

# Communication from the major banks and authorities during the financial crisis

2007 – 1 July 2009

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# 1 Summary conclusions and proposals

## 1.1 Approved crisis communication – confidence was maintained in functions important to society

The crisis communication of Swedish financial bodies during the acute phase of the financial crisis is approved as their efforts led to Sweden avoiding a full-blown financial crisis. On the other hand, the subsequent economic downturn developed into a deep macro crisis. However, one exception to this is Swedbank, where errors in communication helped to bring about a crisis of confidence in both the bank and its executive.

Good crisis communication requires good measures, and the general perception is that Swedish public bodies handled the crisis very well. It is extraordinarily common to “blame” communication when something goes wrong. For example, Swedbank's executive at the time displayed such tendencies. However, the shortcomings are often to be found in poor decisions or inadequate measures.

In general, it appears that communication worked best when it formed an integral part of the corporate executive's “crisis strategy”, with short decision paths and synchronised statements. When the communicators “picked up pace” again following the Lehman crash, they acted quickly and professionally and took transparency as their guiding principle. They participated in close cooperation with executives and specialists in organised “crisis teams”. They resolved the communication problems pragmatically as they arose under conditions which were periodically extremely difficult and uncertain.

However, this general conclusion does not contradict the fact that there were shortcomings and there is room for improvement in a number of respects as regards communication.

## 1.2 Inadequate communication on risks and insecurities

Now, after the event, we are able to state that communication on the development of the risks and uncertainties and the threat of crisis – before the acute crisis stage – was imperfect. It is the “ordinary periods”, those before and during the escalation of the crisis threat, which are the important periods for building confidence. This is the time when legitimacy, expertise, transparency and integrity have to be incorporated in confidence capital. This is the time when organisations have to be vaccinated with good communication to create confidence which can keep the infection of crisis at bay when things are hotting up. If organisations have built up their protection, they have more chance of being allowed to have their say, of getting their statements out and having them interpreted correctly when the crisis threat escalates and the media set the agenda.

It is also obvious that no organisation or assessor understood the liquidity risks and their links with confidence in the banks, and hence they were unable to communicate about this vital causal chain with a view to prevention.

The Riksbank and also Finansinspektionen have developed a conceptually effective way of describing the development of uncertainty and risk. This is perhaps rather subtle for the media

and people less familiar with the developments of the financial markets. However, with standardised language and wording which can be varied according to actual development on the market, success is being achieved with the difficult task of summarising and making changes clear in just a few words. But it is also obvious that the stability statements of the Riksbank and Finansinspektionen did not really hit home; a fact which representatives are self-critically aware of. Many people express this by saying that “we maybe should have put even more effort into dealing with the risks in the Baltic States, for example”.

A question that puzzles us and others is the use of the central term stability. How could the Riksbank state that the Swedish financial system was stable, when this stability was actually artificial, with supporting billions never before seen? And in the same breath admit in statements that the Swedish financial system is now functioning only thanks to the support of the public sector?

We are of the view that the warnings of a significant, gradual change in the risk landscape signalled by the Riksbank and Finansinspektionen in 2007 and 2008 were not caught early and clearly enough in the banks' own communication. The banks, with society's top talents when it comes to assessing risks, should reasonably have had even better, earlier information on the development of the risk profile. However, choices were made which toned down the risks far too extensively and overemphasised the positive aspects. But there are differences between the banks, as can be seen from the analysis.

The banks' risk descriptions are not particularly good. There is a lot of information in them, but little communication. Over the period, risk information is being tightened up significantly with the new Basel II rules and the EU's Transparency Directive. Basel II will result in enormous information documents which very few specialists are capable of wading through. Therefore, it is also possible to ask oneself how much transparency actually increased in practical terms.

However, in a way the problem is greater in the quarterly reports which we have reviewed over the period. Risk information is fragmented, poor, and technical and lacks continuity. References to completely different documents are legion. This is not communicative. The quarterly reports are far and away the most important communication for all reviewers who have to assess the company, not least the media and shareholders.

We will also examine adaptation in the quarterly reports to EU requirements in the Transparency Directive concerning descriptions of material risks and uncertainties. Our conclusion is that the banks are not living up to the intentions of the Transparency Directive, although there are differences between them.

## **ACTION**

- The definition of stability by the Riksbank and Finansinspektionen is not good, in our opinion, and demands a developed communicative concept. The stability reports would also need a different communicative concept in order to have a greater impact. It may be necessary to consider shorter reports and faster reporting along the lines of updates and comments when significant changes take place, clearer signalling using simpler symbols in order to garner the attention of the media.
- The banks should improve their descriptions of risks and uncertainties. Above all, there is no readily comprehensible conceptual “story” on how risks and uncertainties develop over time which thereby summarises and translates the large volume of technical and detailed descriptions which are published regularly. This work could be carried out in cooperation

(e.g. through the Swedish Bankers' Association) or in competition. A longer time perspective may shed some light on cycles in the financial sector which could lead to that knowledge on the criteria for financial stability. The question may be simple: What point have we reached in the industry's economic curve? The liquidity problems could also be illustrated from an individual or collective stability perspective.

- The descriptions of risks and uncertainty in the interim reports should be improved and gathered in a single location. Certainly, the matter is complex; but with reference to the point above, there is a lack of readily comprehensible information in these central evaluation documents. One idea would be to work with different symbols, such as a barometer or temperature scale.

### 1.3 Lack of knowledge in society about the financial system

The fact that the Riksbank's and Finansinspektionen's communication about the stability of the Swedish financial system had difficulty breaking through in the media and with the general public does not just bear witness to low levels of understanding of the significance of stability issues, but also to a basic weak knowledge about the primary role of the financial system in a welfare society which works well. This is an international problem which has made its way onto the agenda during the latest crisis and is termed "financial illiteracy".

The generally apparent low levels of knowledge about the role of the banks in the economy, the responsibilities of the authorities that maintain the systems and the structure of the protective networks for savers mean that citizens are easily sucked into the flood of rumours when the crisis threat increases. Their chances of making their own assessments and interpreting the value of all the "crisis information" which explodes in such situations are poor. Even worse, of course, is the fact that this problem relating to shortcomings is also apparent in the media. In our study of the acute phase, many organisations point out that the risks of a "run" were deemed to be great. Ignorance when it came to interpreting information diluted people's fears. This subject is by no means anything new. Heads of communication sigh when they explain about their many attempts to persuade the media to participate in "information meetings" and "training", but without garnering interest.

#### ACTION

- Financial illiteracy is an international problem which not only affects the options for individual households to handle their own finances in an ever more complex financial world. Better knowledge of the financial system could help to create a more robust financial system. The task is far-reaching and difficult, but the system-critical organisations have reason to implement collective initiatives together or in competition with the public education sector. No matter how difficult it is to get the media to get involved in such initiatives, it is also necessary to try to "cultivate" additional numbers of journalists familiar with finance. FSPOS or the Swedish Bankers' Association should take responsibility and acquire strategies and resources for such information work.

## 1.4 Initially inadequate resources for handling an exploding demand for information – the media took command of problem formulation and acquired scope for speculation

It is an old communication truth that anyone who succeeds in capturing the problem formulations has the power to describe and interpret. In this “battle”, the media are hard to beat with their swiftness, effectiveness in headlines and photos and the selection mechanisms which prioritise sensational news that sells. There was an initial inertia among the system-critical organisations to respond rapidly to the enormous demand for information that exploded after the Lehman Brothers crash. A number of organisations admit that they were “caught napping” and did not have sufficient resources and a “ready” crisis organisation in order to intervene directly. To this can also be added the genuinely uncertain situation in which correct information that would engender confidence was constantly in short supply. For Swedbank, this problem became a serious threat and helped to bring about the “crisis” label when the executive also spent about a week failing to make a public appearance to answer the media's questions. This kind of silence in so critical a situation damaged the credibility of the bank. However, we are aware that the opportunities to put forward full, explanatory and in-depth statements in the media shrink rapidly when a crisis is just around the corner. However, during the acute crisis the media was given unnecessarily great scope for speculation in some situations.

### **ACTION**

- The crisis threat from 2007 to 2009 indicates the crucial significance of communication in the handling of crises and points at continued development and upgrading of the communication functions in the financial sector. It is an advantage if a head of communications can sit on the corporate executive or similar, not least within organisations as important as the system-critical ones on the financial markets. Not only does this increase credibility for communication both inwards and outwards, but also gives practical advantages in respect of efficiency. During crisis threats, a “command team of staff” is organised which includes the communicators.
- With competent communicators on the executive, actual decision-making can improve. It is extraordinarily common to “blame” communication when something goes wrong, although in actual fact shortcomings in decisions are most often at the heart. If there is any compulsion to think thoroughly through how decisions will be received in various channels, where examining communicators may play the role of devil's advocate, there are more opportunities to build confidence. Having talented communicators with expertise and integrity, with reasonable resources, and who have the confidence of the executive can be extremely valuable before and during crisis threats. This is a lesson put forward by our report in specific examples.

- It is important to make it possible to put crisis communication in place very quickly. Therefore, it is necessary to have crisis plans and activities prepared which can answer the questions of customers and the media. Many sources state that practising these is no less important.
- FSPOS or other cooperations can offer important fora for experience exchange or collective exercises.
- We do not feel it is an unreasonable thought that Finansinspektionen, for example, to lay down demands in its approval examinations and ongoing monitoring concerning the dimensions of the communication resources in respect of strategies, plans, activities, expertise and exercises relating to crisis communication.

## 1.5 The banks found “society communication” difficult – inadequate cooperation between the private and the public sectors

Our review shows that the banks became the “punchbags” of the crisis, almost something of a permissible exchange on which the politicians could blame the crisis. One head of communications said, with a hint of resignation, that “we became part of the political arena, where we found it extremely difficult to communicate.” Yes, without a doubt – these are two different worlds. The banks are trained to handle a different communication environment. They are limited as regards what, when and how they can communicate stock exchange rules and the strict practice surrounding the financial reporting cycle. They are competing on a market with marketing statements. These different perspectives also have a part to play in how division of responsibility and relationships between the banks and the public organisations which maintain the systems would be interpreted.

For instance, we encounter a whole range of perceptions which use the same assessment template for the banks as for the Riksbank, the Swedish National Debt Office and Finansinspektionen. Almost everyone we talk to outside and within the system-critical establishment, even at very high levels, makes constant comparisons between how the banks and the public organisations handled crisis communication; and to the detriment of the banks, of course. But we ought to mention that there were a few exceptions.

There are also two different perceptions of how the role of the banks should be defined in system-critical communication. The representatives of the authorities were not keen to emphasise and comment on individual banks, given the risks of influencing valuations and stock exchange rates and bringing the media alongside. For their part, the banks point out what the risk situation was for them. Judging all the banks the same involved a risk of “infecting” them with the mark of the Swedbank crisis.

We are of the view that the fact that the banks do not have a collective platform for “social communication” is a problem, both before and during crisis threats, despite the fundamental significance of this to the stability of the financial system. Public communication on the stability of the financial system rests with Finansinspektionen and the Riksbank. They are expected to explain about solvency and liquidity among our four major, stability-critical banks. They take responsibility for the “story” and evaluate the situation. The authorities become the subject and the banks are reduced to a collective object for “action”. We also note that the Swedish Bankers' Association, the banks' trade association, did not participate in communication over the period.



## ACTION

- The review points out a need for a platform and some kind of policy for the stability-protecting communication of the system-critical organisations. Close organisational cooperation and coordination are difficult to achieve. Moreover, it may be inappropriate for the parties being monitored and the parties doing the monitoring to collaborate too closely with one another. That said, authorities and banks should be able, much more effectively, to keep one another informed of what they are doing or are intending to do, share practical experiences and carry out collective crisis exercises. The Riksbank and Finansinspektionen should know and understand how the banks are intending to communicate during a crisis (with customers and shareholders respectively), and the institutes should very well understand the way in which the public organisations communicate (with the general public and voters as the ultimate target group). It should be possible to agree on the fundamental features in the crisis combat story, or “the tale”, as Stefan Ingves, Governor of the Riksbank, calls it.
- This kind of cooperation as preparation for crisis and in crisis should be able to create better prerequisites for communication of the banks as “citizens of society”, a role which became problematic over the period. This role could also be supported by an activated Bankers' Association. On the other hand, closely coordinated bank communication for justifying one another's actions is problematic. Each organisation has its own role and stands liable to its customers or shareholders. The Swedish Bankers' Association would probably be perceived by the media as a more “neutral” forwarder and a better source for information on the banks' system-critical role than individual banks.

## 1.6 Real-time crises now – reviewing of websites, monitoring of Internet information and participation of social media

Our conclusion is that websites are by far the most promising medium, and the medium most capable of development, for companies and organisations in normal times and in times of crisis.

The review shows that internal intranets became an effective channel primarily for passing on information quickly to companies' own organisations, and indirectly to customers and the general public by that means. A number of sources point out that quickly demonstrating drive on the Internet is important in a crisis and that information there became a kind of framework for the range to which anyone interested could be referred. The Swedish National Debt Office website, [www.insattningsgarantin.se](http://www.insattningsgarantin.se), is a good example of this. This website also supported the websites of other organisations as it gave them somewhere to refer (link) to which answered the questions posted by anxious bank customers.

The review shows that the private organisations are better equipped than the authorities for providing information on the Internet. The websites of private organisations generally have a higher technical standard and more in-depth content. They also have more websites in different languages which they can work with in a crisis. However, contingency for crisis communication via the Internet was not good everywhere. It took time for “the crisis” to be firmly established on the websites.

Half of the respondents to our questionnaire said that their web managers did not participate in their crisis management team, if they had such a team. In our opinion, this figure is too low given

the potential in the medium. To be able to manage websites effectively, a certain amount of specialist knowledge is also required which a good communicator does not necessarily possess.

A number of people also point out that the Internet provided opportunities for explanations and more in-depth information which representatives never brought out in the media. During the crisis period, few people had time to focus on social media, but SEB made good use of its social newsroom where it is possible to follow the bank economists via the Twitter microblog. After that, the use of social media has simply exploded.

## **ACTION**

- Given the significance of Internet communications, we recommend that the skills of the crisis management team be supplemented with web managers. Specialist knowledge is needed to prepare fast, creative, effective solutions with a view to reaching out to as many people as possible.
- The crisis preparations may include prepared “crisis websites” or other prepared crisis information.
- Continued development of websites and intranets requires resources and the understanding of the executive. A good way of getting attention is to monitor what other people are doing on the Internet, ideally competitors. This usually has an effect on corporate executive teams. Comparing and searching for “Best Practice” is also an easy, cost-efficient way of acquiring knowledge and ideas for improvements.
- Do not hesitate to edit your websites quickly and resolutely and give priority to content that is in demand. Think like a journalist! This facilitates opportunities to take the initiative when it comes to putting problems into words and formulating descriptions and analyses. Not least, this is important on intranets in order to keep staff updated and to give them tools for communicating with customers.
- Use social media to put forward your version of events and interpretations quickly. Customers, formers of public opinion, the media and your own staff may be the target groups. Market your own expertise using your own staff/specialists. Social media give companies and organisations the opportunity to influence and correct, and to put forward their version of events and their causes in real time.

## 2 Introduction – questions

In the autumn of 2008, international financial unrest developed into a financial crisis which rapidly forced major elements of the world economy into the deepest economic downturn in many decades. Following the bankruptcy of Lehman Brothers on 15 September, the confidence of market players fell so drastically that a number of system-critical international and national financial markets ceased to function. This resulted in an acute threat to the stability of the Swedish financial system.

Over this period, the primary players in the Swedish financial markets were forced to implement a range of extraordinary initiatives in order to deal with a confidence crisis which threatened the financial system with collapse. An important, priority initiative was crisis communication, the communication with market organisations, the media and the general public which aimed to preserve confidence on the financial markets.

These communication initiatives ask questions about the cooperation between the authorities and the private organisations which may be considered system-critical for the Swedish financial market. These organisations have been cooperating since 2005 in FSPOS, den Finansiella Sektorns Privat-Offentliga Samverkan [the Private-Public Cooperation of the Financial Sector], in which organisations such as the Riksbank, the Swedish National Debt Office, Finansinspektionen and the major banks participate (see below for a complete list of participants). The purpose is to cooperate in order to prevent disruptions in the financial system which may have serious consequences for Swedish society and to enhance the ability of the financial sector to withstand and recover rapidly from social crises.

As part of the development and reinforcement of FSPOS' communication cooperation, FSPOS made a decision in February 2010 to implement a survey in order to evaluate communication over the period 2007-2009. This assignment was allocated to communication consultancy Hallvarsson & Halvarsson. The survey was carried out between March and June 2010. The project has been actively supported by all FSPOS participants apart from Handelsbanken, whose communication has therefore been reviewed to a limited extent.

Within H&H, a working team headed by Mats Hallvarsson stood responsible for the study, and the team members were Marcus Eriksson, Martin Haag and Gabriel Thulin.

The primary objective of the FSPOS organisations, with activities and communication over the period, was to support and maintain confidence among market organisations, the media and the general public for the financial system's markets and system-critical institutions and organisations. This gave the survey the problems it needed to look at, its focus and its delimitation:

- How did the FSPOS members implement their communication during the escalation of the crisis threat in 2007 and 2008, and then crisis communication during the most acute crisis period from 15 September 2008 to the summer of 2009? How were communication strategies, statements, choices of representatives, channels, timing and target groups planned and formulated?
- How were communication activities implemented in different channels and with regard to different target groups?
- How were perceptions and behaviour influenced? What were the effects on credibility and confidence?

These questions provided guidance for the collection of empirical data, processing and structuring, as well as analysis within the survey. This analysis has been further developed with a summary of the conclusions of the survey, with proposals for action. Hallvarsson & Halvarsson bears sole responsibility for analysis, conclusions and proposals.

Note. FSPOS includes: the Swedish Bankers' Association, Bankgirocentralen, Euroclear, Finansinspektionen, the Swedish Securities Dealers Association, the Social Insurance Office, the Swedish Civil Contingencies Agency (MSB), Nasdaq OMX, Nordea, the Swedish National Debt Office, Sparbankernas Riksförbund, the Swedish Insurance Federation and Sveriges Riksbank. The following organisations also form part of the various working teams: Alecta, Folksam, If, Handelsbanken, Länsförsäkringar, SEB, Skandia, SPP, Swedbank and Trygg-Hansa.

## 2.1 Material and implementation of the survey

The survey has been carried out in the form of a number of subprojects in order to gather empirical data as a foundation for description and analysis. The sources of material were:

### A. Material on confidence development, 2007-2010

- Existing confidence surveys ordered by the financial organisations from external suppliers or implemented by themselves
- Statistics on economic conditions which reflect confidence: economic and macroeconomic data and analysis from public and international specialist organisations

- Market statistics which reflect confidence: financial market information on price and volume development on various submarkets for financial transactions, flows and instruments

**B. The system-critical organisations' communication strategies, planning, statements and communication activities**

- Existing material produced by the organisations on communication strategies, planning, statements and activities over the period
- Material distributed externally and internally in the form of press releases, figures and reports, material distributed via press conferences and on websites
- External financial communication: interim reports, annual reports, figures from shareholders' meetings and other investor relations material distributed to shareholders, the media and analysts and published on the website
- Articles in Svenska Dagbladet, Dagens Industri and Aftonbladet, above all, which were studied especially over the period. All relevant news and background articles and debate articles or similar if the system-critical organisations have been used for description and analysis
- 15 interviews with active and formerly active representatives of the system-critical financial organisations. Some of the respondents interviewed have requested anonymity, and we have respected this. The interviews took place as semistructured discussions lasting one to two hours. Some people were interviewed several times. The questions involved documenting the event stage in detail, gaining an insight into planning, decision-making processes, organisation and implementation of communication activities, and acquiring assessments of the causal process and the effectiveness and results of communication work.

**C. The system-critical organisations' own websites.**

- The international financial crisis, the crisis of confidence in the banks and the macroeconomic crisis between 2007 and 2010 were the first crisis period where a large proportion of the population were able to monitor the sequence of events more or less in real time via news sites on the Internet and the organisations' websites. This justifies a survey of the organisations' websites, the communication that took place and all the material presented there.
- The survey included a questionnaire for web managers within the respective organisations and contained eleven questions which were then followed up with telephone interviews.
- The questionnaire survey was supplemented with a ranking of the system organisations' websites, in accordance with the methodology in the Hallvarsson & Halvarsson Web Ranking Report. This report included 60 different criteria for websites content and quality.

## 2.2 Structure of the report

The main report is supplemented with four subreports in the form of appendices:

- A presentation of different surveys of confidence in the Swedish financial system and the organisations, based on their own confidence surveys, economic and macroeconomic data and data from the financial markets. Appendix 1.
- A description and analysis of the financial crisis in the media and the organisations' media image. This concentrates fully on the crisis communication stage in the autumn of 2008, when the system-critical organisations dominated the information provided by the media. Appendix 2.
- A study of the organisations' websites, with rankings according to 60 criteria and a questionnaire for web managers. Appendix 3.
- A brief review of the theory in which current confidence and communication research is summarised and a model for communication to engender confidence is presented and explained. Appendix 4.

## 3 2007 – 15 September 2008 – escalation of the crisis threat

### 3.1.1 CRISIS CONTROL AND CRISIS COMMUNICATION

Financial crisis control involves measures against crisis threats which must be communicated. As communication on the measures comes before the effect of the measures, communication must be so good that people “believe” the measures will have results. If not, the crisis threat may turn into a genuine crisis. This “belief” is based on confidence in the parties responsible for the measures.

Confidence bridges the gap between knowing and not knowing, and hence is a must for all voluntary economic relations. No-one can ever have complete information for entirely rational action. Everyone has to make economic decisions with the aid of a modicum of confidence – or mistrust – in the counterpart and the future.

When the Swedish financial system stood on the very edge of a crisis on 15 September, confidence in the banks and the functions of important financial markets was necessary. The crash at Lehman Brothers gathered together the system-critical organisations in Sweden to mobilise – impressively – measures and communication to prevent a Swedish financial crisis. They were successful. A few smaller “financial sacrifices” had to be made along the way, but no major financial organisations went down, and all the vital functions of the financial markets and the finance system for households and companies worked. Moreover, the support operations have not cost taxpayers anything. The banks have paid some SEK 5 billion in fees to the State, a model in stark contrast to many other countries which were affected by the financial crisis. On the other hand, it was not possible to prevent the economy from dropping into macroeconomic crisis towards the end of the year.

In other words, the financial organisations, households and companies, all threatened with crisis, believed that the measures would have the effect that the managers said. They were given – or retained – confidence through the communication that explained how the crisis threat would be combated. This communication is referred to as “crisis communication” and is the subject of this report.

