Chapter One

Not Just a Company, a Cause: 
Strategy as Advocacy

One reason we’re in Wilmington, Delaware, is because this is home to so many credit card companies. Every morning, when I drive to work, I see their signs and it makes me angry. They provide the opium of consumerism in American finance. There are restaurants in town that won’t take my reservation, because they know I might offend people. But that’s what keeps me motivated. That’s what gets me charged up to do battle.
—Arkadi Kuhlmann, president and CEO, ING Direct USA

At times, Arkadi Kuhlmann can sound a lot like consumer activist Ralph Nader or crusading reformer Eliot Spitzer. He rails against the banking industry’s exorbitant fees. He expresses contempt for the needless complexities and hidden charges that infect the home mortgage business. And don’t even get him started on credit cards. He’s fed up with a financial culture that encourages people to save too little, invest too recklessly, and spend too much.

“In the beginning, people loved credit cards,” Kuhlmann declares. “Customers were proud to pull them out of their wallet. Today people hate credit cards—the nonstop marketing, the sky-high interest rates, companies pushing cards at kids in college. Everybody knows that credit card excess isn’t good. That’s not a popular message here in Wilmington, of course. As I explained to the local newspaper, ‘It’s sort of like preaching, and why not preach among the heathens?’ ”

But Kuhlmann is not a consumer activist or a politician, and he’s certainly not a preacher. He’s a banker. In fact, he’s the founder of one of the fastest-growing retail banks in the country, which happens to be a subsidiary of ING Group, a 150-year-old company headquartered in Amsterdam that ranks as one of the largest financial services conglomerates in the world. His operation, ING Direct USA, opened for business in September 2000. At the end of 2005, it had signed up 3.5 million customers, attracted nearly $40 billion in deposits, and begun generating consistent (and rapidly increasing) profits. During its first two years, the start-up absorbed losses of $56 million as it banked on future growth. Over the next two years, it posted profits of $127 million. In 2004, with just 1,000 employees, the operation generated profits of $250 million.*

Sometimes it seems that righteous indignation can pay handsome dividends. But Arkadi Kuhlmann is more than a banker with a brash attitude. He is a hard-charging maverick with a full-throated message about the future of his industry. He and his colleagues insist that they are not just building a bank. They are challenging the common (and misguided) practices of the whole banking business—a business that they believe is ripe for change and renewal. “People want to do business with companies that share their values,” Kuhlmann says. “We speak with a new voice—a different kind of voice for business.”

Expressing that voice often puts Kuhlmann’s company at odds with it’s bigger, richer, more traditional rivals. We paid one of our many visits to Wilmington in June 2005, two
months after President George W. Bush signed the laughably misnamed Bankruptcy Abuse Prevention and Consumer Protection Act of 2005. The law, the most sweeping revision of U.S. bankruptcy procedures since the 1970s, cracked down hard on cash-strapped individuals and families seeking protection from creditors. Its passage was met by howls of protest from consumer groups, law professors, even many bankruptcy judges, but inspired squeals of delight from banks, credit card companies, and giant retailers—powerful organizations whose executives and lobbyists had marched in lockstep for years on Capitol Hill. Virtually everyone who was anyone in the financial services sector applauded their glorious political victory.

Everyone, that is, except Arkadi Kuhlmann. He was the only CEO of a U.S. bank to oppose the bill publicly, comparing it to “using a cannon to kill a mosquito.” He submitted written testimony to a U.S. Senate committee, participated in a press conference with liberal Senate stalwarts Ted Kennedy and Russ Feingold, and took out a full-page ad in the Washington Post. Time and again, he raised the ire of his industry colleagues by raising a host of uncomfortable questions about their pet project on Capitol Hill. What about the tens of thousands of families who go bankrupt because of catastrophic illnesses and huge medical bills? What about the 16,000 military personnel who declared bankruptcy in 2004? What about the credit card industry’s stubborn refusal to curb its most aggressive marketing practices?2

“To the banking establishment, I’m sort of the bad guy,” Kuhlmann declares with undisguised relish. That reputation applies far beyond its challenge to the industry’s political strategy. Indeed, it’s at the heart of ING Direct’s business strategy. “Before we launched the company, we looked around and said, ‘The banking industry is bust. The consumer always loses.’ Then we said, ‘How can we do something radically different? How do we re-create and re-energize an industry? How can we build a company around a big new idea?’ ”

That big idea involves using the future-forward power of the Internet to champion the timeless virtues of thrift and financial security. ING Direct USA, essentially an Internet-based savings bank, is a direct-to-the-customer operation. (Customers can also bank by mail or phone, but more than 70 percent use the Web.) Everything about its operations emphasizes speed, simplicity, and low overhead. ING Direct has no brick-and-mortar branches, no ATM machines, no highly paid commercial bankers or smooth-talking financial advisers. It also charges no customer fees, requires no minimum deposits, and avoids paper like the plague. Most importantly, the bank offers a limited number of easy-to-understand product offerings: old-fashioned savings accounts (with no minimum balances), a selection of CDs (with no minimum deposits), nine easy-to-understand mutual funds (which can be combined into portfolios described as conservative, moderate, and aggressive), and no frills home mortgages with an online application that takes less than ten minutes to complete.

The intentional simplicity of the company’s products and business model keeps ING Direct’s costs extremely low: in some parts of the business, they are one-sixth the costs of a conventional bank. Low costs enable ING Direct to guarantee higher interest rates to
depositors (with some basic savings products, as much as four times the industry average) and charge lower rates to its mortgage customers. The end result is an online money machine that adds 100,000 customers (40 percent of whom are referred by word of mouth) and $1 billion in deposits every month. Indeed, by the end of 2004, ING Direct had become the country’s largest Internet based bank, the fourth-largest thrift bank, and one of the forty largest banks of any sort.

But the bank’s animating spirit isn’t about low costs or fast growth. It’s about an agenda for reform. Kuhlmann and his colleagues declare that they are “leading Americans back to savings”—presenting a clear cut business alternative to the excesses and shortcomings of how the financial sector does business. “Everything we do starts with our big idea,” the CEO says, “which is to bring back some fundamental values: self-reliance, independence, having a grubstake. One way or another, most financial companies are telling you to spend more. We’re showing you how to save more. What’s better than apple pie, the little guy, fighting for the underdog? We want to own that space.”

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