trend that we believe will increase further post covid-19.

**Q Has the crisis had much impact on your pipeline and portfolio in this space?**

**CF:** Nordic Capital's strategy is based on long-term fundamentals, so our pipeline of potential targets is largely similar pre- and post the covid-19 pandemic, although we have added a couple of new companies to the list. If we look at the existing portfolio, the

**Q What made Max Matthiessen an attractive investment opportunity and how do you plan to grow the business?**

**CF:** Max Matthiessen is a leading Swedish pensions, insurance and investment advisor. It conducts investment analysis, administration and procurement of pension and insurance solutions for employers, entrepreneurs and individuals. The business, which is a well-known brand in the Nordics with 13,000 corporate and 150,000 retail customers, sits within our core savings and wealth management subsector. However, there is significant potential to digitise the business. There are new products that could be introduced to its customer base and more ways to integrate a greater amount of digitised data into the advisory process.

**Q How easy was it to close this transaction in such an uncertain environment?**

**CF:** In this case, it was a company that we had known for maybe two decades and tracked for at least five years as a potential investment. The dialogue with the sellers lasted for more than six months, and it just so happened that we arrived at an agreement during a very strange period of time. That said, it helps of course to be specialised. Our experience and expertise meant we really understood the business model and we were in a position to think through the implications of the pandemic. That supported our decision to proceed.

banks, which are first and foremost digital businesses, have been able to adapt very quickly to the pandemic.

Employee safety has been the priority and as these institutions do not rely on a branch network, they have been able to redeploy staff and continue to serve their clients. The recently signed acquisition of financial advisor Max Matthiessen is slightly different because it is largely dependent on face-to-face meetings between clients and advisors. At the beginning of the crisis, management wondered how that would work. However, it has highlighted the importance of customer relationships and where existing customers already have a rapport with a staff member it has not been a problem to move to communicating remotely.

**Q How do you support companies in regulated markets, such as financial services?**

**CF:** We are used to working with companies that operate in a highly regulated environment and we can recognise the

opportunities that are sometimes created by those restrictions. For example, Nordic Capital was a very early private equity investor in the healthcare sector in the Nordics, as well as financial services. Private equity offers a strong and clear governance model that chimes well with how regulated financial institutions should operate. We have a deep sector focus and can identify situations where companies in our financial services network can cooperate with each other. They encounter many of the same opportunities and challenges and can learn from each other.

We are also strong in the technology and payments sector and have a lot of experience working with digital business models. Some companies go through a digital transformation once or twice, but we have seen digital transformations multiple times as a team, as have our industry advisers and the board members that we introduce to companies to help steer them through periods of significant change. Change is an environment in which we are very comfortable. ■