When we ask the general questions on the significance of communication as regards confidence, it is important to remember that the crucial confidence relationships for the banks are the thousands of meetings that take place on every working day at the offices between customers and bank staff and, to an increased extent, the functions at Internet banks. The quality of these discussions, and in the services offered by the banks, is by far the most important factor for creating confidence in the long run. All the evidence points to the fact that people's relationships with their banks are long-term, able to withstand stress and dependent on staff.

This survey studies statements which affect confidence in “public” communication from the public and private organisations which together stand responsible for the system-critical functions in the Swedish financial system. We describe the situation using theoretical jargon and analyse communication from the point of view of the issuer. In the appendix on media image, we return to the point of view of the recipient in a media analysis.

We concentrate on the content of all the material which was issued in the form of press releases, webnews, reports, figures from meetings, public information at meetings and gatherings with the media, analysts and investors. This information is the most “official” and statement-aware. It is well thought out, planned and well prepared to a high degree. It should report on historical development and the current situation and provide judgements with regard to the future. It influences expectations and “manages” confidence in the organisations. In the case of the banks, this type of communication is heavily regulated by stock exchange rules and reporting procedures.

The first part of the report describes communication during the long escalation phase of increased turbulence and threat in 2007 until 15 September 2008, and this is then analysed. The second part describes communication from 15 September 2008 to the summer of 2009, the crisis communication phase, with an analysis in which we are assisted by the organisations themselves, which are able to explain and analyse sequences of events and causes.

Over the period between 2007 and 15 September 2008, criteria for communication in the financial sector underwent gradual and tangible change. 2007 was a year of positive economic conditions, with strong growth and very good profit development. However, the economic situation reversed over the year and became gradually weaker. The major Swedish banks were also occupied with something as unusual in their many years in business as relatively extensive international expansion. Strategies, targets and communication reflect this to a great extent. The international financial unrest gradually made its presence felt. In the autumn and winter of 2007/08, the threat became ever more apparent; and on 15 September 2008 the situation altered totally when the Lehman Brothers crash led to an acute confidence and liquidity crisis. At that time, the Swedish financial system was forced to switch to crisis communication.

Requirements with regard to the banks' communication also changed over the period. What are known as the Basel II rules were introduced in 2007, with a lot of internal work on adaptation to new capital coverage rules and methods for measuring different risks. According to what is known as the third pillar, the banks also introduced a report on capital and risk management which became a very extensive information document. Finally, according to an EU directive on transparency, requirements were introduced for descriptions in interim reports of “material risks and uncertainty factors” as of 1 July 2007. These changes tightened the demands on transparency in terms of the risks faced by the banks.

We have implemented this survey after the event, and so our conclusions will be “unfair”. They do not reflect the practical criteria and all the choices which the organisations had to make for their communication in times of increasing uncertainty and demands for haste. The decisions made then may have been rational in the given situation and on the basis of the information available at that time. However, the point of an ex post analysis is to look at decisions made in the light of new information so as to be able – hopefully – to extract more knowledge.

### **3.1.2 THE CONFIDENCE MODEL**

This is also reminiscent of the criteria for building confidence. Confidence is based on observed actions and effects (after the event) compared with what was said and promised – an interaction between expectations and earnings. Communication can control expectations and earnings.

Given this background, we maintain that our first survey period – 2007 to 15 September 2008 – was the time when the organisations should have communicated such statements on developments on the financial markets and within their own organisations which prepared them for the confidence test when conditions changed so dramatically on 15 September. It was necessary, with an image, to build up immune defences of confidence against the infection of financial unrest and the events which followed. One important means, according to accepted



theory, is a transparency which makes risks and threats clearly visible at an early stage. This allows knowledge to increase among all organisations. They are then forced to deal with potential problems before they trigger crises of confidence. Not least in our interviews on the public side of things, a strong awareness is expressed of the function of transparency when it comes to engendering confidence.

This, in particular as regards the concept of confidence, is entirely crucial to the financial sector and banks, a fact emphatically confirmed by a number of bank representatives in various communication contexts over the period. In English, we refer to this as “credence goods”. The banks sell services, which means that in practice, many customers have to believe that they are doing their jobs. Being a customer of a bank requires a large measure of confidence when you have little or no chance of checking the work done on fulfilling the promises which you, the customer, has purchased.

There is a reasonably solid research foundation for defining factors which create confidence. We use four categories (see also the appendix on theory):

- **Legitimacy** is provided by the basic principles and procedures on which operations are based, e.g. laws and regulations. Legitimacy may also be based on tried and tested tradition and practical function which has turned out to be rational and useful. A third source may be the authority which an owner or a leader gives to an organisation.

To provide a few concrete examples, it is obvious that the Riksbank, the Swedish National Debt Office and Finansinspektionen derive strong legitimacy from being democratic organisations with democratic responsibilities. They gain further legitimacy by having done an important duty over a long period of time, and having done it well. The banks also gain legitimacy by working to laws and regulations and being publicly monitored, but above all being successful in the long term in competition on a market. It is also conceivable that they have sources of legitimacy in traditions as being a non-governmental bank, being State-owned, being able to associate themselves with the name of Wallenberg and being the bank of choice of major corporations, or having become the biggest in the Nordic countries; to name but a few examples. Legitimacy may also be ideological; Swedbank is the bank of the ordinary people, while SEB is the bank of choice for major finance.

- **Expertise** is perhaps the most important variable by some way and comprises confidence in the experience and knowledge which benefits the givers of confidence; the banks in particular, which have this variable as their primary means of competition on a market, compared with the authorities which have a monopoly on what they do. The term “expertise” has many components; product and service quality, an ability to resolve problems, staff training, experience and attitudes, etc. To provide a few specific examples, SEB is renowned for its resources to the major corporate sector and in the field of financial transactions and services for companies and more affluent customer groups, with growing priority for advisory services. Swedbank concentrates on broad target groups with volume services in the field of everyday finances for households. Nordea has a slightly more differentiated expertise focus, which in Sweden is similar to that of Swedbank. In Finland, it is the bank of major corporations. Moreover, this bank is as big as the other three major Swedish banks together, with about one-fifth of the market in Sweden, and it is the only pan-Nordic bank.
- **Transparency** expresses the opportunities which givers of confidence have in order to review and check that the earnings match the confidence given, i.e. that what is done matches what

has been promised. It is all a matter of being open, having policies and procedures and acting practically in such a manner as to give the giver of confidence a knowledge of how the taker of confidence works, and acting in order to reduce threats and uncertainty and ensuring that deliveries do actually take place.

- Integrity is readily given an ethical import and relates in a sense to the morals of the taker of confidence. The giver of confidence wants a perception of the principles which steer towards being treated “well”, i.e. honesty and truthfulness, and gives a reasonably divided responsibility in relationships. Such values must be apparent in both words and actions, and be monitored with sanctions. We can add to this category issues relating to remuneration systems and the concept that banks “must not line their pockets at the expense of others”.

The building blocks of credibility are concepts in strong dynamics which are difficult to pin down. Perceptions of legitimacy, expertise, transparency and integrity have volatile boundaries, fluctuating in significance and mutual weight from target group to target group, from situation to situation, and with altered requirements in society. What gave confidence for a few months may then turn out to be insufficient when uncertainty and crisis are looming, such as liquidity and solvency requirements at a bank, or provocative decisions on high levels of remuneration when customers' economic situation is under pressure. In our survey, the components of confidence provide focus and facilitate analysis without us applying the model fundamentalistically.

Responsibility for confidence development weighs heavy on the party that wants to have confidence, the taker of confidence. The range of communication on promises and undertakings are what create the conditions for confidence to be achieved, and this must then be verified through action. If earnings are positive, this gives feedback in the form of confidence.

The most effective communication is the direct encounter, where statements are aimed directly at individuals, are specific, relate to their situations in the here and now, and quickly develop two-way communication. Of course, this kind of communication is rarely a practical option for major financial organisations other than in the typical case of customer meetings. Instead, authorities and banks have to use mass communication and so they have to use statements which must be perceived by a very large number of people, whose capacity for being interested in and understanding statements varies. These statements can be formulated with different levels of ability – target group adaptation – in order to appeal to the right people or to as wide an audience as possible, with a view to meeting the needs which provide the opportunity to engender confidence. Here, the general daily media are the foremost channel for reaching out to the broad target groups, supplemented by special channels such as news agencies and the economics media for financial market organisations.

The media plays a very important part as a channel and a filter between issuers and recipients, so important a channel that journalists are a target group in themselves as far as communicators are concerned. It is the obligation of journalists to get their material read as widely as possible. Therefore, their professional talent focuses enormously on passing on statements which are useful in some regard and which engender commitment, i.e. which can persuade as many people as possible to feel that the text is about them and their own problems, here and now. Adapting to this media logic in communication which aims to build and maintain confidence within people's own organisations is the very difficult job of the communicators.

Therefore, as national authorities and listed companies, the major financial organisations have to communicate statements which are relatively impersonal and are aimed at very wide audiences. But utilising spokesmen at personal interviews and press conferences improves the chances of

formulating statements which are more accurately adapted to the needs of the media and the confidence creation of people's own organisations. Moreover, websites offer an ever more important platform for all communication with all target groups where issuers can tailor their statements in the form which they themselves want.

Given this reasoning, our survey reviews the external communication of the Riksbank, the Swedish National Debt Office, Finansinspektionen, Nordea, SEB and Swedbank, and – to a lesser extent – Handelsbanken over the period on the basis of a confidence perspective. We are monitoring developments along the timeline and making our observations along the way.

### 3.2 2007 – good times, but increasing risks

The atmosphere in the financial markets in Sweden was good over the first half of 2007. However, in the media it was possible to read about the crisis on the American home loans market for quite a while, and about an increasing unrest on the international financial markets. When the Riksbank published its first stability report, stability was good and the banks' profitability was good – and increasing. Recurring themes were established right from this point. The banks' chances of dealing with negative events are good, but there are a number of risks to keep an eye on: price corrections on asset markets and overheating in the Baltic States, an area which was actually generating a greater and greater percentage of the profits for the banks. One important piece of information was that risk premiums were historically low, “which may indicate that investors do not require sufficient compensation for risk and may have a tendency to sell their holdings quickly in the event of financial unrest.”

In September, Lars Nyberg, Deputy Governor of the Riksbank, gave a speech, asking whether the unrest on the financial markets would spread to Sweden. The response was that the risk of this was not particularly great. However, Nyberg safeguarded his position by stating that Sweden is not isolated from the rest of the world, and he also described the financial unrest as a liquidity or funding crisis.

The Finansinspektionen report entitled Stability of the financial sector, dated 15 October, pointed out that unrest on the international markets meant greater uncertainty. The Swedish banks are marginally exposed to the assets affected. However, the banks have to anticipate higher borrowing costs, shorter maturity periods, and earnings will probably also be adversely affected. In the long term, the economic effects caused by the turbulence will affect the banks. Rather, the increased risks are in lending in the Baltic States, said FI, but the banks have enough capital to withstand even enormous credit losses in the region.

When the Riksbank's next stability report was issued at the end of the year, the tone was slightly more forced. The Swedish banks are financially strong and have good profitability, but resistance in the system has been reduced and credit risk has increased, mainly due to exposure in the Baltic States. The Riksbank's stress tests showed that the banks' resistance to enormous application of the brakes in the Baltic States was good. However, it was also stated clearly that any such action would result in borrowers having problems paying off their loans. There is turbulence on the international financial markets, and there is a risk of this situation worsening.

In December, the Riksbank reported that a number of central banks, including the Federal Reserve, ECB and the Bank of Canada, have undertaken measures in order to support the banks' short-term borrowing. However, there is no such need in Sweden, said Stefan Ingves in the press release. He then establishes a further basic element in the communication that is to come about: "We are monitoring developments closely and are, as always, ready to take the necessary measures if the need should arise".

For the banks, 2007 was mostly made up of sunny days, with very good profits for all. But there was slightly different emphasis as regards the choice of how to structure the confidence-bearing statements in the CEO's comments on the quarterly reports, for example the risks in the Baltic States, which both Finansinspektionen and the Riksbank emphasised with greater and greater vehemence over the year.

In the first quarter, Swedbank indicated "unrest about an overheated economy, but is of the view that development is still positive". In the second quarter, the emphasis was on "particularly strong profit development in the Baltic States, and the fact that Swedbank is in a very good position to continue good profit development for a long time to come". This good growth "has given the bank significant experience of running banking operations on growth markets". The symptoms of overheating were also deemed to be starting to diminish over the second half of 2007. However, this view was supplemented in the CEO's report for the third quarter. This stated that the level of activity had declined in the short term within certain parts of Swedbank Markets during the latest period of unrest on the international financial market. This has resulted in effects limited to "a short-term effect on the valuation of certain assets and liabilities". Moreover, the economies in the Baltic States were seen to be slowing down "as expected". Swedbank was expecting this slowdown to continue and so reduce the imbalances evident.

Nordea adopted another style in a comparable communication. The CEO placed greater emphasis on their own strategies, objectives and growth, as well as on internal development work on organisation and the building of culture. Customer relations were a recurring obsession. The CEO's comment in the quarterly reports deviated in few figures and few statements on the development of the rest of the world. He gives the impression of facing inwards towards his own organisation to a great extent. However, in the third quarter it was noted that the "general economic prospects have been reviewed and business volumes are expected to increase at a slightly slower rate in the medium term".

SEB is the bank which clearly was most concerned about the risks in the rest of the world over the period. As early as in his first quarterly report, the CEO said in his comment that developments in the Baltic States were being monitored carefully, with particular emphasis on long-term quality and risk-adjusted returns. The tone changed in the second quarter, when the "Baltic markets are still attractive despite the macroeconomic climate, which requires more acute credit risk management". Over the third quarter, the fact that the problems were intensifying was noted: "the turbulent credit market led to lower valuation of interest-bearing securities in the portfolios". It was pointed out that credit losses were still low and that the quarter was characterised by increased credit spreads. It was apparent that SEB perceived an altered risk profile, and communication reflected this.

### **3.1 1 January – 15 September 2008 – the unrest became a serious crisis threat**

In early 2008, the use of language was more or less established, demonstrating that there was a financial crisis happening in the world, especially on the American home loans market, and

pushing developments towards an economic downturn. The problems were serious, central banks were forced to pump in liquidity in order to keep banks going. Lars Nyberg, Deputy Governor of the Riksbank, gave a speech on 4 February and pointed out that the American economic downturn had taken a firm foothold and that “there is obvious concern that this will worsen the financial crisis. We have not been directly affected by the crisis in Sweden... but unrest on the financial markets (has) already led to tightening of belts in monetary policy”.

When the banks then produced their year-end reports for 2007, Swedbank and Nordea had record earnings to report. Nordea said that it had been affected only marginally by the unrest on the market. Uncertainty had increased, and 2008 would see the bank facing many challenges. The CEO made a point of saying that the level of investment could be reconsidered if economic growth were to slow down. Swedbank said that the bank's financial risks were low and “will continue low”. Swedbank posted record earnings in the Baltic States but reined back on growth in order to support the return to a more balanced macro economy in the region. SEB reported valuation losses in its bond portfolios and said that its credit quality was very strong.

The Swedish National Debt Office stated in a press release that “the Swedish economic situation is still strong”, although it had weakened since the October forecast.

In connection with a new, coordinated central bank initiative in order to underpin bank liquidity, the Riksbank reported in a press release on 11 March that “In Sweden we do not currently see that the banks have any additional borrowing needs”. And with its statement that “Sweden is also affected by the renewed pressures in the international financial markets”, the Riksbank issued a communication loop that would be utilised frequently in the future. Once again, Stefan Ingves, Governor of the Riksbank, pointed out that “[w]e have close and regular contacts with the banks and other market agents and are closely monitoring market developments”.

March also saw the issue of the banks' annual reports, with important comments in the CEOs' statements.

SEB's CEO gave a new, unique and in-depth perspective on the situation and spoke in terms of a paradigm shift: “... the long period of excess liquidity and historically low risk premiums came to an end”. The consequence was a downward spiral of uncertainty, faltering confidence among market organisations and increased credit spreads which gave valuation losses in the bank's interest portfolios. In the Baltic States, Kontorsrörelsen continued its controlled slowing of credit growth.

The Chairman of Swedbank said in its annual report that Swedbank had not been immune to the markets' altered attitude towards the financial sector, or to the reappraisal of prospects for certain growth markets which include the Baltic economies. But “I am convinced about our position and strategy for the coming year and future years. ... Swedbank has an explicit growth strategy which creates value for shareholders... our development in the Baltic States shows that this strategy is successful and gives cause for optimism in respect of Ukraine in particular, but Russia as well”.

The Nordea CEO's statement exuded self-confidence, but the CEO noted that the unrest of the market dominated the financial environment over the second half of 2007. He is pleased with the fact that Nordea's cautious handling of risk and capital gave merely limited exposure to market unrest, and the fact that its funding base and liquidity position were strong throughout the year.

When Finansinspektionen implemented a short stability report in late March, it was titled “Svenska banker klarar pågående marknadsoro” [Swedish banks deal with ongoing market unrest]. The confirmed view of the fact that the Swedish banks had done a good job and “the four major banks made record profits in 2007 and all have good capital strength”. But FI also pointed out that the risks remain: the situation on the financing markets, the economic trend and

development in the Baltic States. These risks were “relatively serious”, but no one risk was deemed to constitute a stability threat.

At SEB's general meeting, CEO Annika Falkengren had prepared a very educational and alarming “storyline” for the global financial crisis; she was the only one among the banks to do this. This statement dominated the speech and coincided with the Riksbank's statement at this time. It related to an accelerating turbulence which created unrest regarding the vulnerability of the international banking system and which “has of course affected us. As always in the case of market adjustments, not many predicted the triggering factor and the strength of the correction. A lack of confidence in the banking system arose. In turn, this contributed to a lack of liquidity. The central banks have acted in a number of ways to enhance both confidence and liquidity in the system.” She pointed out again that SEB had valuation losses in its portfolios, and that in 2007 the bank increased its liquidity reserve and now had “far more liquidity than our current business requires”, as well as its reinforced capital base and primary capital relation.

On 15 April, The Spring Fiscal Policy Bill was presented in a press release and the coalition government said that the world “is being characterised ever more by turbulent financial markets... the clouds of unrest have multiplied and darkened, and this has impaired prospects for growth. This considerable uncertainty means that policy has to be able to face up to unpredicted events”. One week later, the Riksbank decided to maintain an unchanged repo rate at 4.25 per cent and said that the economic situation was still good, but that there were signs of decline with major future uncertainty.

Swedbank's annual general meeting held on 25 April was characterised by a harsher tone when the Chairman opened with the following statement: “Today, we are holding the Swedbank annual general meeting in a time of financial unrest. In this unrest, Swedbank stands strong”. After a few words of introduction, he put out a sharp statement: “As with all financial crises, the map will be redrawn this time, too”. The Chairman continued to talk about the need for consolidation in the industry, which would affect the Nordic countries as a consequence of a general trend, not of “poor economic development”. In the CEO's statement which followed, the CEO gave a reassuring statement: Swedbank has no exposure to the phenomena which have given rise to or characterised this unrest. Our low risk exposure and good financial earnings for last year are an acknowledgement of this. ... Our primary scenario for the Baltic economies has always been that correction will take place – and that this will arrive in the form of a soft landing. From what has emerged to date, we see no reason to change our perception”.

The CEO of Nordea also adopted a reassuring tone in a press release on 29 April, when he commented on the earnings for the first quarter, “for a period with increased turbulence and difficult financial markets. Despite this, Nordea has continued to grow, increased its income and profit before credit losses, and has a strong balance sheet. This is due to continuing limited exposure to market unrest and ongoing successful implementation of our strategy for organic growth”.

Annika Falkengren, on the other hand, sounded considerably more serious in her quarterly comment in the press release: “after nine months of the most serious disruptions on the financial markets in decades, the effect on the real economy has become clearer. ... customers' more cautious investment behaviour has led to reduced income”.

In April and May, there were signs that the unrest of the financial market had calmed, and in a speech given on 8 May, Svante Öberg, Deputy Governor of the Riksbank, said that “growth is being damped in Sweden, but the decline is not so great.” On 21 May, this statement was reinforced when Lars Nyberg, Deputy Governor of the Riksbank, said in a speech that “there are signs which indicate that we may perhaps have left the worst behind us.” But he issued a warning

as well: “The market is still vulnerable to rumour. It is not possible to rule out new credit losses occurring which at least temporarily will disturb the confidence of the market”.

This attitude was reflected once again in the report on financial stability in June, where it was noted that Swedish banks had good access to finance and that the financial system had worked well. But it was not possible to rule out further worsening of the problems. The vulnerability of Swedish banks had increased, and their engagement in the Baltic States was an ongoing source of unrest. “Growth in the Baltic states is now declining more quickly than anticipated, just as the Riksbank warned previously”. But the stress tests showed that the banks have buffers for just such poorer development.

On 16 June, Finansinspektionen reported that they had entered into a cooperation agreement regarding how the EU would cooperate in the event of a cross-border crisis.

In the summer, the banks reported record earnings again. SEB's CEO was very concise and noted that uncertainty on the financial markets had picked up pace. Swedbank pointed out that “given Swedbank's risk profile, the bank is considered to be well capitalised. Macroeconomic development in the Baltic States has developed more weakly than was previously anticipated. But the credit quality remains good in both the Baltic States and Sweden.” Nordea's CEO said: “Our growth initiatives are continuing to deliver, and we are maintaining our long-term financial targets, although the ever more uncertain economic development and the volatile financial markets are placing a certain amount of pressure on short-term growth for the risk-adjusted result.”

This ever more uncertain future was also underlined in August by Anders Borg, Minister for Finance, when he reported on the starting points for economic policy: “The dark clouds which have hung over the world economy have become more dense over the summer as a consequence of increasing unrest on the international financial markets”. He noted rising interest rates and rapidly falling stock exchange rates, and stated that Sweden was now being affected by this with a clear slowdown in the economy.

### **3.2.2 NEW EU REQUIREMENT**

This period also saw the new requirement coming into force from 1 July 2007, concerning the fact that the banks' quarterly reports, according to the EU's Transparency Directive, had to describe material risks and uncertainties.

Here is a brief review of how the banks complied with this requirement.

Risks have traditionally been hidden away in quarterly reporting. In its first quarterly report for 2007, SEB used a heading “Market risk” with five lines of text on VAR. For the same period, Swedbank carried out a small sensitivity analysis of interest rate changes over 13 lines under the heading “Interest rate risk”. Nordea had no “risk heading” at all over the first quarter; but it described its credit losses, which were positive by EUR 13 million. At this time, all the banks also had information on the new capital coverage rules and primary capital relation and capital coverage degree.

