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# KNOWLEDGE

## Lessons learned: The Nordic banking crisis of the 1990s

**Once burned, twice shy. That's a lesson that has helped a lot of Swedish and Finnish businesses dodge major disaster during the world's most recent economic crisis.**

That's because both countries went through a serious banking crisis in the early 1990s. Though less severe than the most recent global financial meltdown, the Nordic crisis was nevertheless scarring; an experience not easily forgotten.



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In Sweden, it started in the 1980s with financial deregulation. That, in turn, caused frenzied borrowing in the real estate market and unrealistically high prices. It ended in the early 1990s with a burst housing bubble, rampant unemployment and the near-collapse of the banking system. Money-market rates climbed past 30 per cent, and at one point, Sweden's central bank briefly raised its marginal lending rate (equivalent of the Federal funds rate) to 500 per cent in an effort to rescue its plummeting currency.

The experience was sobering, to say the least. So when Swede **Mikael Ahlstrom** (MBA '86J), a founding partner of the private equity firm, Procuritas, saw similar warning signs in 2009, he had an eerie sense of *deja vu*. "We felt that either the world was crazy or that we were crazy," adding: "Having analysed the US mortgage market, the US financial markets, seeing the behaviour of some banks in Europe primarily located on an island up close to Greenland, we decided that probably the world was crazy and we were fairly sane."

Ahlstrom didn't second-guess the telltale signs of a looming catastrophe. His reaction was swift and decisive: sell. "One of the reasons we started selling was that we could see that, when we tried to buy companies, some of the banks were willing to lend more than what we were willing to pay for the company." But he was quick to add: "As always it's luck. The timing of the portfolio was good, also, to sell."

It was a smart, and lucrative, move. The sale of the Procuritas fund, a portfolio which included a foundry-machine manufacturer, a paint company, a pulp and paper company, to name a few, generated returns of almost four times the invested capital.

Ahlstrom built on his good luck, using the opportunity to create another fund before the market shut down completely. The results were good, and he said his firm was virtually unscathed by the crisis.

Finland experienced a similar banking crisis at the same as Sweden. **Jussi Pajunen** (MBA '80), the Mayor of Helsinki, said that negative experience helped brace Finland for the most recent global crisis. "I would say that in Finland, the reason is that we had a crisis in early 1990s and it was a banking crisis and so banks did not take such high risks as the others."

Even though Finland was better positioned than most countries, the tiny nation of five million inhabitants could not isolate itself completely from economic adversity. The country suffered a devastating drop in exports in 2009.

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Still, Pajunen is sanguine about the shakeout: "Taking into account the severity of the crisis, I would say that Finland, and also the city of Helsinki, are doing quite well," adding that things are on the upturn. "We are coming up and the reason for the soundness of the situation is that our banking system didn't have the problems on the other side and also the debt of the nation is relatively low."

Sweden's **Lars Forberg**, founding partner of Cevian Capital, was just coming out of business school in the early 1990s, into a snake pit of an economy. He never forgot the lessons he learned. But as important as it is to know how to avoid disaster, Forberg says it's equally important to know how to seize opportunities in the upturn that inevitably follows a crisis. "We don't know whether it comes, you know, in six months, or within two years, but it's going to come."

But Forberg's strategy at Cevian Capital goes beyond handling crises, and he's lived through several. He has stuck to a strategy of long-term goals, going the course as he always has, more marathon runner than sprinter. He still tells his clients not to expect good returns all the time.

"There are so many people out there having the investment strategy of asking the question: 'Where's the share price of this company six months from now?' And that question is incredibly difficult to answer. It's 90 per cent psychology and, at best, 10 per cent reality." Instead, Forberg says Cevian looks ahead five years to see what value they can bring the company then, ignoring the ebbs and flows in the economy in the interim. It's a much more effective strategy, according to Forberg, who says: "We will find answers that the others don't see, and then we can manage our business that way. It creates a lot of value."

Ahlstrom said his company, Procuritas, has always shunned investments in high-tech businesses or companies involved in cyclical activities, such as steel producers, or companies dependent on raw materials such as pulp and paper.

Still, Ahlstrom has adapted his strategy to fit the current market. "We are trying to focus now on companies which have products which still can sell or services that we still think can sell, even though we probably will end up with a tough economic climate going forward." Those purchases including a basic foodstuffs manufacturer and ice cream machine maker.

But is there something in the national psyche which has provided these Scandinavians a level of sobriety and lucidity lacking in other parts of the planet? Funnily enough, Ahlstrom said his lessons came straight out of the Great Depression in the US, when

his great uncle earned -- and lost -- a great fortune in the American car industry.

“Many of the people in the US who were part of the Depression saw people starve to death,” said Ahlstrom. He thinks that decision-makers who have lived through such hard times would not be making the same choices as those in power today. “A lot of people who never, ever experienced hardship were in charge and took decisions when it came to leverage and current debt which were, I think, quite different compared to their fathers or mothers and their grandfathers.”

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