

ING Direct's Man on a Mission

By Barbara Kiviat

Arkadi Kuhlmann is annoyed by banks. He thinks that it's ridiculous for customers to pay so many fees. That it isn't too much to ask for a real person to pick up the phone when you call the 800 number. That you shouldn't have to jump through hoops to keep your personal information from being sold to other companies. But unlike your typical bellyacher, Kuhlmann is able to change things, since he's running a bank—one the rest of the industry is scrambling to copy.

ING Direct was always meant to be different. Ten years ago, the Dutch financial-services conglomerate ING went to Canada to see whether a bank with no branches, no ATMs and no checkbooks could survive. ING had its home market locked up and was looking to expand around the world. But buying or building enough branches to break into mature markets like the U.S. would be hugely expensive. So the company decided to run an experiment, communicating with customers only by phone, mail and the Internet. With the money saved, ING Direct could offer a significantly higher interest rate on savings accounts, a handy way to collect customers from conventional banks.

To run the fledgling company, ING hired Kuhlmann, whose buttoned-up career in finance—by age 33, he was a vice president of the Royal Bank of Canada with his own private dining room—hid an edgier side, the side that rides a Harley and reads palms, a skill he picked up from his European grandmother. In ING Direct, Kuhlmann saw a revolution, a chance to fix the things he knew people hated about banks. Companies in other industries had succeeded with stripped-down versions of competitors' products—Southwest flew airplanes without assigned seats; Ikea sold design-minded furniture without assembling it—so why not do that with banks?

"Suggesting there is a McDonald's approach to banking is heresy," says Kuhlmann. But the no-frills strategy has worked. Since the Canadian trial, ING Direct has launched in eight more countries. In the U.S., where Kuhlmann is now CEO, ING Direct is the largest Internet bank, with more than half of the country's \$90 billion in online deposits, according to market tracker SNL Financial. And without a single branch, ING Direct is the 28th largest bank of any kind in the U.S., as ranked by assets (and 24th by deposits), nipping at the heels of regional powerhouses such as Sovereign and KeyCorp. Even heavyweights like Citibank and HSBC are taking notice, rolling out "direct" banks of their own. Kuhlmann welcomes the competition. In fact, he will spell out his formula for them: "We simply asked, 'What does a customer really want to pay for?'"

For starters, phenomenally appealing interest rates. ING Direct pays 4.5% on a savings account, while the average account gives 0.46%, according to Bankrate.com Then there

is the fast-food aesthetic: simple, inexpensive service. ING Direct offers exactly one type of savings account and one type of checking account. There are no fees and no minimum balances. Signing up online takes five minutes—not much longer than a stop at McDonald's.

In the tech-obsessed 1990s, plenty of other banks tried to woo customers to the Web, but ING Direct stood out with its cheeky and pervasive marketing ("Money doesn't grow on fees," says one orange-colored ad) and commitment to customer service. When customers call the toll-free number, a person—an actual person in Los Angeles, Minnesota or Delaware, not an automated menu, not an operator halfway around the world—picks up the phone.

During the dotcom crash, few Web banks survived, but ING Direct persevered. "When we were making all those big investments without too much return, I had to answer a lot of questions," says Michel Tilmant, who chairs the executive board of parent company ING in Amsterdam. But ING was committed to Kuhlmann and the ING Direct vision and spent the money to continue.

A bit of a personality cult hasn't hurt the company either. Headquartered in an old warehouse on the Christiana River in Wilmington, Del., ING Direct projects a Silicon Valleysque energy and idealism that come straight from the top. Consider the Orange Code, a manifesto of sorts penned by Kuhlmann and chief operating officer Jim Kelly, which includes lines like "We aren't conquerors. We are pioneers." Kuhlmann rants about spend-happy Americans and the companies that feed their addiction by selling them credit cards—"the opium of consumerism." When the rest of the banking industry lobbied for a new bankruptcy law in 2005 to make it easier for lenders to go after people struggling to pay their bills, Kuhlmann held a press conference with Senators Ted Kennedy and Russ Feingold to say the law would hurt ordinary people down on their luck. It was classic Kuhlmann: a mixture of genuine outrage and savvy marketing message.

All the while, ING Direct keeps a laser focus on who its ideal customer is. Because the company sells bare-bones products at a slim margin, it needs low-maintenance customers. At the firm's New York City café, one of five token storefronts, manager Omar Woodard recently let an older woman walk away without an account after she worried aloud that branchless banking might be too newfangled. "Customers who don't fit our business model don't fit our business model, and that's totally O.K.," says Woodard. "The bank just wasn't for her."

But it is for a lot of people. ING Direct has more than 5 million account holders, with 100,000 to 150,000 more signing up each month. "Before it was a curiosity, but now banks look at the outflow of accounts to ING Direct, and they're reacting," says Alenka Grealish, managing director of the banking group at consultancy Celent. Citibank, HSBC, Capital One, E-Trade and Emigrant Bank are among those offering no-fee, no-minimum-balance Web-only accounts with well-above-average interest rates. Many even offer rates higher than ING Direct's. Kuhlmann's response: "Knock yourself out." So far, new-account growth at ING Direct hasn't slowed, and the 3% of accounts closed each year is below the industry average.

Expanding into new products also helps deflect the competitive threat. "ING Direct is under pressure, no matter what they say, to sell more to their customer base," says Chris Hitchings, an analyst who covers ING for Keefe, Bruyette & Woods in London. By offering checking accounts and online bill payment, ING Direct gives its customers more reasons to stay put: once they set all that up, they are less likely to switch banks for half a percentage point of interest.

At the same time, new products add un-ING-like complexity. When it rolled out checking in March, the bank introduced a system for doing nearly all transactions online; handing out checkbooks was deemed too cumbersome. But there was no easy solution for customers who had to have paper checks for the landlord or the babysitter. So ING Direct now prints and mails some 25,000 paper checks a month on customers' behalf—no charge for the stamp. Kuhlmann battled his staff for weeks over the issue, insisting that no matter how transparent, ING Direct wouldn't charge a fee.

Yet with each new product, Kuhlmann tests the limits of the firm's founding ideals. Take mortgages. ING Direct offers just two: a five-year mortgage currently at 6.60% APR and a seven-year one at 6.67%. Why no 30 year? Kuhlmann reasons that since most people move or refinance within seven years, they just don't need it. "It seems to me they're paying a lot more than they need to," he says. That's a fine principle. But the reality is that most people still want a 30-year mortgage. So this spring, ING Direct started referring people who insist on one to an outside mortgage lender. "We're probably 90% pure," says Kuhlmann. "Not as pure as I'd like to be." But much better, he supposes, than the alternative.