Starting 1 July 2007, the requirement on reporting material risks and uncertainties came into force. SEB established a new heading in its quarterly report: Risks and uncertainties. Under this heading, the company will in future begin consistently with the wording: “For SEB, the reputation and credibility of the bank are critical in order to maintain long-term customer relations. The

macroeconomic situation is the primary risk factor for the Group's earnings and financial stability". Then the company referred to an Appendix for various types of risk and to risk descriptions in the annual report. The section ended with "Besides the risks described in the annual report, the economic imbalance and signs of overheating in Latvia and Estonia have been accentuated over the first six months of 2007".

SEB's risk section swelled during the coming quarters over the period. Among other things, the liquidity situation on the markets was discussed: "SEB has maintained good liquidity, which is of top priority for the Group". Extended credit spreads were described, with effects on the bank. A few measures were mentioned in order to ensure payment capacity, and valuation losses in portfolios were commented on. These were also described in reasonable detail under a separate heading: Interest-bearing securities portfolios. In the year-end report for 2007, an additional heading was used for Credit losses. Over the first two quarters of 2008, risk descriptions under several different headings covered about a page in the quarterly reports. SEB was also early in emphasising the problems in the Baltic States and explained that its rate of expansion was being slowed.

Swedbank did not provide any information on the new reporting requirement, nor did Nordea. In the second quarter of 2007, Swedbank established a new heading, "Risks and uncertainties", with 13 lines stating that the company was influenced strongly by environmental factors, but had a low risk profile with a well diversified credit portfolio and low financial and operational risks. No risks were described; instead, reference was made to the 2006 annual report. There is a sensitivity analysis under Interest rate risk. The text volume under the heading Risks and uncertainty factors doubled during the coming quarters over the period. Actual risk changes were discussed, but information on effects was calming and more or less worded in exactly the same way up to the second quarterly report for 2008: "... The turbulence relating to the American sub-prime market and its subsequent effects have had an adverse effect on earnings performance even though Swedbank has no significant engagement in this market, either directly or indirectly. Furthermore, the overheating tendencies in the economics of the Baltic States have created unrest among investors and other stakeholders, which has also affected Swedbank although it has not involved any significant adverse effects on earnings over the period".

In the second quarter of 2007, Nordea reported for the first time risk weighted assets in accordance with Basel II under the heading Basel II, and also describes over seven lines the VAR for market risk. The new reporting requirement starting 1 July 2007 relating to reporting material risks and uncertainties was handled with a heading, "Risks and uncertainty", as the last point in the notes and a brief text on the general risks to which the bank is exposed. Over the three quarters which followed, a heading "Effect of the financial unrest on Nordea's borrowing" was introduced. This introduced in brief the nature of the international financial unrest and was supplemented with a comment, similar throughout, that stated that "However, Nordea's reputation on the market has been good thanks to its strong, well diversified financing base, including its stable private customer deposits and its well considered liquidity management which was established when the bank was formed". The risk description was gradually extended, with a description of market risks under a separate heading and more and more information under the heading Capital position and capital structure, i.e. Basel II information.

With the Basel II requirements, the banks radically extended the volume of risk related information. This was collated into separate documents with slightly different names, but with standardised content and published once a year. In Nordea's case, the first report in 2007 covered 35 pages, and 85 pages in 2009. This development was similar for the other two banks.



These are extraordinarily advanced, technical banking documents of high quality, and with a lot of breadth and depth for describing risk control and the situation for various types of risk. A very high level of specialist expertise is required to be able to understand the content. Whether this increase in volume also increases transparency in practical terms may be discussed. Given the technical financial content and the language, this material is very difficult for non-specialists to interpret.

## 4 2007-15 September 2008 – analysis and discussion

Over the period from 2007 to mid-September 2008, there was a gradual worsening of conditions for the banks in Sweden. The international economic situation became darker and darker, financial unrest worsened and had an adverse impact on both the liquidity situation and the price of risk on ever more financial markets and in ever more countries, including Sweden. The uncertainty and the risks gradually grew, and with hindsight we can see the clear progress of worsening which, with the Lehman Brothers crash, led to a serious crisis threat. On the other hand, things were better than ever before for the Swedish banks, with worsening of the situation towards the end of the period, they showed very good profits, strong solvency and good buffers for when times were harder. How did the system-critical organisations balance these two main themes in their statements?

Sveriges Riksbank, the central bank, bears particular responsibility for defining the state of health of the Swedish financial system. Thus it also bears responsibility for interpretation perspectives of the market, politicians and the media by virtue of its legitimacy and expertise with superior investigation resources and volume in communication with reports and follow-ups on interest rate policy, lots with figures and economic comments. The most important instrument is the Financial stability report which is issued every six months. Finansinspektionen also bears such responsibility aimed at the individual institute, with monitoring and stress tests and a separate stability report. The Swedish National Debt Office does not have this role, nor does it participate with its communication in order to describe the stability and risk situation. However, the Swedish National Debt Office was diligent in constantly linking and referring to the Riksbank's assessments on its website over the period.

Over this period, the Riksbank made the assessment throughout that financial stability was good in Sweden and that the banks were financially strong and had good profitability. However, there was an unrest concerning stability which was gradually escalating. The risk assessment was given a lot of scope, and the risk situation was described in more and more detail on the basis of generally available economic statistics and qualified market data from the banks. Throughout the entire period, the Baltic States were a source of growing unrest, and the ever more apparent liquidity problems and confidence problems on the financial markets were given plenty of attention even early on. There was also the beginning of unrest concerning the risk of these problems spreading due to inadequate confidence in organisations and on markets. Relevant elements of this view coincided accurately with Finansinspektionen's stability reporting.

The Riksbank's communication on risk development on the financial markets was well thought out and well prepared. The statements bear strong consistency, despite the large volume and the many different spokesmen, with carefully considered use of language well supported by arguments. It is worth noting that it was at no point stated that Sweden or the Swedish banks were in crisis. There was no crisis to begin with; instead, there was financial turbulence or unrest and uncertainty. A crisis was gradually introduced to the vocabulary, but it was always somewhere else

over the entire period; it was international, or global, and Sweden was affected by it to an increasing degree.

In this context, it may be worth providing a reminder that the Riksbank chose to raise its repo rate as late as 4 September 2008, 11 days before the Lehman Brothers crash. This decision was controversial, the executive was not unanimous but the motivation of the majority was the fact that an increase was needed in order to prevent high inflation biting. The Riksbank reasoned that the financial unrest in the world had of course had an adverse effect on growth, but that the pressure of inflation was nevertheless deemed to be serious. But the interest rate would hardly have been increased if the financial crisis and the subsequent collapse in the economic situation which then occurred had been predicted.

The Riksbank described this development in respect of stability with a sophisticated use of language which escalated the severity of the situation with words such as: “Sweden is affected, the risks have increased, perceptibly affected, clearly affected and finally tangibly”. During the winter of 2008/09, it was gradually established that Sweden managed to maintain its financial stability solely thanks to public efforts.

This method of communication was also used by the Government, which used language in a similar way until October 2008. At that time, the crisis term started to be used more aggressively and instrumentally in its arguments for political action. More of this later.

### 3.1.1 STABILITY REPORTS – A GOOD SIGNAL TOOL?

But even so, the value of the stability reports has to be looked at. They have – and had during the survey period – considerably less impact in the media and debates than the reports on interest rate policy. This is the way things usually are, and this is perhaps not so strange given the direct and specific significance of interest rate developments for households and companies. The stability reports are unique. They focus entirely on stability in the financial system. There is enormous ambition to seek to formulate conclusions in unambiguous wordings, such as by saying that stability in the Swedish financial system is good or satisfactory. Viewed in retrospect, it is during the survey period that the stability reports would have affected the market, the media and debates for ever greater awareness on the increasing threat against financial stability.

On factual grounds, one may wonder if such old macroinformation which is issued so rarely and at set times would not be of no interest to professional economic assessors and the media. There is no “pressure” in the Riksbank's statements, stating that Sweden was now “affected more” rather than simply having been “affected” six months previously. Nor is there any obviously greater pressure on the banks in respect of their engagement in the Baltic States, where the Riksbank and Finansinspektionen were constantly pointing out growing risks with lending. But these particular choices of words are probably difficult to comprehend; can the Swedish financial system really have been as stable as indicated in the report in a press release three days after the Lehman Brothers crash: “Despite the unrest of recent times, the Riksbank deems financial stability to remain satisfactory”. And in the same press release, Irma Rosenberg, Deputy Governor of the Riksbank, said that “our view is that unrest on the Swedish financial markets is not affecting financial stability. The banks are financially strong”. With the Riksbank's method of communication, Swedish banking customers have to ask themselves: what does the word “stability” actually mean? Surely the State pumps billions into the economy to prevent a market collapse? And is there not a problem when the Riksbank issues warnings, time and time again, about the Baltic States and the banks do not seem to have understood just how serious the risks actually were?

One problem may be that the concept of stability as far as the Riksbank and Finansinspektionen are concerned does not really cover the liquidity and confidence problems, which appear in actual fact to be lightning quick reactions in the market which may be significant to and threaten solvency. Therefore, it is with good reason that the question may be asked: what do the Riksbank and Finansinspektionen actually mean by the expression “financial stability”? Moreover, this is a point which was raised in our interviews. Should the report not attempt to a greater extent to sound out the liquidity threat and development of confidence at a much faster pace?

One of the primary purposes of the stability report is to provide a communication signal to market organisations, politicians and the media to indicate that the risks are increasing. Communicative changes could be discussed in order to reinforce the communication signal. Is the periodicity sensible? Would it be better to issue a more concentrated report at more frequent intervals? Or should the reports be issued in a short format when changes take place? Should there be special colours for different statuses in the risk situation, the same as in the American hurricane warnings? Should it be possible to carry out follow-ups which are inkeeping with reporting on interest rate policy? Of everything, or just parts? Should the development of financial stability risks be clearer, with more “medial” signals in the form of barometers, different risk zones? Should even clearer risk scenarios be painted, showing the effects in favour of and threats against households and companies? Point out impending effects on the basis of crises which have occurred previously? Should they be followed up by public letters to the heads of banks? Should it be possible for Finansinspektionen, without causing damage, to point out more clearly banks with a particularly alarming risk profile or to in some way group or rank the risks using “traffic light signals” so that it would be clearly apparent who was affected and not improving? This would then be a way of adapting to the logic used by the media in order to draw attention to their material. And the most difficult aspect – how is it possible to keep track of the development of confidence among market organisations? In-depth interviews with “financial psychologists”?

The argument for such a “dramatisation of stabilisation story” could be justified by saying that the market needs more transparency in order to find “the bad lemons”. A greater public drama on the stability threat in the media and public debate would perhaps persuade the searchlights of the media and analysts to focus more intently on the risks of the banking sector and individual banks. This would force the bank executives to provide greater openness on their activities, more communication and statements on threats and risks, better internal reviews and perhaps faster, more cautious handling of potential problems. So in any case, a dynamic of transparency – review – responsibility – communication – confidence could work in theory. Of course, against this is the argument that said “alarmism” could in itself have a destabilising effect. But there has to be a balance between short-term and long-term costs to the Swedish economy, a problem resolution which first requires political/democratic support, which is why the politicians will probably be the ones left holding the ball. And here there is already a veritable abundance of proposals and requirements for regulation of the activities of the banks.

### **3.1.2 THE BANKS – COMPREHENSIBLE RISK DESCRIPTION?**

One communication detail which contributed towards unrest, in the view of many interviewees, was that in their statements to the market, the media and the general public, the authorities used the term “the banks” more or less consistently. The differences between the banks in their capacity to face and deal with risks were major throughout the entire period. But the Riksbank and other authorities established early on the “risk collective” – the banks – which the Government then took as an effective way of identifying the scapegoats for the crisis threat, and hence as an incentive for a range of populist measures concerning restrictions on remuneration. The politicians know how good politics require feelings and indignation as the driving factor for

finding unfairness which a good government should put right. This helped to lump together the banks less exposed to risk with the more risky ones. This also helped to impede balanced communication during the autumn and winter for the individual banks concerning their risk situation. The well established train of thought of “the banks in crisis” then became a general weapon in the political debate which also tainted banks with minor problems.

Of course, the banks utilised the very good earnings to give a positive description of the situation. This is the period of record profits. The increasing international risks and the problems in the Baltic States gradually took up more and more space in communication from 2008, but the risks took on a very secondary position. This is in line with the microperspective which normally dominates the reporting of listed companies. The income statement, “topline growth” income, expenses and essential key figures for financial strength, following up their own strategies and target figures, and information on organisation and priority market activities are all in focus. There is sometimes a clear direction in statements towards their own organisation and their own shareholders, with a tonality which emphasises the successful, the things which motivate and are devoted towards adding value for shareholders. This communication follows the expectations which are ingrained in reporting tradition and among significant target groups. It may even be possible to state that this emphasis on positive statements is very much part of the nature of the entire corporate executive.

But nevertheless, there were choices to make in respect of what statements were to be put forward and how success and threat are balanced. These choices have been clarified a long time ago, in debates and demands for more information on risks and threats and are greatly supported by the stock exchange's quotation standards and the needs of the media and analysts and in adaptation to the EU directive from the second half of 2007. It is also necessary to build up a buffer of confidence with comprehensible descriptions of risks which are there to fall back on when a crisis or economic problems arise.

Compared with what the Riksbank and Finansinspektionen communicated at the same time and the clear changes in the world, the banks' communication on the development of uncertainties and risks did not live up to the stringent demands which the target groups are entitled to make. The warning signals concerning a significant change in the risk landscape which was being signalled by the Riksbank was not caught sufficiently clearly in its own communication. The banks, with society's top talents when it comes to assessing risks, should reasonably have had even better, earlier information on the development of the risk profile for their own operations than the Riksbank and authorities. However, choices were made which seemed to systematically tone down the risks and overemphasised the positive aspects in volume and tonality.

But there were clear differences between the banks. SEB distinguished itself by balancing communication with statements on the risks in the world and making them a main topic earlier than the other banks. The Baltic States were emphasised early on. CEO Annika Falkengren chose, at the general meeting held on 15 March 2008, a dominant risk perspective with a “story” for the international financial turbulence. The pedagogics were very good. Viewed in retrospect, it demonstrates a deep financial insight: an era of excess liquidity and historically low risk premiums was drawing to a close. We are now in a downward spiral of uncertainty and faltering confidence. This was an analysis which pointed forwards to further problems, even though she herself did not point them out. It was possibly that she perceived the risks in a different light to her banking colleagues thanks to SEB's strong international focus on the financial markets.

Nordea's communication through quarterly reports, statements from the CEO, a letter from the CEO in the annual report and speeches concentrated strongly on their own performance in terms of both content and volume. Market unrest was described as a variable in the world, the risks were

not dressed up in separate statements, and so de facto they were of little importance to the bank, which was going very well and had relatively low exposure to risk. Instead, it took as its perspective its own strategies, target compliance and work with organisation and customer satisfaction. CEO Christian Clausen put forward a view of Nordea as a strong, secure and successful bank.

Swedbank's communication, with hindsight, tended to be unbalanced and conciliatory. The worsening situation in the Baltic States was noted but “balanced out” with positive assessments on the future. In the light of what was to happen, it gave an impression that the executive did not have a good overview of the situation or was consciously toning down the world threat. These statements had striking elements of hope; “the effect is short-term, we are expecting the imbalances to even out”, etc. In Swedbank's press release dated 14 February 2008, the CEO comments on the accounts by saying, among other things, that “Swedbank's risks are and will remain low”. The seriousness of the development in the Baltic States was often described as temporary. At the general meeting held on 20 March 2008, the Chairman said that “Our development in the Baltic States shows that our strategy is successful and gives cause for optimism in respect of Ukraine and Russia in particular”. At the general meeting held on 25 April 2008, the CEO commented on the international financial turbulence by saying: “Swedbank currently has no exposure to the phenomena which have given rise to or characterised this unrest”.

As regards the altered reporting requirements as of the EU directive, risk information was both thin on the ground and presented in a confusing manner in the banks' quarterly reports. There is no conceptual perspective over a relatively long period of time. The texts are difficult for non-experts to fathom. Nor are there any attempts to put forward systematic, well thought out statements on the development of the risk situation over time, with reference points in language or facts to allow changes to be interpreted. There are differences between the banks, but they are quite minor. It is possible that the banks were expecting answers to questions at meetings with analysts and others to flesh out the type of information. The Basel II reports are impressive, fact-packed documents, but the technical level is inaccessible to the media and probably discouraging even for quite qualified readers. It could be said that the information is good but the communication is poor. One conclusion is that the banks “failed to adopt the communicative high ground” for the risks, which gradually became more acute. This had an adverse effect on confidence when the crisis threat was imminent and the media suddenly labelled it a crisis.

### 3.1.3 COMPONENTS OF CONFIDENCE

If we attempt briefly to analyse the statement content in the confidence perspective of the model, it appears that legitimacy is a low-priority variable among most banks. Gaining support for confidence in the legitimacy held for a long time perhaps felt a little old-fashioned and unnecessary in the good times. But legitimacy always forms part of the confidence capital as a strong foundation for slow-moving, faithful customer relations. It may involve the authority gained by being rooted in a popular movement, being a major finance house or being the biggest in the Nordic region. It is all about appealing to tradition and practical function which millions of customers have spent a long time trying out and finding it worth their confidence, probably so difficult to capture in statements but nevertheless important to put forward. These statements imply in some wordings that they are leaders in certain segments, focusing on relations and customers. This is a type of statement which is probably more suited to marketing, but Handelsbanken's persistent message that the branches are the bank has built up good legitimacy and an understanding of what forms the basis of the bank's operations. Nor do the Riksbank and the authorities emphasise particularly the strong, confidence-giving legitimacy held simply by

being “Sveriges Riksbank” or “State authorities with tasks defined by and for the people of Sweden”.

Legitimacy is reinforced by the authority exuded by a good leader. Christian Clausen, Nordea's new CEO, took over in 2007 and so was a fresh face on the Swedish banking stage. But he was matched well over the period with the agenda for change with which he wished to be associated. He evidently holds great authority within the bank, but was considerably less apparent when it came to the Swedish public. Annika Falkengren of SEB also had a good grasp of her leading role in communication and was clearly apparent as the bank's top spokesperson. However, over the “crisis period” to come she ended up having significant problems with integrity in the debate on remuneration. This obscures the communication in which she comes across as the most analytical, foresighted director of a bank thanks to her early and ever more detailed statements on risk development. Swedbank's executive management appears to be slightly unclear in its division of communication between the CEO and the Chairman. The statements from the executive management were characterised by an optimism which gradually turned out to be more and more unwarranted. The appearances of the CEOs on the external communication stage over the period follow the practice for the role: frequent appearances before investors, motivating role play for employees and owners, and more or less successful appearances in the media.

On the public side of things, Stefan Ingves, Governor of the Riksbank, was totally dominant, backed up by speeches and appearances by the directors. The Swedish National Debt Office had no part to play in communication relating to financial stability during this period. Ingves was clearly and consciously selected to appear at more major, more important statement occasions. He stands out as a good communicator with objectivity and top class expertise in his subject, which compensate for his rather dry and “fiscal” manner. Over the period, Finansinspektionen had a DG who did not make any statements on financial stability issues, which reduced the appearance of FI in the debate.

All communicators were supported by their attempts to demonstrate expertise, a central component for confidence. This expertise, according to our model, is evaluated constantly when assessments and predictions are tested against actual results. Expertise can be perceived more clearly in the statements of the authorities; they are the sole holders of their role, they have a monopoly on expertise.

It is obvious that there is a problem with communication when a certain proportion of the public demand a high level of technical detail, while the general public and the media are attracted by other communication expertise. This is a central problem in all communication which the Riksbank handled well thanks to a clear policy for clarifying and simplifying the statements and adapting them to suit different target groups, or so that they suit several target groups at the same time. Expertise support is also provided by a large variety of well made diagrams and illustrations which demonstrate continuity in the statements. The Riksbank's statements on the growing threats and risks were largely verified in retrospect by development on the financial markets, which reinforces the expertise factor.

The expertise which the banks convey is subjected more readily to comparisons and is under constant, detailed external review. It may be said that in its communication, Nordea restricted the assessment field for the expertise of the bank by concentrating its statements on the bank's own performance and devoting a relatively small amount of scope to world changes, threats and risks; less than other banks. This makes it harder to assess Nordea's expertise when it comes to assessing threats and risks in the world. Swedbank carried out a number of forward-looking assessments of world development and risks and threats over the period, which later turned out to be not especially accurate in terms of actual developments. This gives a negative impression of the

bank's expertise. The strongest impression of expertise was given by Annika Falkengren with her interpretative statement of phenomena on the financial markets, which turned out to be very explanatory for ongoing event development.

In retrospect, one may think that respect for the de facto expertise of the banks' executives, which they emphasise in assessments of risks and threats in the world, would be reduced. The insufficient information on the risks to which the banks turned out to be exposed during the autumn and winter of 2008/09 contrasts with the risk profile which the Riksbank and Finansinspektionen were marketing. This is mainly because the balance was poor. Risks were given far too little scope in statements, which were dominated by emphasis on their own positive development of operations.

Transparency is a variable that is difficult to interpret, with a combination of volume and quality in statements, but also a dimension of proactively raising problems and being open to explaining them. There is no doubt that the Swedish financial organisations has high ideals and strive to live up to them. The Riksbank and authorities have a world reputation in the field. Swedish banks also meet stringent requirements in respect of easy availability, information volume and opportunities for insight. Of course, the constant limiting factors for the communication departments are budgets and resources for being even more "communicative", which becomes apparent in the case of comparisons. Nor is it unusual for there to be differences in ambition levels between the communication departments and the executive teams within companies.

There are no signs of any impairment in the rule-governed transparency over the period; quite the opposite, in fact. With the changes in the rules in the wake of Basel II and the EU's Transparency Directive, the range of risk-oriented information increased considerably, but they turned out not to have a major part to play in the statements put forward by the banks. But we have already pointed out that transparency is highly relative. What well educated, interested people perceive to be open, comprehensible information may be all Greek to others. This is the complex basic problem faced by communication which all public companies have to make decisions on, not just at communicator level, but also at CEO level and – ideally – Board level as well. This can be resolved with the right communication strategies, willingness and resources. An initial control question may be whether the director of communication is a member of the corporate executive.

Transparency stands out in several of our interviews as a crucial confidence variable. Both the Governor of the Riksbank and the heads of the authorities strongly emphasis the significance of transparency for reducing risks to financial stability. Openness provides opportunities to gain an insight into the problematic elements, anything which may develop into a threat to stability, and hence provide an incentive to implement proactive approaches, change behaviours and nip problems in the bud.

As we pointed out earlier, transparency is a kind of preventive vaccination protection which public organisations are instructed to implement by being open and explaining the situation in a balanced manner. From our interviews, an almost ideological attitude towards transparency on the public side of things emerges. Both Stefan Ingves and Bo Lundgren are almost fundamentalistic: openness is our primary defence against situations that build up crisis threats.

But we want to make an important distinction. Transparency works best as a prophylaxis and as a preventive measure. When confidence is disturbed, it is rare for transparency to be able to restore it quickly. In particular, this is applicable to the financial markets and downright crises of confidence. In a situation in which a bank or another company has serious liquidity problems, full openness rather risks worsening the situation. The natural reaction to depositors or creditors is to gain rapid access to "what is mine". In the collective fear, greater transparency threatens to trigger a run on the bank. Our two sources also share this approach.

The banks' transparency is regulated in stock exchange contracts and is traditionally standardised in relation to investors, above all. This results in communication which is really similar in terms of volume and forms. In this standardised communication environment, priority is given to the statements which demonstrate drive and value addition, mainly for shareholders. The description of risks can be found as standardised information in the annual report within corporate governance and the notes to the accounts. But in the text of the quarterly reports, which are of course the most communicative documents for the media and “ordinary” shareholders, there is a lack of a more systematic and comprehensible presentation of threats, uncertainty and risks. And the EU's transparency requirements have not improved the situation.

It could be said that transparency is a competitive advantage when it comes to communication. In today's communication environment, there are constant demands for ever more openness in more and more areas. The banks are clearly striving, year on year, to offer deeper, broader insights into the banks' operations. For the banks over the period, rather, the problem is the choice available as regards openness on what should be put forward and emphasised in the statements. The emphasis on positive development was of course a “true” image of the situation and what the public wanted to hear when the banks had record earnings. But this was a skewed perspective now that we know, with hindsight, what danger threatened. It is easy to cite a lack of transparency – the banks' statements did not provide enough relevant risk information and were insufficiently balanced in their openness over the period. Thus there is scope for the banks to include confidence-engendering competition with regard to improvements in the statements on threats and risks.

But there are many downsides to these problems. It has been scientifically proven that the risks in financial systems are at their greatest when things are going extremely well and people adopt careless attitudes. Capital utilisation to create excess returns is stretched to the very limits of hope. Risks are stored on risks in a stack of investments which few, if any, people can see through. If one little brick in the stack falls, the whole thing collapses.

Pär Boman, CEO of Handelsbanken, gave an insight in his CEO's statement in 2009, which spoke of a more balanced view on risk-taking: “banking is not really like just any other industry. Rather, it provides support to the households and companies of the actual economy and should therefore not really be able to grow so much more than the GDP”. If one has a large share of the market, one should add. He also went on to point out that the financial system seems to lose control of its risks and enter into periods of crisis every 10-15 years or so.

### **3.1.4 TAKE BAD TIMES INTO ACCOUNT IN COMMUNICATION**

Our conclusion is that the banks should communicate, more regularly and more clearly, statements which take into account approaching bad times. This does not mean just crises, but also “ordinary” economic downturns; the cycles for these are documented even more widely in research and general knowledge. “Ordinary” economic downturns are rarely apportioned the significance in communication which they turn out, time and time again, to have for operations. The jargon-accented expression “to take into account” the next downturn describes quite well what it is all about. In this regard, trade and industry has something to learn from Anders Borg, Minister for Finance, who nowadays is happy to communicate how we must always be prepared for the next crisis and so be in the best shape to face it in terms of budget and the national economy.

The stress tests of the Riksbank and Finansinspektionen already provide a template. Here, the crisis threat is “mentally inbuilt” as a potential future state, and the road to there is lined with reference points, “milestones”, which it is possible to keep track of. So, for example, the stock exchange contract could be supplemented with detailed and mandatory guidelines for uncertainty,



threats and risks to the good of the financial system and stability. But of course, it would be even better if the banks wanted to “compete” voluntarily to demonstrate expertise in assessments, transparency and integrity in communication and statements on threats and risks, and “where we stand” in respect of the next economic downturn. If so, this should be institutionalised in some way, with set vignettes or headings, an assessment language with reference points and a volume balanced reasonably with the rest of the description of operations.

Now responsibility for transparency does not rest undivided on the banks' communication. Major responsibility also rests on the shoulders of the large, well trained team of analysts, owners, administrators and the media, the people whose job it is to review the banks' operations. Thus their expertise must be queried as they failed to point out more vehemently the risks in the world and in the banks' income statements and balance sheets. A strong system of over-optimism in the future assessments of this team of experts is also well documented in research.

Thus a knowledge in a number of studies of crises is confirmed: financial organisations are educated and trained to detect and assess risks such as external threats. But it requires a great degree of experience and self-awareness to accept that the organisations – I myself – pose a risk to financial stability due to a lack of knowledge and a capacity to process information. And when I and everyone else suddenly lose confidence in the future and do not believe in value increases, that is the point at which we become a “mindless herd”, and all of us have to sell at the same time; and perhaps we ought to add, in all humility, that these shortcomings are a human weakness rather than a professional disease among finance workers. Research into financial psychology is starting to delve into this to a degree.

Finally, the problems of transparency also affect the confidence variable integrity, but with the angle of approach that the banks were failing to live up to their own ideal of explaining the whole picture. The concept of what is “right and reasonable” also falls under the category of integrity and would indicate an unreasonable balance between the banks' own positive business perspective and the escalated financial crisis in the world and the impaired economic conditions. The perception of the integrity of the Riksbank and the authorities will be reinforced over the period in comparison with the banks – with hindsight, they were more correct about the situation as regards threats and risks and described it more reasonably. To this, we may add the later debate on remuneration at banks which further questioned whether the banks were acting reasonably. This is apparent from a number of surveys which are presented elsewhere in the appendix to the report.

## 5 15 September 2008-1 July 2009: crisis communication

### 5.1.2 SEPTEMBER: THE LEHMAN SHOCK

At 1 am on 15 September, Lehman Brothers Holdings reported that the company was intending to apply for bankruptcy protection in accordance with Chapter 11. This major investment bank's application for bankruptcy sent a shock wave through the financial markets. A period of extreme volatility began. Liquidity froze on a number of important markets for the banks' short-term financing. At a stroke, the global financial unrest became a financial crisis in the media and the eyes of the general public, and it seriously threatened Swedish financial stability.

The Riksbank, the Swedish National Debt Office and Finansinspektionen did not communicate this outwardly that day or on the following two days through their own formal channels, but representatives – including Mattias Persson, stability manager for the Riksbank – were interviewed in the media.

On the other hand, SEB and Handelsbanken chose to take the unusual step of revealing their exposure to a single institute – that is, Lehman Brothers – in relatively brief press releases. The sums were small and communication issued a calming message to a market and the media, which now aired crisis news. The same was true for Nordea, which issued a press release on 16 September. No figures were mentioned, and their own conclusion was that their exposure was slight and insignificant.

Swedbank's press release at 8:55 on 16 September came as something of a shock. Its exposure involved significant sums. First there was an unsecured amount of SEK 202 million, where “[i]t is too early to say if eventual provisions and/or write-offs will be necessary, or to what extent”. Then there was a secured amount of USD 1 350 million, with security in various types of property all over the USA. The bank commented: “Swedbank does not consider any provisions necessary and will not act to liquidate any holdings prematurely”. At the same time, the bank called a teleconference at 9:30.

The fact that Swedbank communicated its exposure to the Lehman problem later than SEB and Handelsbanken clearly contributed to the market's unrest on the quality of the securities and the media's mistrust of the bank's communication, a mistrust that was to be amplified over the coming months. This was also stirred up by alarming economic development in the Baltic States, where Swedbank was deeply involved as a market leader. Swedbank will return with more information on the Lehman exposure later.

18 September saw the issue of the first press release from the public financial organisations when the Swedish National Debt Office briefly announced that: “The Swedish National Debt Office's market commitment in T-bills is temporarily on hold. SNDO will during the day have a dialogue with Primary Dealers as a consequence of the uncertainty in the market”. An announcement was promised at 3 pm that day.

When this came, the extent of the seriousness of the situation was laid bare – an international confidence crisis had halted the Swedish money market. The announcement included an unusual and powerful series of measures: “After consultation with the Riksbank, the Swedish National Debt Office has decided to take a number of certain measures in order to counteract the shortage

in the T-bill market that has occurred as consequence of the market turbulence. In addition to the already announced T-bill auctions, SNDO will issue large volumes in short T-bills in several additional auctions... According to our assessment, the total issued volume will amount to a maximum of SEK 150 billion... The cash from the auctions will primarily be placed in reverse covered mortgage bond repos. The tenor of these deals may be longer than the short maturities we normally trade in. Consequently, the measures will also support the mortgage bond market”.

These measures were explained and commented on at the Swedish National Debt Office's rapidly convened press conference that same day, in which Irma Rosenberg, Deputy Governor of the Riksbank, also participated.

The media were then full of the power of the events on the financial markets, with headlines such as “Financial meltdown” in Dagens Industri on 16 September, “The world crashes” in Aftonbladet, and “Sweden enters crisis” in Svenska Dagbladet on 17 September. Dagens Industri stated on 19 September that the Swedish money market had crashed for a few hours the day before.

On 18 September, the public organisations also made their voices heard, with official information on the situation. Finansinspektionen stated in a memorandum that: “The four Swedish big banks have a buffer far above that which is stipulated by law. Therefore, the banks can handle large losses to individual counterparties or generally increasing credit losses without a threat to the capital adequacy. At the same time, there is great uncertainty on the financing markets.”

The Riksbank issued a press release where it could rely on a tried and tested argument loop concerning financial stability: “Despite the recent financial turbulence, the Riksbank’s assessment is that financial stability in Sweden is still satisfactory. The Riksbank is following developments very closely and has regular contact with the banks and other market agents. The Swedish National Debt Office has decided to take measures to counteract the shortage of treasury bills that has arisen in the wake of the global financial turbulence. “These measures have been taken in consultation with the Riksbank and we have regular contacts with all of the banks and government authorities involved,” said Irma Rosenberg, First Deputy Governor of the Riksbank.

“The Swedish financial markets are now being visibly affected by the global financial turbulence. Lending costs are rising and some financial markets are functioning less efficiently than normal. The shortage of Swedish treasury bills, for instance, is largely a result of the international turbulence which has created a large demand for Swedish government securities, among others.”

“The Swedish National Debt Office will now issue short-term treasury bills in a number of additional auctions. This is very positive and will ease the shortage in this market. Our assessment is that the unease in the Swedish financial markets does not affect financial stability,” says Irma Rosenberg.”

“The Riksbank is closely following and analysing developments in the financial markets for the purpose of detecting at any early stage any changes that could lead to a serious crisis. The Riksbank’s assessment is still that the banks’ margins for unexpected costs are very good. The banks have made very good profits in recent years and are financially robust. If we were to judge that financial stability was threatened, our role would be to provide liquidity assistance,” says Irma Rosenberg.

“Measures to provide liquidity assistance are only given to banks and other financial companies that are solvent and that are under the supervision of the Swedish Financial Supervisory Authority.”

On 19 September, on the same day as the publication of a major American rescue package, a new press release was issued in which Barbro Wickman-Parak, Deputy Governor of the Riksbank, said: “A new wave of unrest is sweeping over the financial markets. It will take time for the uncertainty

to abate and for the situation to stabilise. The Riksbank's assessment is, however, that the unrest on the Swedish financial markets is not affecting financial stability. The Swedish banks have made very good profits in recent years and are financially robust. However, if the banks were to experience liquidity problems that could threaten financial stability we are ready to take measures to provide liquidity assistance.”

Then Handelsbanken also made its voice heard, in an unusual press release where it wished to set itself apart from the other banks, a communication strategy which would be maintained consistently throughout the full course of events to follow. The import of this strategy was that the bank kept its affairs in such order that it did not want to be “seen in the company of the other banks”: “Following the memorandum published yesterday by the Swedish Financial Supervisory Authority concerning the current stability of the big four Swedish banks, Handelsbanken would like to make a clarification. In its memorandum, the Supervisory Authority also states that the big four Swedish banks can together reduce their capital bases by approximately SEK 90 billion without contravening the statutory capital adequacy requirements. As at 30 June 2008, Handelsbanken's share of the SEK 90 billion buffer was SEK 27 billion. This means that our financial position relative to the market is very strong. If we look at our buffer capital in relation to our business volumes, this picture becomes even clearer,” says Ulf Riese, CFO of Handelsbanken. “The Supervisory Authority also states in its memorandum that the big four banks can tolerate loan losses in the Baltics of 10 percent. Handelsbanken has negligible lending volumes in the Baltics, and irrespective of the amount, any loan losses in the region would only have a negligible impact on the Bank's financial position.”

### 5.1.3 NEW RULES FOR BANKS IN CRISIS

On 22 September, the Government announced a long planned programme for supporting the financial sector in Sweden. Among a range of initiatives, which were of little relevance to the atmosphere of crisis prevailing on the markets at that time, there was also a passage (paragraph 5) stating that “the Government is working to produce new rules on how banks are to be managed in the event of a serious financial crisis. In connection with this, the deposit guarantee is also being reviewed so that the charges for the guarantee reflect the risk more accurately. It is planned to issue a proposal for consideration”.

Behind this information was a financial firefighting effort instigated in order to put in place legislation relating to banks in crisis, based on an old proposal from the banking act committee in 2000. A round of referrals was planned for the end of 2008, but the crisis flaring up made the need acute. Before long, the Government would present this legislation; which to a great extent would form the basis for the Government's future stability measures.

On 22 September, the Riksbank also began issuing a long series of press releases in which it provided information on the fact that credit opportunities for the banks were gradually on the increase in the RIX system and being differentiated. Now it was a matter of allowing the banks to use a greater proportion of covered bonds from their housing institutions as security.

An important announcement was made on 24 September. A number of countries, as well as Sweden, set up swap arrangements – mutual currency arrangements, that is – in order to underpin short-term borrowing in dollars. This information was supplemented with a stability report from Stefan Ingves, Governor of the Riksbank: “Our assessment is that financial stability in Sweden is satisfactory and that the Swedish banks are profitable and solvent”.

That same day, the Governor of the Riksbank also gave a speech to SACO in which all communication supporting stability was repeated in a press release: “The turbulence in the global financial markets has escalated in recent weeks. Financial markets and market participants in

Sweden are now being more tangibly affected by the financial crisis in the United States. We and other authorities have taken measures to improve market functioning and to ensure we are prepared to take further measures if it should prove necessary. Our assessment is still that the Swedish banks are financially strong and that financial stability is satisfactory. Sweden is also well equipped to meet the global economic downturn this time”.

“The Swedish financial system has functioned well ever since the start of the financial turbulence. The banks have been able to find funding both on the Swedish and international capital markets. But some of the US problems have now spread to Sweden. Although the Swedish banks still have a strong financial position and good earnings, it has become more difficult also for them to find financing. Both the Riksbank and the Swedish National Debt Office have taken measures to improve the efficiency of the financial markets. The Swedish National Debt Office is issuing treasury bills in a number of additional auctions and the Riksbank has increased the opportunity to obtain credit for participants in the RIX payment system.”

“The Riksbank and the central banks of Denmark and Norway have also entered into an agreement together with the US central bank, the Federal Reserve, for the purpose of increasing access to dollars in the Scandinavian financial markets, if necessary.” Ingves concluded: “What is happening now has not come as a bolt from the blue. The financial turbulence has now been under way for more than a year. We have constantly monitored developments and made the assessment that financial stability has been satisfactory. This is also the assessment we make today. If it should prove necessary, we are prepared to take further measures.”

One week later, on 29 September, the Riksbank reported new, coordinated actions from the central banks in order to provide liquidity in US dollars. Once again, a message of stability was communicated: “It is the responsibility of the central banks to cooperate and together safeguard financial stability. To deal with the strained situation in the market for funding in US dollars, the Riksbank has also decided to lend dollars to Swedish banks. Together with the measures taken by other central banks this should lead to better liquidity in the financial markets globally. The Riksbank’s assessment is still that financial stability in Sweden is satisfactory. The Swedish banks are well-equipped to withstand the increased unease that is now also apparent here. We are carefully following developments and have a close cooperation with the Swedish banks and government agencies as well as with other central banks,” says Riksbank Governor Stefan Ingves.

Finansinspektionen also felt itself called upon to update the situation in a letter to express confidence in the banks: “The past few days, there has been great turbulence on the markets where the banks normally borrow money in order to finance their operations. Banks and investors around the world have been unwilling to lend money to banks. This has affected banks in both Europe and the U.S. The four big Swedish banks – Handelsbanken, Nordea, SEB and Swedbank – however, continue to lend money to each other, but with short maturities. In other words, all the big Swedish banks currently have the possibility of borrowing money from the other banks. As Finansinspektionen has described in a text on 18 September, the four banks are capable of managing the current uncertainty. Finansinspektionen is entirely comfortable with the capital buffers that the banks maintain against unexpected losses.”

There was now concern about the stability of the Swedish banks in the media and among the general populace. On 30 September, the last day of this “month of crisis”, therefore, the Swedish National Debt Office reported under the News tab on its website that: “Many people contacting us are wondering what is going on with the Swedish banks and the financial system. The job of Finansinspektionen (FI) is to monitor the banks. In its latest update of the situation in the financial system, FI writes that the big four Swedish banks have a good chance of coping with the

uncertainty currently prevailing. The Riksbank is also of the opinion that the financial system is stable. They base their assessment on an analysis which shows that the big four Swedish banks are financially strong with significant equity, good profitability and low credit losses. In the opinion of the Riksbank, there is good resistance to the unrest which has been prevailing internationally for a time. Find out more on the Finansinspektionen and Riksbank websites.”

Over the last two critical weeks of September 2008, a strong feeling of an impending financial crisis was established in Sweden due to the media's explosive increase in its reporting of the financial organisations and the markets, with “crisis” in every other headline. The public organisations got started with their communication a few days after the Lehman Brothers crash on the basis of specific crisis control measures, which then continued with an ever greater element of interpretation and assessment in order to calm unrest in the impending situation.

The Riksbank continued its communication from the period before 15 September using well developed, conscious language in order to portray the seriousness of developments, and at the same time using well formulated wordings in order to make people understand that stability was not under threat and that the banks were well placed to cope with the uncertainty on the markets. Despite the fact that the media managed over two weeks to establish a crisis situation in Sweden, according to the Riksbank the Swedish financial system was not in crisis and nor were the banks. The crisis was elsewhere; often it is international or global and affects Sweden – in this instance, to a perceptible extent. Finansinspektionen and the Riksbank are well coordinated in their communication, use the same wordings and assessments and are supported by the Swedish National Debt Office, which refers to the communication of these two system-maintaining institutions.

During this critical period, significant specific initiatives were launched in order to ward off an impending liquidity crisis on the Swedish financial markets. These initiatives were now communicated consistently, supplemented with statements on the stability of the financial system, the banks' resistance and a mantra with a clear import that the Swedish financial system will not be allowed to capsize, measures will be followed by measures.

During this initial “crisis communication” phase, Swedbank was under major pressure in the media, with suspicion relating to information on the exposure to Lehman and speculations in DI as early as 22 September concerning the need for a new issue. The initiatives implemented by the authorities in order to maintain liquidity in interbank trading were also interpreted as a way of keeping Swedbank in check. But the banks adopted a low profile in public communication, with few statements and even less official communication via press releases. Their role as punchbags in the logic of the media was established at this point. Annika Falkengren, CEO of SEB, was given a large spread in DI on 19 September in which she followed up earlier assessments which stated that the crisis was more serious than most people had realised. Nordea and Handelsbanken were absent from the media arena. Swedbank clearly opted to avoid communicating via the media during this period, despite enormous pressure and demands from journalists, with the exception of Chairman Carl-Eric Stålberg, who on 29 September received a lot of attention when he criticised the shorting of Swedbank shares. We will come back to an analysis of this.

### **3.1.5 OCTOBER – “CRISIS COMMUNICATION!”**

The month of October was perhaps the most crisis-saturated period in Sweden since the crisis of the early 1990s. Public Sweden communicated measure after measure in order to support markets and private financial organisations. This apparently took place with good coordination, quickly and decisively. In hindsight, an impressive view of drive and efficiency was presented in the combating of the impending financial crisis. Towards the end of the month came the first signs

that the financial events would have serious consequences for actual economic development. The communicative strategies of the public organisations were determined in early October, and their positions in responsibilities and action were clarified in their communications. Their cooperation appeared to be controlled by a significant common approach whereby the stability of the financial system would be saved with collective initiatives.

The Riksbank issued a press release on 2 October, announcing new lending facilities, this time in SEK. Once again, it took the opportunity to communicate statements to promote stability. These were repeated in a second press release on the same day, which referred to a speech by Irma Rosenberg, First Deputy Governor of the Riksbank. Here, the implication that Sweden was now “clearly affected” was outlined more starkly. She made comparisons with the crisis in the early 1990s: “Many countries are currently in the midst of a financial crisis that has repercussions throughout the global financial system. Sweden has so far been spared the worst. But now the financial markets in Sweden are also clearly affected by the uncertainty and lack of confidence, which thus also affects the Swedish banks and other financial agents. We and other government agencies have therefore taken various measures to increase the possibility for credit in both Swedish krona and US dollars. Today we took a decision on a new loan facility to improve access to credit at longer durations. If the situation should deteriorate, the Riksbank and other government agencies are prepared to take action to deal with any problems,” says First Deputy Governor Irma Rosenberg in a speech held at Statistics Sweden today.

“The Riksbank, like many other central banks around the world, is currently facing very difficult challenges. But although they are difficult, we are well-equipped to meet them. We have an entirely different starting point from that during the finance crisis of 1992, which largely concerned problems that had originated here at home. Today we are suffering contagion effects from problems in the US mortgage market, a market to which the Swedish banks have only small direct exposures. The situation is also different with regard to monetary policy. The inflation target and the current regulations regarding monetary and fiscal policy together with sound public finances provide a stable base on which to stand and meet the coming economic downturn.”

“Even if the Swedish banks are affected by current events, they have good capital buffers and good earnings, and are therefore well-equipped to meet the turmoil in the financial markets. The biggest problem for banks at present is to find funding at longer durations. The Riksbank, together with other government agencies and central banks, has taken measures to improve the situation. Today we decided to offer a further loan facility, with a first auction of SEK 60 billion. We are also prepared to take further measures if necessary.”

Finansinspektionen had a minor definition problem with the situation when issuing on 2 October its press release stating that “the Committee of European Securities Regulators (CESR) has decided to further intensify the cooperation between member states in order to monitor development of the crisis.” This was a crisis – period.

In the media, the issue of the state deposit guarantee took on importance, given increasing speculation on the problems faced, mainly by Swedbank. Therefore, Swedbank reported on 2 October that “Now the deposit guarantee is applicable to all Swedbank savings accounts. As of today, the terms of Swedbank's popular fixed interest rate account will be changed so that the account is covered by the state deposit guarantee. With this, all Swedbank savings accounts will be covered by the guarantee, with the exception of accounts linked with IP saving.”

This news was annihilated completely when Aftonbladet turned up that day with a catastrophic, multi-page article on the validity of deposit guarantees for different bank accounts. This brought about another unusual press release from the bank: “Completely incorrect information about Swedbank in Aftonbladet. A comparison is made between accounts at different banks in

Aftonbladet today. The article claims that most of Swedbank's savings accounts are not covered by the state deposit guarantee. These assertions are entirely incorrect and are due, according to Aftonbladet, to an omission in editing. The accounts stated as not being covered by the guarantee are in fact the accounts which are covered. The accounts which, according to the newspapers, are covered by the state deposit guarantee are the ones which are currently not covered. Most of Swedbank's savings accounts are now covered by the state deposit guarantee, contrary to what is claimed in Aftonbladet. Given the turbulent situation currently prevailing, Swedbank takes a very serious view of what has happened.”

The article came at a very inconvenient time when confidence not only in Swedbank, but in the entire banking system was delicate. There were rumours of major withdrawals from Swedbank accounts, and worried savers were posting questions on websites, asking how serious the situation was. Aftonbladet realised its error and reprinted some of the copies with the correct figures. Supported by Lena Mellin, Finansinspektionen's contact with the publisher, the bank was then given a substantial correction over a whole page the next day.

The situation was now so unsettled that something had to be done with the deposit guarantee, and the Government made its first entrance onto the stability communication stage. On 6 October, the Government issued a statement saying that they had decided to extend the deposit guarantee. This press release was also charged with statements promoting stability, where the Government maintained that it held ultimate responsibility for financial stability: “The Government has today made the decision to extend the deposit guarantee in order to defend the security of Swedish savers. This measure involves ensuring that savers continue to have confidence in the financial system,” said Anders Borg, Minister for Finance and Mats Odell, Minister for Financial Markets. “The Government is the ultimate guarantor of financial stability. Its job is to ensure that rules are in place which make the financial system stable, and ensure that it works efficiently and protects savers. Increased deposit guarantees in a number of European countries mean that there is a risk of savers seeking accounts with banks domiciled in these countries. This is particularly the case in any situation characterised by major uncertainty and unrest. In 1996, the Swedish State introduced a guarantee of SEK 250 000 for transaction accounts. The proposal to extend the deposit guarantee means that this amount will be increased to SEK 500 000 and cover all forms of deposit to accounts, irrespective of whether the savings are restricted or free to withdraw. The Government is given the opportunity to extend the guarantee to credit institutions with branches in Sweden where the deposit guarantee in their homeland cannot be achieved fully. The extended deposit guarantee will come into force today, 6 October 2008. This situation is difficult to assess, the Government is prepared to go further if developments demand further measures.”

The Riksbank reported on the same day that it was increasing the amounts for lending to the banks. In his summing-up, Stefan Ingves stated that “In order to safeguard Swedish financial stability and ensure the functional methods of the financial markets, the Riksbank is prepared to inject the liquidity required”.

#### **5.1.4 THE COLLAPSE OF ICELAND**

Alongside the drama in Sweden, the Icelandic financial system collapsed, with knock-on effects for Swedish banks and the Swedish banking market in which two Icelandic subsidiary banks, Kaupthing and Glitnir, are active. Questions on the importance for Swedish banks are asked of Handelsbanken again, which was first of all of them to provide information on exposure. “No alarming amounts”, is the response. The next day, 7 October, information from the other banks was issued. Nordea reported an insignificant exposure, while Swedbank and SEB reported exposure to Icelandic subsidiary banks amounting to more than SEK 500 million and SEK 19



million respectively and around SEK 300 million to subsidiaries of Icelandic banks outside Iceland in non-Icelandic currency.

Mistrust in Swedbank's communication takes on a new expression that same day, when the bank was forced, unusually, to issue a clarifying – and frustrated – press release: “Clarification of Swedbank's credit exposure to Icelandic banks. Swedbank has found it necessary to repeat its exposure to Icelandic banks and Nordic banks with Icelandic owners. Swedbank has no exposure (SEK 0) to Icelandic banks in Iceland. Swedbank has no reason to make any provisions for Nordic banks with Icelandic owners. These exposures are of good quality. Swedbank has an exposure totalling SEK 564 million to FIH, a Danish bank which was formerly owned by Swedbank and which now has Icelandic owners. FIH is covered by the rules for banks in Denmark and is under the supervision of the Danish supervisory authorities. This exposure is covered by the political agreement for financial stability in Denmark. This exposure is low-risk. Swedbank's other exposures include a covered bond of SEK 140 million, issued by BN Boligkreditt, a Norwegian bank, and a lease agreement of SEK 17 million with a Swedish bank, both of which have Icelandic owners. These are covered by the respective countries' rules for banks and are under the supervision of the supervisory authorities in the respective countries. These exposures are low-risk.”

That same day, a further clarification was issued by Swedbank, which by now had studied its exposure to Lehman Brothers in detail: “As reported previously, Swedbank has a secured exposure of USD 1 350 million to Lehman Brothers. There is no need for provisions. Following a review on site in the USA of both properties and documentation, Swedbank is able to confirm that the underlying loans are functioning and that the securities for these loans are of good quality. Over the past few weeks, the bank has had its property experts and other experts carry out a thorough review of the loans and properties which constitute securities. Following this review, Swedbank continues to be of the view that there is no need for provisions. This assessment has been checked with Deloitte, Swedbank's external auditor. Over the past few days, a number of subsidiaries of Lehman Brothers Holdings, Inc. have applied for bankruptcy protection, including Swedbank's counterpart. This does not alter the position of the bank as Swedbank has previously undertaken all necessary measures to ensure entitlement to the loans and properties which constitute security and so these are not involved in any bankruptcy proceedings. More information on the current exposure will be reported in connection with the bank's report for the third quarter.”

Public and private organisations were at that point communicating measures on a conveyor-belt basis in the face of a growing atmosphere of crisis on markets and in the media which threatened to overwhelm.

On 8 October, the Riksbank reduced its interest rate by 0.5 per cent to 4.25 per cent at an extraordinary meeting on monetary policy and published a joint statement from the central banks which mentioned nothing other than crisis:

“Throughout the current financial crisis, central banks have engaged in continuous close consultation and have cooperated in unprecedented joint actions such as the provision of liquidity to reduce strains in financial markets. Inflationary pressures have started to moderate in a number of countries, partly reflecting a marked decline in energy and other commodity prices. Inflation expectations are diminishing and remain anchored to price stability. The recent intensification of the financial crisis has augmented the downside risks to growth and thus has diminished further the upside risks to price stability. Some easing of global monetary conditions is therefore warranted. Accordingly, the Bank of Canada, the Bank of England, the European Central Bank, the Federal Reserve, Sveriges Riksbank and the Swiss National Bank are today announcing

reductions in policy interest rates. The Bank of Japan expresses its strong support of these policy actions.”

“The Riksbank will also hold a new auction for 100 billion in loans with six-month terms. And the restrictions on the number of covered bonds from related institutions have been lifted entirely. The Riksbank is reducing its requirement for minimum credit ratings for securities with longer terms which are issued as security.”

“In addition, Kaupthing Bank Sweden AB, the Swedish subsidiary of the Icelandic Kaupthing bank, is granted special liquidity support by the Riksbank of a credit of up to SEK five billion as a consequence of the severe problems of the Icelandic banks. This support is fundamentally important and shows that the Riksbank and the Swedish authorities now deem the situation to be so serious that the small Kaupthing bank has become important to the system. Our motive is to safeguard Swedish financial stability,” said the Riksbank in its press release.

This busy news day ended with the announcement of a British rescue package.

The extreme nervousness of the situation was illustrated the next day, 10 October, when Finansinspektionen had to reprimand Handelsbanken in a very unusual press release in order to preserve confidence among savers: “Handelsbanken has issued incorrect information on Kaupthing in a press release today. FI wishes to clarify that Kaupthing Bank Sweden AB is an independent bank under the supervision of Finansinspektionen in Sweden. The bank is functioning normally and its customers have full access to their money. Kaupthing Edge is part of the Icelandic bank Kaupthing Bank hf. Swedish customers of Kaupthing Edge can also be secure in the knowledge that they have access to their funds via the Swedish bank Kaupthing Bank Sweden AB.”

That same day, the Riksbank reported once again that the banks' financing situation would be facilitated by issues of Riksbank Certificates.

On 13 October, the Riksbank came back with information on further increases in lending facilities, and the Government reported that a stability package would be announced on 14 October. At the same time, EU announced that a European rescue package would be presented. The Riksbank supplemented its press release with this information: “The Riksbank has taken a number of measures at regular intervals in recent weeks to facilitate the supply of credit and improve the functioning of the financial markets. We will continue with this until confidence has been restored and the supply of credit to companies and households is once again functioning normally,” said Stefan Ingves, Governor of the Riksbank.

The following day, there was a marked change in Swedish financial communication. The Government entered into the fray and took on board an initiative that would overshadow the other public organisations and create new communication problems for the private banks. The Government communicated a stability plan over several stages. During the first stage on this day, a press release was released with essential main elements as follows:

- “A collective plan of action is being negotiated and established within the EU concerning how various countries are to act. Guarantees and capital contributions are to be formulated in a

similar way, and every country will have an institutional structure so that measures can be put in place if necessary.

- Guarantees will be introduced for certain market instruments, with varying terms and to the requisite extent in order to safeguard financial institutions and allow the markets once more to function efficiently.
- An organisation for state management will be formed at the Swedish National Debt Office. A fund will be established with an injection of funds from both the State and the financial organisations. The fees will be long-term and guarantee the injection of necessary funding so that taxpayers are not affected.
- Funds must be produced for any capital contributions to financial institutions necessary in future. The State must safeguard the interests of taxpayers. If the State has to support individual institutions, the Government will give priority to a model with preference shares with strong votes; that is to say, new share capital with special influence. This will ensure that taxpayers benefit from a future increase in value when the crisis is over.
- Powerful measures are being actioned in order to monitor the interests of households and companies. Finansinspektionen is injecting extra resources for this purpose.

The objective was to ensure confidence and financial stability: “To create stability on the financial markets and security for citizens and companies, the Government is producing a stability plan. The Swedish financial system, compared with other countries, is stable, but it being affected more and more by international unrest,” said Mats Odell, Minister for Local Government and Financial Markets, echoing the Riksbank's communication.

This package ended up obscuring the Finansinspektionen press conference held on 15 October concerning its report on the stability of the financial sector. Here, it was stated that “the big four banks are handling the economic downturn. The banks have prerequisites for meeting capital coverage requirements even if Sweden and the Baltic States suffer a serious recession. We are also of the view that pension companies are equipped to deal with further turbulence.”

When the Ministry of Finance then reported on the plan in a second stage on 20 October, the day on which it was also decided upon, the objective was repeated. The Government's communication states that there is now a crisis in Sweden; a statement contrasting with the finely tuned argument put forward by the Riksbank in order to describe the financial situation. This would affect the Government's future political agenda. As of now, it would also include the highly media-related requirement for restrictions to fees and bonuses which becomes a main theme in communications during the autumn and winter. The Government also made a communicative point of its responsibility for Swedish taxpayers, adopting another important position prior to the communication clashes to come. The press release states:

“While we are taking actions to maintain stability and restore confidence to the markets, the basic guiding principle is that Swedish taxpayers will not have to bear the costs of any future measures. Clear restrictions with regard to executive compensation and bonuses will be implemented in conjunction with the measures, which give economic advantages to some institutions,” said Anders Borg, Minister for Finance. “The stabilisation plan gives the Government a mandate to

manage problems associated with insufficient liquidity and potential future solvency problems while protecting the interests of taxpayers and maintaining predictability.”

Handelsbanken once again set out its stall in a press release the following day: “Handelsbanken has studied the Swedish government's proposal to the Council on Legislation concerning stabilisation measures for the Swedish financial system, announced on 20 October 2008... Handelsbanken agrees with the government's description of the financial situation in our sector and thus welcomes the fact that the Swedish government is now taking similar measures to the US and several countries in the EU as well as Asia. Handelsbanken is subject to the mandatory part of the proposal - the stability fund. Handelsbanken agrees that stabilising the market is also of great benefit to all players. Concerning the voluntary part - the guarantee programme - Handelsbanken awaits further information.”

On 23 October, the Riksbank reported that it had reduced the repo rate by 0.5 per cent to 3.75 per cent. The use of language concerning the crisis, previously so distinct, started to become a little woollier – resembling a financial crisis even in Sweden. This is because the international financial crisis is now affecting the economy: “Since mid-September the global financial crisis has worsened and it is now clearly affecting developments in Sweden. The crisis in the financial markets has led to higher loan costs for companies and households, lower capital wealth and increased uncertainty in general. Access to credit has declined. The assessment is that the financial crisis aggravates the ongoing economic downturn resulting in a weaker labour market and lower inflation.”

Up until this point in October, the major banks had been quiet on official levels. Press releases were conspicuous by their absence, probably due by the fact that the banks were entering a quiet period prior to the quarterly reports. Various representatives attempted, fairly infrequently, to respond to the enormous media pressure, but the role of punchbags in the media was cemented mainly for Swedbank and, to a lesser extent, SEB. Nordea published its quarterly report on 23 October.

Nordea adopted – faithful to its communication strategy – a calming attitude and was able to present a good report with slightly worse results, increasing but not alarming credit losses. In his brief statement, the CEO said that uncertainty and risks had increased enormously, but that he was full of confidence and believed that the bank could continue to perform better than the market in general. The report devoted more space to risks and explained about the non-existent exposure to Lehman Brothers and the Icelandic banks under separate headings.

In her quarterly report, SEB's Annika Falkengren gave an expressive CEO's statement in which she concentrated the statements into the major, worrying macro view with great awareness of the problems of financial stability. The magnitude of what was happening could not be missed:

“During the third quarter, financial markets experienced an unprecedented turbulence on a global scale following the Lehman Brothers' default. Also the fundamentally sound Swedish financial system was impacted. From those of us who experienced and learned from the Swedish financial crisis in the early 1990s, it was alarming to see how mistrust gripped markets globally, resulting in scarce liquidity and non-functioning interbank markets. As the crisis mounted day by day, it was clear that there were large systemic risks affecting also the outlook for the world economy. Following the actions taken by governments and central banks around the world, there are signs that funding markets are slowly returning to a more normalised situation.

In the Baltic countries, the macro-economic outlook has further deteriorated. Our view is that there will be a protracted period of low, even negative, GDP growth in Estonia and Latvia during the next few years.

This quarter, with its dramas and fears for the global financial system will indeed be remembered. To me, with over 20 years in banking, it has been the most challenging period ever. No one had expected the tunnel to be so dark and long as it turned out to be. The light in the tunnel is now slowly beginning to filter through as central banks and governments have joined forces to stabilise financial markets.

It is clear that the financial turmoil has repainted the prerequisites for the financial industry. Liquidity premiums will be higher. The bar has been raised for banks' capitalisation. Banks with a strong balance sheet will be able to act on the opportunities that now arise. I believe we will see a return to more traditional banking, which fits well with our strategy built on a robust platform and long-term customer relationships."

SEB also continued to develop the text under the heading Risks and uncertainties, which now began to gain an overall perspective of the macrorisks and financial market risks. The information in the quarterly report was also extended with a description of work on problem credits, etc. by means of what was referred to as a workout unit.

The CEO of Swedbank, which was under severe pressure, gave a brief and pithy definition of the situation in the first sentence of the brief CEO's statement in the quarterly report: "The global economy and financial system is being affected by unprecedented turbulence. The bank has solid profitability. The bank's financial risks are limited. Swedbank is taking measures to balance development for example by raising credit quality requirements and by stricter relation between deposits and lending."

Swedbank endeavoured to report on the development of risks and uncertainties in developed texts under standard headings and focused on broad macroperspectives and market perspectives under the heading Risks and uncertainty factors, in line with SEB. On the other hand, this report included an unusual description of news reporting relating to Swedbank: "News reports on the global financial crisis and an increase in rumours have sparked concern among banking customers in all of Swedbank's home markets." Frustration concerning the view put forward in the media also shone through in the unusual quarterly information under the heading Additional resource for Group Communications and IR: "In order to further strengthen the existing communications and IR team, Swedbank has decided to create an additional position on Group level responsible for the overall communications strategy and operations. The function will be held by Thomas Backteman, Partner from the communications consultancy Brunswick Group, who will report directly to Swedbank's President and CEO, Jan Lidén."

The quarterly report at that point exuded seriousness and the hopeful attitude of earlier quarterly reports over the year was toned down. The effects of the crisis were described universally as negative, the description of the need for funding got right to the point, it was admitted that deposits from the general public had fallen "during a period of speculation," and liquidity was described by means of a separate stress test. A lot of space was devoted to credit quality and exposures. The quarterly report package gave an impression of reorientation in the bank's communication.

Of course, the fact that Swedbank was to carry out a new issue of shares amounting to SEK 12.4 billion could not be mentioned, but there was quite free speculation about this on the markets and in the media. This was published four days later, on 27 October. The new issue became another yoke on the shoulders of the executive and was interpreted as a sign of weakness. The objective in the press release was described as follows: "Swedbank has a healthy financial position at present, but the capital markets remain extremely volatile due to increasing uncertainty on economic conditions. Therefore, Swedbank considers it wise to reinforce its financial position."

This, the worst month for news for the Swedish financial system in living memory, ended with the crescendo of the Carnegie affair. The same day Swedbank published its new issue of shares, the Riksbank clarified in a press release that stability in the financial system was under serious threat by providing support to Carnegie:

“The Riksbank has decided to grant special liquidity assistance to Carnegie Investment Bank AB. Both the Riksbank and Finansinspektionen (the Swedish Financial Supervisory Authority) assess Carnegie to be solvent but that the ongoing financial crisis has created liquidity problems for the bank. Conditions in the bank sector have recently made it difficult for Carnegie to finance its payments. The bank has suffered liquidity problems. Given the currently prevailing anxiety, the Riksbank has decided to grant liquidity assistance to Carnegie to reduce the risk of a serious disruption to the financial system,” said Stefan Ingves, Governor of the Riksbank.

But this was not enough. A day later, a new press release was issued which stated that the liquidity support was being extended to a maximum of SEK 5 billion. The concern about financial stability was expressed clearly: “Against the background of the prevailing unease in the financial system, the Riksbank has decided to grant Carnegie increased liquidity assistance in order to reduce the risk of serious disruptions to the financial system. The Riksbank is prepared to provide the liquidity that is needed to safeguard the stability of the financial system,” said Lars Nyberg, Deputy Governor of the Riksbank.

29 October then saw the Government's guarantee programme for financial institutions. In its press release, the Ministry of Finance said that: “The Government has today approved a guarantee programme that will be administered by the Swedish National Debt Office. The programme aims to secure the medium-term borrowing of banks and mortgage institutions and lower the cost of borrowing for households and companies. The Government is also giving the National Debt Office a broad mandate to intervene if individual institutions get into serious financial difficulties under the new act on state aid to credit institutions.” “The Government is now taking action to make it easier for banks to obtain medium-term funding. This paves the way for lower borrowing costs for banks, and lower borrowing rates and greater access to credit for companies and households,” says Mats Odell, Minister for Local Government and Financial Markets. This objective underlines a recurring communication loop for the Government: “The measures that can be taken have been designed to safeguard taxpayers' interests and secure financial stability,” said Mats Odell.

The press release also provided relatively clear information on the conditions that restrictions on remuneration to senior executives would be included in the agreement to be entered into between the Swedish National Debt Office and the institutions. Finansinspektionen was tasked with reviewing matters to ensure “that the measures decided upon in connection with the Act on State support for credit institutions will also benefit households and companies. Finansinspektionen will formulate regular and more in-depth reports to ensure that the institutions do not utilise this support inappropriately.”

And with that, things went quickly: the support came into force on 30 October, and that same day the Swedish National Debt Office reported that its regulations were complete for applications for support.

### **3.1.6 NOVEMBER – THE CRISIS COMMUNICATION REACHES ITS PEAK**

During November 2008 the seriousness of the communication at the Riksbank and the government reached its peak. The month was dominated by the much-publicised Carnegie crisis and began with two important announcements from Swedbank. On 4 November it was announced that the bank had decided to take part in the Government's guarantee programme. The Government thereby won the first partial victory in a tough struggle for prestige with the bank

managements over remuneration levels, which would become a hot story that would run in the media throughout the winter. In order to be part of the guarantee programme, the Swedbank board of directors was forced to make the unusual decision not to pay out variable compensation in cases where it was entitled to do so under an agreement. A new CEO, Michael Wolf from Intrum Justitia, was appointed on 5 November.

Important events as far as stability was concerned took place at a furious pace at Carnegie on 10 November. The Government, in the guise of the Ministry of Finance, entered the fray for financial stability with a press release: "Today the government has authorised the National Debt Office to grant a loan to Carnegie Investment Bank AB for a maximum of SEK 5 billion. The decision is a safety measure and enables the National Debt Office to act if the Riksbank cancels its liquidity support amounting to an equivalent sum. The aim is to safeguard financial stability. The government shares the authorities' assessment that Carnegie should be regarded as an important institution within the financial system in view of the remaining uncertainty on the financial markets. This decision has been made because Finansinspektionen is expected to make a decision today concerning Carnegie's licence to conduct banking operations. If Finansinspektionen revokes the licence, the Riksbank cannot continue to provide liquidity support. The responsibility for safeguarding financial stability then passes to the government".

The Government presented itself even more strongly as the party with primary responsibility for financial stability and the taxpayers when it stated in its press release: "The Government's decision is a security measure. The state has ultimate responsibility for safeguarding financial stability and adopting measures to protect the taxpayers. For that reason, the government and the authorities must be prepared to act rapidly if there is a risk that developments in an important institution for the financial system may lead to more serious disruption of the financial system", states Mats Odell, Minister for Local Government and Financial Markets.

So, as expected, the announcement that Carnegie would not retain its licence was contained in a press release from Finansinspektionen: "Carnegie's licence has been revoked. The Swedish National Debt Office has notified FI that it intends to take over ownership of Carnegie if the licence is revoked. If the Swedish National Debt Office takes over ownership, FI is going to convert the withdrawal into a warning. Carnegie has taken exceptional risks for a long time by lending large amounts to one individual client. Exposing operations to such great risks in this way is a violation of the law. Carnegie has also broken the law by not notifying Finansinspektionen regarding this individual credit granting. The bank has also broken the law in the mutual funds area by acting as the depositary for the same funds as those managed. According to the law, fund units should be kept separate from the management in order to protect the unit holders' holdings. In light of this, FI has decided to revoke Carnegie's licence. However, FI assesses that the National Debt Office's takeover will make it possible to find a long-term solution for Carnegie and therefore views that it is possible to convert the withdrawal into a warning. The Swedish National Debt Office's takeover can be equated with liquidation, but with the possibility of a sale under controlled circumstances and with guaranteed financing. If the Swedish National Debt Office takes over the bank, the customers will not be currently affected."

The National Debt Office immediately issued the following statement: "The Swedish National Debt Office has at 3.02 p.m. taken over the shares posted as collateral for the loan Carnegie received today. This support loan replaced the loan the Riksbank earlier has given to Carnegie. This means that the Debt Office now controls Carnegie Investment Bank AB and Max Matthiessen Holding AB. These were previously subsidiaries of D. Carnegie & Co AB - a company quoted on the Stockholm stock exchange - and directly or indirectly responsible for all the business operations in the Carnegie group. The decision has been taken in order to protect financial stability and preserve the value of the collateral. As stated in a press release from the Swedish

Financial Supervisory Authority, the bank and securities market licences of Carnegie Investment Bank AB were revoked. Considering that the Debt Office now owns the shares, Finansinspektionen has decided to return the licences to the bank. If the Debt Office had not taken ownership, the bank's business operations would have had to be wound up. This would have led to a rapid fall in the value of the collateral."

Events had moved so quickly that the National Debt Office considered it best to call a press conference for the following day in order to answer questions: "The National Debt Office is arranging a press conference at 14.30 to provide an opportunity for further questions concerning Carnegie. Events moved extremely quickly yesterday when the National Debt Office took over Carnegie and for that reason Bo Lundgren, Director General of the National Debt Office, wishes to answer any questions. Please note that this is an opportunity to ask questions and that at present the National Debt Office has no significant new information. "This was a well-timed gesture that satisfied a tremendous need on the part of the media.

On 13 November, Stefan Ingves made an important "direction speech" before the Riksdag finance committee as main spokesman for the Riksbank. This was the most solemn speech he made in the entire period, taking even more care with his choice of words in order to strengthen the mandate to safeguard stability: "The global financial system has been shaken to its foundations since the middle of September. Even countries like Sweden, far from the centre of the crisis, are now tangibly affected by the crisis. The Riksbank, other authorities, the Riksdag and the government are taking forceful measures to minimise the damage to the economy as a whole. It is important to remember why this type of measure is implemented. It is a question of ensuring that the financial system functions and of minimising the damaging effects of the financial crisis. It is not a case of saving banks and bank management for their own sake or the sake of their shareholders. The Riksbank, other authorities and the political system are acting quickly and forcefully to minimise the costs to society as a whole. The Riksbank will continue to take the necessary measures to safeguard financial stability."

On that same day, Finansinspektionen also issued a press release concerning the first report on the stability measures adopted by the government: "It is likely that the stability measures adopted by the government have helped the banks to lower interest rates on both borrowing and lending. Overall, the general public and the banks have been informed of the lower interest rates since the stability programme was announced. The initial, single effect of the banks' lowering of interest rates has been favourable for customers borrowing funds and unfavourable for customers depositing funds."

On 19 and 20 November, the Ministry of Finance and the Riksbank announced that they were taking part in coordinated action to support Iceland, which was under severe financial pressure.

On 25 November, Swedbank announced that the issue had been brought to a successful conclusion. In his comments in the press release, Chairman Carl-Eric Stålberg stated that it was proactive: it is important to stress that Swedbank is a profitable bank with sound capitalisation, however, it is in the best interest of all stakeholders to take proactive and decisive action in this volatile and uncertain market environment. This transaction will result in Swedbank's capitalisation comparing favourably to other large European banks and puts the bank in a strong position. In addition, the strong support from Swedbank's major shareholders represents an important vote of confidence in the bank. The Board continues to be committed to the existing dividend policy." On that same day, the bank announced that it had successfully carried out a bond issue under the Swedish guarantee programme.

On the next day, 26 November, the Riksbank ended the month with a new solid stability message in a press release. "The Swedish banks remain financially strong and have a good resilience to



shocks. During the autumn the Swedish financial system has been tangibly affected by the global financial crisis and the banks' liquidity risks have increased. Swedish authorities have taken extensive measures to facilitate the banks' funding. These measures are now a necessary condition for maintaining satisfactory stability in the Swedish financial system... The global financial crisis has worsened over the six months since the previous Financial Stability Report was published. The Swedish financial system is also tangibly affected now by the global shortage of liquidity and lack of confidence. At the same time, economic prospects have deteriorated in Sweden and abroad during the autumn... The Riksbank's assessment is that the Swedish banks still have good resilience, which is confirmed by stress tests. The banks' profitability has declined somewhat but remains good. At the same time, loan losses are low from an historical perspective, although they have increased slightly. The losses that can be attributed to the international financial crisis have so far been moderate. In addition, the Swedish banks' borrowers have good prospects for repaying their loans, although their ability to pay will deteriorate as economic activity weakens... However, the banks' liquidity risks have increased, as it has become increasingly difficult for them to refinance at longer maturities. The costs of the banks' deposits and market financing have risen at the same time. In order to ease the banks' financing, the Riksbank and other authorities have taken extensive measures during the autumn."

"Despite the Swedish banks having good capital and resilience, the measures taken by the Riksbank and other authorities are currently a necessary condition to ensure that the stability of the Swedish financial system is satisfactory. The Riksbank is prepared to supply the liquidity necessary to safeguard financial stability," says Governor Stefan Ingves.

This announcement showed that communication with regard to financial stability had naturally become more difficult. The fact that the situation was now so serious that public interventions were a prerequisite for financial stability in Sweden did not tally very well with the assessment that the Swedish banks were still very resilient, as confirmed by stress tests. The concept of financial stability was becoming increasingly difficult to interpret.

### **3.1.7 DECEMBER - THE MACROCRISIS**

In terms of communication, December was a much calmer month and macroeconomics was the order of the day. It was now clear that Sweden had suffered a serious tangible economic crisis in the wake of the prevailing financial unrest. On the first of December, the Ministry of Finance announced that Anders Borg would meet his EU colleagues to "get an effective credit system going". Those discussions would lead to a basis for a decision at the meeting of the European Council on 11-12 December, when the EU Heads of State and Government would formulate Europe's response to how the economic and financial crisis could be alleviated.

On 4 December, the Riksbank lowered the repo rate by a full 1.75 per cent to 2 per cent at a monetary policy meeting held earlier than scheduled. The reasons were worded as follows: "There has been an unexpectedly rapid and clear deterioration in economic activity since October. Economic activity is also expected to continue to weaken over the coming period. Several economic indicators are at historically low levels. At the same time, the crisis in the financial markets is persisting, despite the forceful measures that have been taken around the world. The financial turbulence has made it both difficult and expensive for companies and households to borrow money. The weak developments in the global real economy have led to the oil price and other commodity prices continuing to fall, which has led to lower cost pressures. A much lower repo rate and repo rate path are needed to counteract economic developments being too weak and inflation being too low. The fact that the interest rate needs to be cut substantially is also due to monetary policy not having such a large impact recently as it normally does."

On 16 December, in a press release on the new forecasts for the Swedish economy, the Ministry of Finance reported as follows: “New forecasts reveal a gloomy outlook for the Swedish economy. State finances and growth have deteriorated while unemployment is rising in the wake of the growing financial crisis. Thanks to the fact that we have managed to strengthen public finances in good time, we are able to face the downturn without being forced to resort to cuts or tax increases”, said Finance Minister Anders Borg at a press conference of Riksdag journalists.

Finansinspektionen also noted the change in conditions for the banks in the wake of the crisis when it issued its second report on the support measures in a press release on 19 December: “The banks have not lowered their lending rates to companies as much as they have lowered mortgage rates and it is likely that they are making larger profits on this lending than they were before the financial crisis. The financial crisis has created new conditions for the banks, which will probably mean that the margin between, for example, the repo rate and the rate offered to companies and households over the next few years will not return to the low levels that applied before the financial crisis. Above all, it is possible that the price of liquidity will remain at a higher level than before.”

### **3.1.8 JANUARY 2009 – THE THREAT REMAINS**

The threat to financial stability remained on the parties' communication agendas for a good while in 2009, but gradually faded out of the picture during the spring. The many stability measures put in place by public bodies in autumn 2008 were fulfilled with further initiatives, though the focus was more on supporting the tangible economy which had worsened at a rate seldom seen during the fourth quarter, but the banks faced an intensive period of communication with accounts, quarterly reports, annual reports and annual general meetings. Crisis communication increasingly settled back into normal communication during the early spring.

The Ministry of Finance began 15 January with a press release concerning a government bill on a loan to Iceland as part of a coordinated Nordic support measure. The language used was one of crisis: “The background to the proposal is the crisis on the international financial markets. The government has already adopted a number of measures to counteract the effects of the crisis in Sweden, but it is also important to continue to act at international level in cooperation with other countries to alleviate the crisis. Later this year, the government will also issue proposals for a loan to Latvia in 2010”.

On 22 January, the government was back with a press release from the Ministry of Finance in which it presented “Measures to combat the crisis”. The measures were related to the tangible economy and related to investment in jobs and restructuring. The Government included a small forecast to provide some motivation, saying that: “The severe crisis and the situation on the international credit markets are expected to stabilise in 2009. As the effects of monetary policy and lower interest rates kick in, we expect to see a cautious global recovery beginning at the end of 2009 and gaining momentum in 2010. As far as Sweden is concerned, the decline into negative GDP growth in 2009 is expected to turn to positive growth in 2010. The government considers that unemployment will therefore rise as a consequence of lower growth.”

In a press release on that same day, the National Debt Office floated the possibility of a rescue loan for the motor vehicle industry which had suffered greatly from the fall in demand.

It was clear from Finansinspektionen's report on the stability measures that the situation for the banks continued to be difficult: “The cost of liquidity remains at historically high levels. Nevertheless, the banks have, in general, reduced their financing due to the poor performance of the financial markets and have thus partly been able to avoid the higher costs.”

The government had obviously hoped for significantly greater interest in its guarantee programme and therefore reported in a press release of 29 January that adjustments were being made: “The changes mean that certain restrictions in the guarantee programme are being removed for banks and other institutions taking part in the programme. These minor changes mean that we are lowering the thresholds for certain parties to join the guarantee programme. This could have a significant effect on the margins of those considering joining the programme”, said Mats Odell, Minister for Local Government and Financial Markets.

Primarily Anders Borg, but also Mats Odell used the media aggressively by issuing statements questioning the banks' sense of social responsibility when unemployment was rising dramatically and Sweden found itself in a crisis in which the taxpayers were indirectly obliged to pay for government support measures to ensure stability in the banking system. The argument reached its peak in February and March.

### **3.1.9 FEBRUARY – PRESS RELEASES OF FINANCIAL POSITION**

February was an extremely intense month in terms of communication, with the government and the banks as the main protagonists.

On 3 February the government proposed a large-scale programme to strengthen the banks' own funds, which was a topic of constant conversation in the media and on the stock markets. The unrest and the crisis of confidence on the financial markets during the autumn and winter had completely altered the requirements for what was considered satisfactory solvency for future financial stability. All the large banks except Handelsbanken were the subject of speculation and new share issues, even Swedbank, despite the new issue the previous autumn. Remaining faithful to its usual way of communicating, the government provided the information in two stages and returned with more details in a press release on 9 February.

Against this background, the Ministry of Finance announced: “Getting the credit market working again is essential to prevent the economic downturn from becoming worse. We are therefore presenting additional measures to boost lending,” said Minister for Finance Anders Borg and Minister for Local Government and Financial Markets Mats Odell. “The global financial unrest has led to a worsening of credit terms for households and companies in Sweden, and increased demand for loans from Swedish banks from large international Swedish companies. The purpose of the recapitalization scheme is to increase the ability of banks to provide households and companies with loans on reasonable terms. The scheme has a total limit of SEK 50 billion and will be financed through the stability fund that was established in the autumn. The recapitalization scheme is intended for solvent banks and certain other credit institutions incorporated in Sweden. The Government considers that private investors should be the primary sources of capital, but the scheme will enable the state to contribute as well. The institutions will be able to apply for capital from the state as part of a transaction directed towards private investors or on terms set by the state.

By means of both previously taken measures and the present measures the Government wants to make the credit institutions take social responsibility. Consequently it is important that the Government now, when introducing the recapitalization scheme, also continues to protect taxpayers' interests. Among other measures, there will be a two-year freeze on pay and remuneration, a ban on bonuses and restrictions on severance payments for top management in the institutions receiving capital injections “.

The debate on pay and bonuses was in full swing and the government issued a strong appeal for banks to act in a socially responsible way when they had received so much support from the public sector and indirectly from taxpayers.

On that same day – 3 February– SEB was forced to issue an unusual press release to halt speculation and admit that a new issue was about to occur: “SEB notes speculations in the market in respect of potential capital issuance. SEB confirms that a capital increase is considered with support of its core shareholder base, but no decision has been taken. A statement on this matter will be made in due course.”

Two days later, an announcement was made containing a clear reference to the fact that the capitalisation operation, which would give the bank a Tier-1 capital ratio far above the recently increased objective of 10 per cent, was forced by the higher level of uncertainty: “SEB announces a SEK 15 billion Rights Issue and a proposal of no dividend for 2008 in order to improve the capital base by SEK 19.5 billion.” The proposed measures should be seen in the light of the current turbulent market. The measures in relation to capital create a satisfactory buffer which is well above the board of directors' new long-term capital objective of a Tier-1 capital ratio of 10 per cent and form a central part of the work to safeguard the capital strength required in the prevailing market situation”, said the Chairman of the Board of Directors. “We anticipate that the economic situation will continue to be difficult, but these measures mean that we are also equipped for some extremely tough economic scenarios. We welcome the work by the government to strengthen the financial position of the banking system and we consider it extremely likely that SEB will take part in the revised state stability programme that is being prepared in the Swedish Cabinet Office and the Ministries”, said Annika Falkengren, CEO and Group Manager.

On 5 February, the Ministry of Finance issued a press release that once again underlined its concern at the economic crisis: “In order to improve export industries' access to long-term finance, the government has decided that the National Debt Office may grant AB Svensk Exportkredit a borrowing facility of SEK 100 billion. Export companies must have access to loans. This is a basic prerequisite for safeguarding jobs and preventing the poor economic situation from worsening. Through this decision, the government is improving companies' ability to find long-term finance for export projects during the financial crisis,” said Minister for Local Government and Financial Markets Mats Odell. “Global concerns over finance have led to a situation whereby credit conditions for households and companies in Sweden have become worse and worse and the tangible economy has been increasingly affected.”

Now it was also time for the banks to show their annual results for the worst year in living memory. What message would they choose to emphasise?

SEB was first, issuing a press release (of unaudited annual earnings figures, etc.) on 5 February. CEO Annika Falkengren kept within the narrative framework established almost a year previously on the reasons for and the development of the financial crisis. Under the heading A new financial landscape, she provided a rapid analysis of the crisis of confidence among both counterparties and customers. She provided information on the new issue and gave the reasons for it, which included the fact that “the market standard for what is considered an adequate capitalisation has been reset “. Information on risk and stability was more abundant than previously and was provided under the traditional headings. Under the heading Risks and uncertainty factors there was a short summary of macro-economic and market problems. An appendix and the annual report also contained descriptions of a handful of more specific risks.

On 10 February, Nordea continued to keep a low communication profile in the CEO's comments, in which the CEO discussed the much worsened economic situation: “We are preparing ourselves for yet another tough year in which we will face considerable challenges by slowing down the rate of our expansion and making the management of costs and risks our highest priority”. Loan Losses, Borrowing, Capital Position and Market Risks were given fuller presentations than

previously, under their own headings, and Nordea also provided a summary of state stability measures for each Nordic country.

There was a relatively extensive description of the announced new issue, the reasons for it providing a clear illustration of the changed market conditions:

- “Maintain position as one of the stronger banks in Europe. Nordea aims to be one of the strongest banks in Europe in terms of profitability, efficiency, capitalisation, liquidity, funding and ultimately shareholder value generation, measured by total shareholder return (TSR). With European banks raising considerable amounts of capital in response to investors' and other stakeholders' requirements for higher capital ratios, the competitive landscape is changing. The proposed capital raising is expected to position Nordea as one of the best capitalised banks in Europe. Furthermore, the capital raising is expected to support Nordea's current strong credit rating, thereby retaining the current favourable funding position relative to peers.
- Establish an additional capital cushion in light of reduced visibility in the market and economic outlook. Nordea is expecting its capital position to be impacted by the economic downturn, primarily through increased loan losses and adverse rating migration in the loan portfolio, resulting in higher risk weighted assets. In line with its prudent risk management policies and in light of an economic outlook which is more uncertain than usual, Nordea believes it is appropriate to establish an additional capital buffer above its existing target capital ratios to cover such potential negative effects.
- Provide flexibility to exploit high credit quality business opportunities arising from the market dislocation. Due to the deleveraging and general retrenchment by competitors in existing core markets, Nordea sees the potential to selectively capture high quality opportunities at expanding margins. Such opportunities predominantly include demand for funding by customers with a solid credit profile who are subject to the general credit shortage in the market. Nordea believes that its continued support of such high quality customers in the current environment, while applying its usual stringent risk management policies, will enhance profitability and reinforce long-term customer relationships.
- Proposed capital strengthening measures provide a fair, transparent market solution. The capital strengthening measures are fully transparent and secure fair treatment of shareholders through the application of pre-emptive rights. The proposed Rights Offering and dividend reduction will reinforce Nordea's capital base with straight equity, addressing investors' preference for high quality, Core Tier 1 capital.”

Nordea also devoted a relatively large amount of space to payments under the heading Participations in profits and bonus programme. This was a topical issue which was receiving a great deal of attention in the media as a consequence of the government's demand for restraint.

On the same day as Nordea's press release (of unaudited annual earnings figures, etc.), the Ministry of Finance issued a press release in which Mats Odell expressed his support for the new

issue and at the same time scored an important political point: “The Government looks positively upon Nordea’s decision to stop bonuses and wage increases to the executive management.”

Five people in the Nordea management had voluntarily refused increases in their fixed and variable salaries for the first four months of the year. This commitment was now extended and widened through the agreement with the National Debt Office on the state's participation on the new issue, which was financed via the stability fund.

Swedbank's accounts, on 11 February, had more extensive comments by the CEO than usual. The use of language was markedly terse, problem-orientated and straightforward. Of the earlier hopeful messages, there was one remaining: “The immediate future will be challenging in the Ukraine, though we are convinced that progress will be positive in the long term”. Like the other banks, considerable space was given to information under such headings as Loan Losses, Interest Risk, Liquidity, Borrowing and Capital Adequacy and Balance Sheet. The standard heading Risks and uncertainty factors provided as little actual information as previously, with references to the various descriptions of risks in the New Issue Prospectus, the annual report and the annual report on risk management and capital adequacy in accordance with the new Basel II rules.

To sum up, it may be said that the large-scale global financial crisis and the rapidly deteriorating economic situation was now the background against which the banks measured their business and their results. The tone was more serious and terser than previously. The CEOs' comments referred unambiguously to the crisis in the surrounding environment, though their own business was not in crisis. The Swedish banks continued to show satisfactory stability in terms of income and costs and surprisingly healthy profits. Loan losses had certainly increased considerably, but they still accounted for an extremely small amount. At the same time, all three of them were about to replenish their share capital without any problem. The issues were guaranteed and were fully subscribed. The reason for this was a considerable change in the demand for greater capital adequacy in the surrounding environment, which became a necessity simply in order to compete. The communication and messages conformed to the rules, standards and patterns that had been tried and tested over a long period in quarterly reports.

Information was also issued by the National Debt Office on 11 February in the form of a press release stating that Carnegie was being sold to Altor och Bure and the Riksbank was lowering the repo rate by one percentage point to 1 per cent.

### **3.1.10 MARCH – ANNUAL REPORTS AND ANNUAL GENERAL MEETINGS**

Communication in March was dominated by information in annual reports and speeches at annual general meetings. No more important news was cabled from the important operators for the financial system, with the exception of conditions and other matters regarding the announced new issues.

When the annual reports arrived, the message ploughed the same furrow that had been laid down in communication over the winter. The stability of the entire financial sector was now a recurring topic, with praise for the politicians.

The Nordea CEO painted the extent of the crisis in significantly stronger colours than previously in a didactic summary which served as the background to a description of strategies and measures. He adopted a reassuring attitude and was able to lean on the bank's satisfactory results and a solid financial position, presenting it as a strong, successful bank in tough times. The new issue was played down as a natural adaptation to new demands in the surrounding environment. Looking forward, he pointed to certain consequences of the crisis: Many banks would need to change their business models and new regulations on borrowing and capital situations were to be

expected. Success factors consisted of diversification, transparency, strong customer relations and decisive management of risks, borrowing and capital.

Swedbank's annual report marked the end of an era at the bank and was characterised by a reflective mood. The Chairman of the Board of Directors began his last "Chairman's Comments" with a short summary of the development of the crisis and praise for the EU and Sweden "who had shown political strength and leadership". He had a straightforward message concerning Swedbank's problems, which he stated were partly due to the media: "Swedbank has been affected by the global financial crisis, like the sector as a whole. Swedbank in particular was in the spotlight because it was the leading bank in its home markets. The intensive media exposure during the autumn gave rise to mistrust of the bank and concern on the part of our customers. There was an outflow of deposit funds to our fund activities and to the National Debt Office and also to other banks. The bank's efforts over the autumn to enter into more detailed dialogue with its staff in particular and also with its customers were successful. Despite the outflow and reinvestments of funds, Swedbank held higher deposits at the end of the year than at the start. In November, the bank took the initiative to carry out a new issue because the board of directors considered that fears concerning the financial markets could continue. It was able to carry out a successful issue of SEK 12.4 billion in January 2009, fully guaranteed by existing owners. The bank's own funds were further strengthened through the proposal not to pay out any dividends for preference shares or ordinary shares for the 2008 financial year and this served to generate greater financial strength in anxious times."

The CEO Jan Lidén also wrote his last CEO's comments and emphasised the satisfactory levels of profitability in all areas of the bank. The measures adopted to deal with the challenges during the year were described in general terms and were classified as successful. Nevertheless, there were also signs of the CEO's frustration with the media in a strange comment associating the writings in the media with the fact that Swedbank had the most customers: "As the bank with the most customers in Sweden, Swedbank was the centre of intense media attention. In a sense, the bank came to symbolise the general crisis of confidence which formed the backdrop to the continued financial crisis in Sweden". He also noted: "Initiatives adopted by governments and authorities have made a decisive contribution towards generating calm among customers and the general public".

Once again, SEB was the bank that characterised the most serious aspects of the crisis. Annika Falkengren began by saying: "2008 was a year that was characterised by unprecedented global financial turbulence. It was made worse by the downward spiral of falling confidence following the Lehman Brothers bankruptcy in September. Despite these particularly difficult circumstances, SEB succeeded in increasing its revenues and achieved an operating result of SEK 12.5 billion... The operation of the global credit markets has worsened considerably. Access to loans has diminished. The cost of finance has risen and the prices of assets have fallen considerably. These factors have piled a great deal of pressure on the banks, which has led to a crisis of confidence among both market operators and customers. Several large international banks have been bailed out, in some cases by state intervention. Despite massive support measures from central banks and governments to alleviate the effects of the crisis, the outlook for the world economy is now significantly gloomier. We are entering unknown territory and the experts' views on where the economy is heading differ more widely than usual. Even northern Europe, SEB's home market, has been affected. GDP growth has slowed down in the Nordic countries. The outlook for the Baltic states worsened considerably towards the end of the year. Latvia was granted support of EUR 7.5 billion in an IMF-led action. Our view is that there will be a drawn-out period of falling

GDP growth in all three countries over the next few years. The rescue measures adopted by the governments of each country are necessary in order to manage the imbalances.”

In his CEO's comments, the Handelsbanken CEO Pär Boman stated that, at its core, the crisis was a crisis of confidence: “Confidence and risk go together. If the general public consider that a bank's risks are too great, they will lose confidence in the bank and the ability to run a universal bank will therefore gradually disappear. A restrictive view of risk therefore forms a necessary part of the philosophy that characterises Handelsbanken... But confidence is extremely fragile. It takes a long time to build up, but it can be destroyed in an instant. We now also face an economic downturn that no-one yet knows the true extent of. The only thing that everyone appears to agree on is that things will get considerably worse in future.”

SEB's pay policy was headline news in the media in the first weeks of March. The board had begun a restructuring of the management's remuneration a long time previously, before the conditions of the guarantee programme were known. The principles were that, within the framework of unchanged (or lower) total compensation, variable remuneration would disappear and the fixed salary portion would therefore increase. When it later became known that the CEO would receive a significant increase in her fixed salary, there was an extremely violent reaction in the media aimed directly at the morality of the board of directors and the management. The publicity expressed serious mistrust of the President and CEO. SEB took the unusual step of issuing an explanatory press release on 13 March in which the President fully identified with the government's efforts to achieve stability in the system and CEO Annika Falkengren expressed herself in unusually forthright terms:

“I acknowledge the great damage inflicted on confidence and trust in SEB and me by the discussion about management compensation in the past days. For us a bank society's trust and confidence is crucial, just as it is important to society that SEB is a stable and respected authority,” said Annika Falkengren, SEB CEO and group President. “I can not apologize enough for how wrong this turned out. We in SEB's management will do our utmost to restore confidence among customers, employees and shareholders, as well as with the public,” concluded Annika Falkengren.

To resolve the situation, the SEB management, in agreement with the board of directors, relinquished the portion of their salaries that exceeded the fixed basic salary for 2008. This therefore fulfilled the requirements of the state guarantee programme with regard to the remuneration of the banks' senior executives.

The SEB Chairman, Marcus Wallenberg, commented as follows: “When the board of directors restructured the bank management's salary system, we did it in an attempt to introduce a system that complied with the requirements of the guarantee programme and, at the same time, we aimed to make it more competition-neutral and long-term. We removed the short-term variable salary portions and reduced the total remuneration”.

“However, after a discussion with the National Debt Office it was clear that further adaptation is required. Because the aim of the changes in the salary system – to meet the requirements of the guarantee programme – have not been fulfilled, the board is in agreement with the management with regard to the changes. We consider it important for SEB to be able to take part in the government's guarantee programme and thus help to achieve confidence and financial stability in society,” concluded Marcus Wallenberg.

On 17 March, the public bodies made further efforts to support the supply of capital in Sweden. This time the focus was on the municipalities and county councils: “... the National Debt Office has put forward a proposal to the government that the National Debt Office be permitted to lend



money to the municipalities and county councils. The financial crisis has made it more difficult and more expensive for the municipalities and county councils to obtain loans and the public sector will become more efficient in the long term if the proposal is implemented". The public bodies therefore provided a safety net for the most threatened financial needs in the country.

### 3.1.11 APRIL – ANNUAL GENERAL MEETINGS AND SUMMARIES

April continued with annual general meetings and quarterly reports from the banks and the spring government bill. The operation of the financial markets began to improve, stability returned to the financial system, but the crisis in the tangible economy was deep-rooted. On the second of April, the Nordea CEO met the shareholders and there was a wide-ranging analytical and pedagogical element to his speech that reminded listeners of the "narrative" that SEB had been maintaining for several quarters:

"At this year's annual general meeting, I look back at a year, which turned out to be the single most challenging year for the financial industry in over 75 years. The whole financial system has undergone an unprecedented stress test. Nordea passed the test by a clear margin, and I am therefore very proud to be able to present a strong financial result for 2008 based on solid performance in all customer areas.

The financial crisis and global recession are expected to have a substantial impact on Nordea this year and most likely also next year: First, long-term funding has become more expensive. This will have a negative impact on net interest income. We will make sure that the higher funding costs are reflected in customer lending margins. Second, in these uncertain times capital requirements have increased in the perception of investors. We are addressing this through the proposed capital measures. Third, interest rates are declining, which will put a pressure on deposit margins as well as on return on equity. Fourth, the world economy and the Nordic economies are in recession with declining confidence in the future and lower customer demand. Fifth and as a result of this, credit quality is expected to deteriorate. Our priorities and response to the challenges ahead are clear. Our long-term vision and growth strategy are maintained, but the speed of strategy execution has been reduced. Our way forward will balance business opportunities and challenges. In other words: we will keep to "the middle of the road". "Middle of the road" in short means responding prudently to the economic crisis – without over-reacting and without losing business momentum and good customers. But nor should we throw caution to the wind and accelerate as if nothing had happened."

On that same day – 2 April – the Ministry of Finance announced: "The government has today decided to extend the state guarantee programme for the banks' medium-term borrowing to 31 October 2009. The change has also been made to give the banks' more opportunities to obtain long-term finance and thereby reduce the liquidity risks in their borrowing. "Even though the operation of the financial markets has now improved, the global finance crisis and its repercussions for jobs and companies in Sweden are far from over. The government considers that there are still good reasons for having effective measures in place to enable banks and other credit institutions to provide households and companies with loans on reasonable conditions".

The spring government bill on 15 April was a gloomy picture of a Swedish economy in crisis: "In connection with the 2009 spring financial government bill, the government proposes further measures for dealing with the crisis. To alleviate the effects on jobs and the central parts of the welfare state, the government proposes to provide greater support for the municipal sector. More resources will also be provided for labour market policies. Along with the measures presented in the budget bill for 2009 and thereafter, the government is investing a total of SEK 45 billion and SEK 60 billion in 2009 and 2010 to deal with the crisis. The extremely poor economic situation

means that the challenges facing a policy of putting jobs first have grown considerably. In a situation where we have the weakest growth since the Second World War and unemployment is increasing dramatically, the government has chosen a clear path characterised by responsibility for public finances, for jobs and for the core activities of the welfare state,” said Finance Minister Anders Borg.

“One starting point for the government's policies in the extremely poor economic situation is to ensure that public finances are in order so that the deficit is both manageable and temporary. Households and companies can thus continue to have confidence in economic policy and the foundations of the welfare state. Central parts of the welfare state such as education, treatment, care and the judicial system must remain operational even in difficult times for the economy, said Finance Minister Anders Borg. Citizens must be confident that public bodies can carry out their main tasks.

One week later, on 21 April, the Riksbank announced that it had lowered the repo rate by 0.5 percentage points to 0.5 per cent. According to the Riksbank, the reasons included: “The downturn in the world economy is having a great impact on Sweden. Exports fell considerably towards the end of last year. The situation on the labour market has deteriorated rapidly and the progress of household consumption is weak. Outcome and confidence indicators for the past few months reveal that the economic downturn is even deeper than the Riksbank assessment in February suggested.”

When Swedbank later issued its first quarterly report on 22 April, it was noted that a new CEO had taken over. A thorough reconsideration was taking place with regard to communication and messages, which manifested itself in the CEO's comments, in which matters were made brutally plain:

“Swedbank today faces one of the greatest challenges that the bank has ever faced. The downturn in the global economy has become more pronounced, while the effects of the financial crisis on the tangible economy have increased. There has been a considerable downturn in several of the markets in which Swedbank operates. Markets for bank borrowings all over the world are doing very poorly without state support. The conditions for the global banking industry are expected to be very different from now on. Swedbank has therefore taken a series of decisive actions to ensure the quality of loans and maintain the generation of future profitability:

The group management has been strengthened in order to focus more on risk management and communication and to begin the work of introducing a common business model for the bank's home markets.

An extensive analysis of loans in the Baltic States has been carried out and a new organisation for managing problem loans is currently being formed. Swedbank has made a larger group provision of SEK 3.7 billion. Because the number of doubtful debts has risen considerably in the Baltic banking business, we have chosen, for the sake of caution, to retain the provision from the fourth quarter of 2008. Furthermore, we have chosen to make a provision for 100 per cent of the doubtful debts in the Ukrainian banking business.

Due to the financial and political uncertainty, Swedbank has chosen to reassess the Ukraine and will carry on business at a less ambitious level. Growth expectations have been revised downwards, which has meant that outstanding intangible assets, of SEK 1.3 billion, have been written off with regard to the Ukrainian investment. In order to guarantee satisfactory liquidity, we have made extensive use of the state guarantee in taking on new long-term borrowing. Our assessment is that the markets for borrowing will continue to be difficult. Our business in the Baltic States forms a vital part of our home market strategy. However, the low visibility in the area

means that we cannot discount a future write-down of goodwill relating to the investment in the Baltic States.”

At the Swedbank annual general meeting on 24 April, the shareholders heard a new tone and a Chairman of the Board of Directors who was clearly in soul-searching mood, saying that the management had made a mistake. This is a marked change in analysis and it is worth reflecting on the message:

“Those of us who are here today find ourselves in the middle of a historic course of events. One day, generations to come will remember the decisions we make now, just as we still remember those that were taken during the depression in the 1930s. For those of us who are here today it is a time for review, for reflection, but also for visions, for managing to look ahead.

My message to our customers in Estonia, Latvia and Lithuania is as follows: You will still continue to be our home market.

What have we done wrong? Now we know that at Swedbank we held on to our market share for too long. By doing so we contributed to the credit expansion that was taking place. In our subsequent analysis, we have come to the conclusion that we should have entered into discussions with the governments much earlier than we did. Had we taken decisive action in time, we could perhaps have achieved the soft landing that we wished to help achieve, instead of the hard landing that later occurred.

Today there are reasons for asking the board of directors whether it was right to acquire TAZ in the Ukraine in 2007. We made a strategic decision. The price was in line with the price level for other European bank acquisitions in Eastern Europe. We came to the conclusion that the Ukraine had high growth potential.

The economic, cultural and political turbulence in the Ukraine has been unprecedented in history. GDP in the Ukraine fell by a full 30 per cent in the first two months of the year. In view of this, we have been forced to state that there is very little chance of achieving the growth required to maintain the value of our investment in the Ukraine. We therefore accept the consequences of this and write down the remaining surplus value in the first quarter.

Swedbank recently carried out a successful new issue of SEK 12.4 billion. The suspension of dividends further strengthened own funds. At the end of 2008, Swedbank had own funds of SEK 90 billion and a Tier-1 capital ratio of just over 11 per cent. That is equivalent to own funds of SEK 77 billion. In addition, the bank earned just over SEK 18 billion before provisions for losses. Overall, this makes us more resilient to future loan losses. Swedbank can withstand extremely large loan losses without jeopardising our capital adequacy requirement, even if earnings fall due to the poor global economic situation.”

The Chairman also sought to limit his own role by asking a number of questions that unfortunately went unanswered:

“Finally, a few words on my own role as Chairman of the Board of Directors. When a crisis on this scale affects the financial sector, the global economy, individuals and companies, I myself, as Chairman of the Board of Directors, must examine my own decisions over the past year. What could I have done differently? What should I have understood better with the knowledge available to me at that time? When the election committee continued to show confidence in me, I weighed up my ability to contribute to the bank's future progress. I am not the kind to leave a company when the going starts to get tough, unless of course I am asked to leave. On the contrary, I roll up my sleeves and work even harder. I will support Michael Wolf with my experience of previous

financial crises and with my knowledge of the banking system and particularly of Swedbank. I am looking forward to working with my fellow board member Michael Wolf and our other staff members in the historical process of change that we are in the middle of right now.”

When SEB issued its report for the first quarter it reinforced the impression that the bank was continuing to overcome the crisis fairly well despite rising loan losses and write-downs. For example, on 24 April SEB announced a considerable rise in income and earnings compared to the same quarter of the previous year, though it had chosen to write down business in the Ukraine by SEK 594 million, which was done by writing down all goodwill in the future report for Q2. The Board of Directors would also apply to join the state guarantee programme. Nordea reported high loan losses but continued to show satisfactory results following the same upward trend, for which reason the bank never applied to join the state guarantee programme.

### 3.1.12 MAY – GREATER STABILITY

In April there was a positive change in the mood on the financial markets with greater stability and a considerable upturn on the world's stock markets. The economic indicators were extremely gloomy, but in May and June optimism grew in any case and the first signs of a slowdown in the economic downturn appeared. There was less talk of financial stability in communication, but it was still on the agenda in public bodies' communication.

Thus, for example, Finansinspektionen was able to issue a calming announcement in the form of a press release on 25 May: “Finansinspektionen states in a report that real estate lending is unaffected by the financial crisis. There is no clear trace of insolvency or loan losses on loans for commercial properties in Sweden.”

On 27 May the National Debt Office and the Riksbank announced that currency reserves needed to be replenished through borrowings of SEK 100 billion. It was pointed out that the financial crisis was not over. The Riksbank stated that the borrowing was for reasons of stability: “One of the Riksbank's tasks is to ensure that the payment system in Sweden works safely and efficiently. An important component of this work is to be able to provide liquidity assistance to the Swedish banks in a crisis situation. As the banks fund a significant part of their operations in foreign currency, the Riksbank must have a sufficient reserve of foreign currency to be able to meet the needs of the banks when necessary.”

“We still need to be prepared since the financial crisis may be deep-rooted and long-lasting. For that reason we need to strengthen currency reserves. This is part of our work to safeguard financial stability,” states Stefan Ingves, Governor of the Riksbank.

On that the same day, a Riksbank survey showed that the crisis was not over: “A relatively large proportion of operators on the Swedish interest and currency markets still state that their willingness to take risks has diminished over the past six months. At the same time, almost half the market operators consider that the financial crisis has reached its peak”. This is revealed by the Riksbank's risk questionnaire which is published today.

On 2 June the Riksbank Stability Report spotted a change for the better, but once again underlined that stability depended on public support measures: “The Riksbank considers that the large banks' loan losses will increase in the next few years in the wake of the extremely weak economic recovery. In the Riksbank's principal scenario, the total credit losses of the large Swedish banks are expected to amount to just over SEK 170 billion for 2009 and 2010. The banks have sufficient capital to cover losses exceeding that amount and are well capitalised in international terms. Measures adopted by public bodies are still an important prerequisite for the stability of the financial system in Sweden. At the same time, the measures have helped reduce the

banks' liquidity risk since November. There are also signs that the situation on the international markets has improved somewhat.”

There was even a glimmer of confidence in Finansinspektionen's Stability Report of 10 June: “All large banks will overcome even extreme stresses from now on. The large Swedish banks are able to overcome loan losses in the Baltic States of over SEK 150 billion over a three-year period according to Finansinspektionen's most negative stress test.”

### 3.1.13 JUNE – 0.25 PER CENT INTEREST

On 12 June, the National Debt Office issued an update on the budget situation which revealed the cost of the stability measures. “The intensified downturn in the economy is gradually affecting central government finances. The impact will be relatively small in 2009 but greater in 2010. This year the budget balance is also affected by capital contributions to banks and on-lending to the Riksbank and Iceland. The budget deficits in combination with large bond maturities lead to an increase in central government borrowing, in particular in foreign currency bonds. At the same time, we are reducing the auction volume for nominal government bonds since we increased funding already during the spring to meet the deterioration in central government finances.”

On 2 July, the Riksbank set down a kind of symbolic marker of the end of the acute stage of the marathon task of safeguarding the Swedish economy and financial stability by lowering the repo rate to its lowest level in living memory: 0.25 per cent. The press release stated as follows: “The Riksbank’s assessment is that cutting the rate to 0.25 per cent will not threaten the functioning of the financial markets. The Riksbank’s assessment is that after cutting the repo rate to 0.25 per cent it will have reached its lower limit in practice, and that the situation on the financial markets is still not completely normal. Supplementary measures are necessary to ensure that monetary policy has the intended effect. The Executive Board of the Riksbank has therefore decided to offer loans totalling SEK 100 billion to the banks at a fixed interest rate and with a maturity of 12 months. This should contribute to lower interest rates on loans to companies and households.”

## 6 15 September 2008-1 July 2009: examination and analysis of crisis communication

There are two basic problems in financial crisis communication. The first is to make people interested in something which is widely perceived to be as self-evident as the air we breathe, namely that the financial system works: that savers and investors can meet to exchange ideas and venture capital, that risks are managed and that a price is put on them and that the system of payments in society works. It is only when this system is threatened, which in Sweden has occurred no more than once or twice per generation, that financial stability is of interest to many people. For that reason, in general people do not have a great deal of knowledge on the operation of the financial system and the processes for maintaining and losing stability and managing financial crises. The parties involved, along with the government, are responsible for ensuring that the media's and citizens' knowledge of these matters increases and remains at a high level.

The other problem, as Governor of the Riksbank Stefan Ingves points out, is that “the greater the crisis, the less you know. It is in the nature of things that if you knew how crises arose, you would have solved the problems earlier. In other words, when we face a severe threat of a crisis or an

actual crisis, we suffer from genuine uncertainty.” That may sound trivial, but it contains a deep insight into crisis communication: the ordinary rules of the game no longer apply. It is a question of communicating measures so well that people “believe in them and of ensuring that what the communication says will be confirmed so that confidence is maintained”. To trust in something is to make a “leap of faith”, to allow yourself to believe in someone, despite the uncertainty of the outcome. We discuss this further in an appendix on theory and methodology.

For that reason it is worth repeating that we will not be able to do the parties justice when we sit with the book of answers in our hands and analyse crisis communications between 15 September 2008 and summer 2009, the core of our study. In an environment where there was little knowledge and experience of crises, at times they were working in a situation of total uncertainty. However, to compensate to some extent for that weakness in our analysis, we will enlist the aid of parties and communicators who were at the centre of that crisis communication. We will combine their retrospective comments with our own. Our supporting data consists of 15 interviews with official representatives of all major public and private parties in the system.

We agree with the conclusions drawn by the interviewees themselves that, with the exception of Swedbank, they handled communication well during the period when there was a serious threat of a crisis. No real financial crisis actually occurred in Sweden. But it was a close-run thing. What saved the financial system from collapse was the speed and decisiveness with which the public bodies and the government produced measures and their subsequent persistence in continuing to cover financing needs that were potentially in crisis. One way of describing the situation could probably be that normal established market stability actually collapsed and was replaced by an artificial publicly-supported stability. That highlights questions surrounding the use of the term stability, to which we will return below. The parties involved described their work to ward off the threat of a crisis in an exemplary, confidence-inspiring manner using a number of different channels. The measures arrived and they worked. The outcome was positive and gave rise to continued confidence. On the other hand, it was not possible to counteract the dramatic economic downturn, which developed into a real economic crisis.

Swedbank suffered a crisis which had serious consequences for confidence and for the management. SEB had a minor crisis, but it was more a question of how they handled the issue of remuneration at the beginning of spring 2009 than of financial stability. Nordea passed through the threat of crisis relatively unscathed and Handelsbanken appeared unconcerned.

It was during this period that previous communication sowed the seeds of a robust confidence that would later be reaped. Also, it was at the beginning of this period that the parties involved were most able to influence the mental and media agenda in their surrounding environment and the formulation of problems and questions that would provide the framework for the interpretation and judgement of the course of events. One main conclusion of our analysis is that any sins of omission in communication terms were committed more in the preventive confidence work in the year before the “crisis period”, which we have examined and discussed previously in this report.

In the weeks from 15 September, the public bodies were dominant, with deliberate, proactive communication, whereas the banks were forced into a defensive position, particularly as far as the media were concerned. Mistakes in communication were also made during that introductory positioning, which later had serious consequences for Swedbank. Its management chose to remain silent at a critical stage, which was clearly not at all in harmony with judgements by their own communicators. Swedbank's “silent week” after Lehman, described below, shook people's confidence, which was then exposed to constant attacks in the media.

In the situation of extreme uncertainty which often characterises the early stages of a crisis, the need for information is inextinguishable. Experience from previous crises shows that silence is never a good option. Information is always produced in such circumstances, though in the worst case it may consist of rumour and speculation from ignorant, uninformed, informal sources.

During this period, legitimacy as a component of confidence becomes more important, as in all stages of a crisis. The parties with strong legitimacy in the public sector and Handelsbanken were in a better position. In times of extreme uncertainty, people look for security in institutions, leaders and circumstances which have solidly established authority and which have demonstrated stability over a long period. If they do not deliver credible messages on the situation and how the problems are to be solved, that can leave room for communication of inaccurate and dangerously simple portrayals and tempting alternative interpretations. Credible messages are founded on a cultivated legitimacy in managing problems and a confidence-inspiring competence to solve them. If there is any suspicion that communication is obscuring relevant circumstances, doubt is cast on the transparency and integrity of the communication, which can lead to irremediable damage to confidence. However, transparency has its own particular problems in financial crises, to which we will return.

From October onwards, the public bodies in Sweden charged with defending financial stability entered a period of full mobilisation. The government became a principal operator alongside the Riksbank and the National Debt Office. Demonstrating an impressive degree of cooperation and focused assumption of responsibility, they gradually gained better control over the threat of a financial crisis and were able to safeguard the stability of the financial system through their support measures. Communication aimed to inform people of the measures adopted, reduce their concern and strengthen their confidence in the financial system. The outcome of the measures increased confidence. Legitimacy and competence are overriding components of confidence in communication. The banks experience problems getting their message across and are partly restricted by rules governing their financial reports. They continue to be forced on to the defensive by aggressive media with a restrictive, suspicious attitude.

In December it was clear that the threat of a financial crisis had receded, but that it had created a serious tangible economic crisis. The focus of the struggle to control of the crisis shifted to measures to maintain activity in the economy; companies, jobs, households and the public budgets. This intense struggle to control the crisis went on throughout the winter and spring. The government was by now playing the leading role in public communication. This communication aimed to point out the seriousness of the situation and to demonstrate that the state and the authorities were working extremely hard to manage the crisis in the best possible way. Legitimacy and competence still played a leading part. During the winter, some banks were forced to play an uncomfortable role in which the focus was on integrity as a component of trust. The fact that confidence in them had already been damaged meant that they had problems with communication on pay and did not succeed in turning around their defensive position.

One conclusion worth mentioning from the outset is that the private banks were not in the same position as the public bodies when it came to communicating in a crisis situation. That is decisive for any assessment of their communication efforts and means that comparisons with public bodies are misleading. As far as communication is concerned, the banks have no clear-cut role to allow them to “assume social responsibility in a crisis” either individually or collectively, which could be said to be not only the public bodies' main task, but also their “raison d'être”. The banks' focus as far as communication is concerned is on satisfying customers' and the stock market's requirements for returns in tough competition with one another. It is by being skilful in that respect that they serve society best.

Nevertheless, in a crisis they are expected to take on a role involving social responsibility when the stability of their income statements and balance sheets is under threat. The government also duly points up this aspect in its own communications. For that reason it is natural that comparisons should be drawn between the public and private sectors. According to perception psychology, comparisons are almost a compulsion among people and, during the period we are studying, these were consciously exploited and reinforced in communication by politicians and in the media. These different perspectives, the private banks communicating according to “the rules of the market” and the public sphere, which has access to the full range of communication techniques, become a problem in a crisis situation. One might think that the Swedish Bankers' Association could have attempted to bridge that gap in perception, but it remained passive in terms of its communication during that period. The parties concerned must do something about this problem of perspective in communication before the next crisis.

### 3.1.14 SVERIGES RIKSBANK

The Riksbank gradually became the primary communicator on the government's side during that period. Our analyses and interviews reveal communication that inspires confidence and that makes use of all important elements, legitimacy, competence, transparency and integrity:

Riksbank Governor Stefan Ingves: “It is absolutely essential to retain confidence by doing something. You can't say that Sweden is well prepared. In today's world of advanced technology and media, it doesn't take many minutes before someone says “the emperor has no clothes” if communication lacks credible substance in the form of actions. In our case, it was a question of showing that we had the tools, the resources and the decisiveness to keep Sweden out of the crisis. On 18 September, the Swedish treasury securities market almost dried up completely, which could have led to a catastrophe in the space of a few hours. I was in Frankfurt and spoke to Bo Lundgren at the National Debt Office by telephone and we agreed that the National Debt Office had better technical resources than we had for implementing a solution involving the exchange of an endless amount of treasury securities against mortgage-backed bonds. The National Debt Office called a press conference with 45 minutes' notice at 3 pm, with the participation of Irma Rosenberg from the Riksbank. We drew up a press release and decided on two messages: the market must understand that we will not allow the Swedish system to suffer a liquidity crisis. We will produce as many Swedish kronor as necessary. They will never come to an end. The National Debt Office will ensure that there is a market that works. That is the main framework of our confidence-inspiring communication”.

The person responsible for stability at the Riksbank, Mattias Persson, states that all analyses now indicate that the crisis consisted of a problem of confidence. “The financial operators did not know how their counterparties were doing, i.e. their liquidity position and insolvency. They did not trust one another and they strangled exposure to everything and everyone and as a result there was no trading. Liquidity and the interbank market work completely on trust.”

When the Swedish interbank market stopped working on 18 September, it was a result of the effect of events on the global credit market and the fact that Sweden was so fully integrated both internationally and financially. Approximately half of all Swedish banks obtain finance from abroad. Foreign investors left the Swedish market. Had Sweden not suffered this “spill-over effect” as a consequence of the international unrest, the Swedish financial system would have coped successfully. Solvency and credit exposures in the Baltic States were not so great as to prevent banks coping with even very great stresses according to both Finansinspektionen's and the Riksbank's stress tests, states Mattias Persson.



The Riksbank's representatives kept to the messages outlined in the Riksbank's stability report. Swedish banks are strong. This basic message would be repeated by the public bodies throughout the period. "The week after Lehman was completely hysterical and of decisive importance. What we said was incredibly important. If we had said the wrong thing it could have led to disastrous consequences for the Swedish economy. Above all, if we had chosen the wrong message, one which later proved not to be correct, it would have been devastating for confidence in the financial system for the entire subsequent period" says Mattias Persson.

During that period, the Riksbank was in full crisis communication mode. "The key words in our communication strategy were clarity and predictability, participation and presence, which are not in themselves new terms as far as our communication is concerned", says Head of Communication Pernilla Meyersson. "We ascribe great priority to the media and the general public as target groups. Our communication is previously prepared and practised, as are the messages to be emphasised and how they are to be presented. Our aim is to increase confidence in financial stability. The message becomes less focused on detail than previously since the general public and the media are a higher priority than operators on the market. The scope of the message is wider to allow us to get through to a wider public. Roles are distributed so that the officials will become public "fact suppliers" with Mattias Persson as the primary "stability expert" in the media. The members of the board of management address policy issues. As part of this strategy, Riksbank Governor Stefan Ingves is also permitted to be much more visible. He is "wheeled out" selectively when the audience, the context and the stability situation require a solid impact".

The information secretariat has an important role in structuring and "choosing words" and assessing how the media will present the message and what slant they will put on it. It has also been decided that stability messages will always supplement news and the various efforts to support liquidity in the Swedish financial system and that those messages will be conveyed when members of the board of management make speeches. Silence is not an option. It must be made clear that the Riksbank is monitoring the situation and that it has the resources and intends to use them to safeguard stability. This occurred on 22 September, twice on 24 September, on 29 September, on 2 and 6 October in speeches and press releases and almost every day in between in different media appearances. Additional resources are assigned to extend on-line communication with questions and answers and compiled information on the stability measures. "We choose our words to emphasise the threat to stability and we concentrate on the message that the banks must obtain the liquidity they need," says Pernilla Meyersson. She also underlines the importance of being proactive and always been open and available to attend to whatever the media require. Besides twelve planned speeches, four additional speeches were inserted due to the threat of a crisis. Our target is to issue a calming stability message every other day in leading media.

The Riksbank's crisis group, which was centred on the personnel and skills of the stability department and which also involved the Head of Communication and flexible participation by other staff, met twice a day during the most intensive period. Assessments of the crisis and the potential threat of a crisis were updated, the liquidity situation in the financial system was reviewed, the "mood" in the media and in the general public was evaluated and communication outcomes were reviewed along with the need for and planning of future efforts.

At the same time, senior executives were in a more or less continual contact with the bank management and updated their assessments on a continuous basis. The focus was on liquidity and associated confidence issues. Mattias Persson: "There was a great deal of two-way contact by telephone, but we also held a large number of meetings at which several bodies, banks and financial institutions, took part at the same time. We were also in close contact with other central banks via committee meetings and telephone conferences. As far as the Swedish market was concerned, the status assessments were the most important. Even though Sweden is a small

market, one does not know how things are with one's neighbours. We receive clear insights into the banks' situations and we are able to convey information to minimise speculation. It is a question of the banks' access to the markets and how investors and counterparties think and act. More financial institutions must provide us with information more often”.

Confidence is the financial market's most important variable, though it is immensely complex and difficult to pin down. Mattias Persson states: “In an uncertain situation such as after Lehman, it is always a question of what assessments we must make. We have models and methods and access to our own and the whole world's research, but even with all the facts, one is still forced to make a subjective judgement on such matters as the status of the links between different markets and operators and the strength of the movements on the markets and of investors' reactions. We had held many discussions on the risk of bankruptcy and how that would affect the operation of the markets. However, the magnitude of the crisis, the feedback effects and the unbelievable speed of events after Lehman was completely unexpected and gave rise to genuine insecurity. For that reason it was a good thing that we were able to lean on the facts and assessments of the stability reports and constant discussions with the parties involved.”

The strategy for combating the crisis would then be developed in a countless number of increasingly differentiated and refined support measures for the Swedish financial market and its operators during the autumn. The message presented was that “the crisis will not take hold in Sweden. We have inexhaustible resources and we will use them until we have won”. Stefan Ingves underlines the importance of consistency in the message and not “shaking in one's shoes”. Communication must constantly show that the bodies responsible for the system are in control of any potential crisis.

This had become increasingly clear to the Riksbank since the summer of 2007. “And it was elegantly expressed in the message in the financial stability reports: Sweden is not suffering a financial crisis. We have no bad loans, the banks are doing better than ever, loan losses are close to zero, commercial properties do not present any danger. However, the uncertainty and the risks are increasing all the time in the surrounding world, particularly in the Baltic States. We must keep Sweden free from contagion by dealing with and isolating the various risks of contagion, Iceland, Kaupthing, the Baltic States and Carnegie. It is this risk of contagion that makes these institutions important for the system. Another important risk of contagion for the system is the fact that in Sweden we had no depositor insurance worth mentioning. That threatened to become part of the problem rather the solution to the problem. For that reason, it was an important step when the government doubled the depositor guarantee to SEK 500,000 on 6 October after several other countries had carried out similar strengthening measures”, says Stefan Ingves.

Activities/measures are priority 1, but confidence cannot be built up without well thought-through communication, states Ingves. “On the public side, we needed a narrative which was communal in all essential respects. Internal communication is fundamental; there must be consensus on what decisions are to be made and who is to make them. And that is no trivial matter. Rules for crises are either non-existent or extremely vague. And decisions have to be made in an atmosphere of genuine uncertainty. That is the nature of the situation: the bigger the crisis, the less you know. If we had possessed extensive knowledge, we would have solved the problems before they turned into a crisis.”

Stefan Ingves understands that there is a big difference between the circumstances of the important public bodies in the system and the private bodies. However, the private side must also produce its narrative and that can work alongside the public narrative. “If it doesn't, then you create a problem which may lead to a crisis. Naturally there are a lot of discussions, but when the

situation becomes critical, occasionally we have to go in and say 'This is what we must say at this point'“.

Usually it is possible to coordinate the message, states Ingves: “Combating a crisis depends to a great extent on building a credible narrative in which someone on the public side assumes responsibility for measures and someone on the private side assumes his responsibilities. It must be coherent otherwise chaos ensues and people stop believing in us”.

We will return to the banks' communication shortly. However, the outcome in the media and public opinion clearly indicates that the banks did not get their “story” together as a group. They did not even have a collective communication role or any joint representative or “narrative”. That is understandable. In several bank interviews, we became aware of irritation at the fact that public representatives often tarred the banks with the same brush. Several bank representatives pointed out in interviews that they did not wish to be seen as a group. The banks were in different positions when it came to overcoming the threatened crisis. In simplified terms, we would like to interpret this as an unwillingness on their part to be associated with Swedbank's problem. The banks communicated in competition with one another, according to the roles traditionally assigned to them by systems and structures. However, we repeat, a joint representative would perhaps have been in a better position to be able to communicate to counteract the collective loss of confidence.

Riksbank Governor Stefan Ingves states that communication is ultimately a question of managing expectations: “What you say must be realistic. It must be possible to implement it. It must not lead to a banking expert or an analyst stating the following day that it is impossible to implement. When people watch the news, it must be clear that the Riksbank now intends to do this and the pundits must be able to say 'Yes, that sounds reasonable'. Even if you are not completely sure, you must at least know that it is possible to deliver what we say up to a certain point. That it is because confidence is built up through delivery: look what we said two months ago, now we have done it!”

Stefan Ingves emphasises the requirements of the modern media society. “You must translate your narrative to a language that your target groups understand. And we must reach all existing media: 30 seconds on TV, 30 minutes on a sofa and in English in London before the world's best qualified audience of analysts. Then you must be able to put aside the PowerPoint images and convey the impression that you are someone who can deal with anything and that you will never give up. Knowledge, assessments, activities – everything is in place to solve the problem. It is imperative that your English should be good. Nowadays the flow of news is instantaneous in both Swedish and English.”

When the Lehman crash occurred, the Riksbank went into crisis mode, working practically round-the-clock. The frequency of contact increased at all levels and the Riksbank states that there was never any problem with finding out what it needed to know. “Normally we are prohibited from talking about individual banks and what we do with them, so there are situations in which we must agree on what is to be communicated by whom. That can give rise to a large number of discussions. However, that is not something I can complain about in retrospect”.

However, Ingves cannot resist a comment that it occasionally took too long for a particular bank to explain its position: “As quickly and as soon as possible is important for confidence”.

It is basically a question of that important variable for confidence – transparency – which, according to Ingves, is an extremely difficult concept to manage in a crisis situation. He agrees that there are situations in which transparency can be counter-productive, for example when full openness in a crisis situation could lead to a “run”. “The problem with crises is also that we know so little; there is so much uncertainty as to what is going on. Even if you wanted to be more

transparent, there is little to be transparent about. We have not reviewed the course of events sufficiently well ourselves to be able to express an opinion. It's difficult. In these situations, one must repeat what one said previously. The important thing for us is not to remain silent; not to leave room for speculation”.

Transparency is best used before the crisis when you should disclose what is wrong and what is dangerous. “We had been pointing out the risks in the Baltic States for a long time, but it never really took hold. We chose to publicise our bank's specific stress tests to make them see the need to deal with the problem. We wanted to build up an image to suggest that those responsible understand what is going on and hopefully are also prepared to assume the consequences of it and do something about it when a crisis threatens. However, in the Baltic States, it was the Swedish banks and the Baltic authorities who took responsibility. If we look at the losses that were gradually built up by subsidiary banks in the Baltic States, they would never have survived without rich parent banks. In a way, Sweden carried the Baltic States and bailed them out in the crisis.”

As far as transparency prior to the crisis is concerned, Stefan Ingves is self-critical: “With the book of answers in your hand, you can verify that it was all there in our stability reports, but we were not sufficiently clear on the risks in the Baltic States. The signal did not get through. It became too subtle and it probably did not end up in the right place, in the right organisation. It was read by a number of experts one day and nothing came of it. It may perhaps have been better if we had used a sharper instrument. Another option may perhaps have been to have written a public letter to a bank saying that this is what we think and it doesn't look so good. In terms of content, it would perhaps have been exactly the same as we were writing in the stability reports. But in terms of its impact, it would have been very different.”

Asked whether that would not have created unrest among the banks, Stefan Ingves says: “But then they would have been obliged to deal with the problem. Confidence-inspiring transparency always requires two stages. First the problem and then the measures, communicated at the same time.”

As far as the stability reports are concerned, we have previously emphasised a number of communication problems. We have stated that some of the problems were reinforced during the period when the threat of a crisis was at its peak. The concept of stability gradually became even more difficult to interpret in the Riksbank's communication and finally, in our opinion, it became difficult to understand. That was particularly clear in the Riksbank's long press release of 26 November 2008. It gave a detailed description of the banks' strength in different dimensions and concluded that: “...the Swedish banks still have good resilience, which is confirmed by stress tests. The banks' profitability has declined somewhat but remains good. At the same time, loan losses are low from an historical perspective, although they have increased slightly. The losses that can be attributed to the international financial crisis have so far been moderate. In addition, the Swedish banks' borrowers have good prospects for repaying their loans ... Despite the Swedish banks having good capital and resilience, the measures taken by the Riksbank and other authorities are currently a necessary condition to ensure that the stability of the Swedish financial system is satisfactory.”

However, for most readers this was an extremely positive portrayal of bank stability, that the banks were doing very well. Although, at the same time, most people would reasonably read it as meaning that without the help of the Riksbank and other measures, the system would collapse. Therefore, what were the problems that had been afflicting the nation's financial sector for the previous few months? How can the word “stability” even be used? When is the financial system stable and when is it not? Is it really meaningful and accurate to say that stability exists when the prerequisite is that without unprecedented amounts of support for the banks there would be no stability?

It is possible that there is a satisfactory, logical explanation for this label of “stability” that was applied to the Swedish financial system in a situation in which the media and general public felt that there was a crisis, but if there is such an explanation, it has not been sufficiently well explained. If our reasoning is of any general value, the Riksbank and other institutions must ponder the terminology of “stability”. We obtain confirmation of the problems we have identified when we interview representatives in both the public and the private sector. Most of them refer to the situation as a crisis... and it is difficult to match that with the label of “stability”.

It is possible that one solution would be to explain the concept of confidence better. A very brief expression of the problem would be as follows: Yes, the financial system is stable, all the key indicators show that there is no danger of a collapse. Instead, the problem is inside people's heads. People are not confident that the system actually is stable. If the public bodies were not protecting the system, I and others would act in such a way as to make it collapse, because we do not have enough confidence to dare to behave normally. According to the themes of our model, we do not dare to take our everyday “leap of faith” because we are unsure whether the banks will deliver.

It is not for nothing that a researcher described confidence as: ...”that most elusive of concepts.”

Back to the Governor of the Riksbank. Besides the importance of transparency for trust, Stefan Ingves also points to legitimacy and competition. “We have existed since 1668 and we have been involved in crises in the system in one form or another longer than anyone else. It is natural that people should turn to us for information when there is a threat to financial stability. We are a kind of insurance company within the state to ensure that monetary policy and payments work, evenly and at all times. Then these odd crisis situations occur. And we are there to act as a kind of fire brigade. And even though it is a long time between occasions, we must always maintain our competence”.

Ingves also emphasises another dimension of trust, i.e. civility and public spirit: “There are many people in the Swedish financial system who have similar training and who trained together, who have worked in the same organisations and who have cooperated in a fruitful way for a long time. We know each other and find it very easy to quickly and smoothly get in touch and discuss a problem. I would describe it as a kind of feeling, which is more or less communal, that there is a fundamental social contract which expresses what expectations there are of you as a responsible member of society, regardless of what side of the fence you are on. In certain situations, you must do something for the good of the country when the situation has escalated to another, wider dimension. Whether you like it or not, you have to keep going. If you are affected by it you must still be good enough to pull in the same direction for the good of everyone. If this feeling does not exist in the country, crisis management often leads to pure disintegration”.

All public bodies will admit that the Lehman crash came as a surprise and a shock. The fact that the uncertainties and risks had increased over the period of a year had been communicated in a range of reports and speeches. It seems as if all of Finance-Sweden had lived in hope that it would be possible to get through the problem thanks to sound state finances and stable banks. The warnings contained nothing about how such a relatively insignificant event as the Lehman crash could act as a trigger for a serious threat to the system in Sweden.

However, when the crisis was upon us, with the shortage of liquidity on 18 September, both Finansinspektionen and the Riksbank issued press releases on the stability of the banks and the financial system. On that same day, the Riksbank and the National Debt Office held press conferences and issued press releases on measures to provide liquidity for the interbank market. There was an immediate understanding and consent among the public bodies and at all levels within them that it was necessary to issue a great deal of information. The aim was to show that they knew what was going on, that they had unlimited resources to deal with the problem and that

they were prepared to do it – until it was solved: “We are prepared to put in place more measures if required” was a constant message. Cooperation among them became so intensive over the following few months that “all relevant information flowed completely freely and quickly among the three of us”.

One important contact point was the four-way meetings that took place on a flexible basis several times a week involving the Riksbank, the National Debt Office, Finansinspektionen and the Ministry of Finance, with close telephone contact between October and December 2008. Another strength in this tight situation was that several of the communication leaders in the public sector had considerable experience as news journalists in the daily press, radio and TV and had known each other for a long time and met regularly for exchanges of experiences. They notified each other with regard to measures and communication of stability measures. However, a suggestion concerning joint press conferences and press releases was rejected by the Riksbank, which thereby wished to emphasise its political independence.

### 3.1.15 THE NATIONAL DEBT OFFICE

During the autumn of 2008, the National Debt Office and its Director General, Bo Lundgren, found itself in the centre of the crisis communication alongside the Riksbank. He played the part with bravura, thanks to his experience from the crisis in the 1990s, good communication skills and an understanding that communication is of decisive importance for staving off crises. It must therefore be acknowledged that he has unusual legitimacy and competence and is important for how other countries perceive Sweden's financial stability. Bo Lundgren was invited to speak before the US Congress on the Swedish struggle to combat the crisis and was often interviewed in leading media in the USA and Europe.

“You must make sure firstly that confidence is not threatened or that it does not collapse. You must communicate in such a way that everyone feels as though you are speaking to them. Many of us in the bodies responsible for stability said that in principle there is a crisis and we are heading for worse times, but it will not be exceptionally dangerous for you. At a press conference I was asked 'Can you guarantee that no saver will lose his money?' My answer was 'Yes, I can'. You have to say that. That is the guarantee you have to give in order to shore up confidence”.

“Sweden suffered unnecessarily from a number of inaccurate portrayals abroad of our stability, plus the ordinary risk aversion to small currencies in crisis situations, which we can never avoid. However, we had CDS spreads that were too large at the same time as we had lower borrowing costs than Germany in the middle of the Lehman crisis and there was speculation against the Baltic States via the Swedish krona. The risks for Sweden were simply overestimated, which cost a certain amount as far as the krona was concerned”.

We had three confidence-related problems to deal with through measures and communication directly after the Lehman crash”, continues Bo Lundgren. “First the urgent management of the treasury bills market, which collapsed on 18 September. In those circumstances we had no set instruments to use and so we created a procedure that does not exist in our legislation since we are only allowed to borrow according to the state's requirements. However, in the face of an imminent crisis, you must actually create the instruments you need, and that is what we did. And it worked.

I called Stefan Ingves in Frankfurt and informed him that the treasury bills market had come to a halt and that we were considering a range of solutions internally. We agreed on a solution at the National Debt Office and we arranged a press conference for the afternoon. By that time we had obtained support for our solution from the Ministry of Finance and the Riksbank. The message

that day was clear and simple: In principle, the National Debt Office has unlimited resources. We will not allow liquidity in the system to disappear. We and the Riksbank had a united view on how we would communicate”.

“Secondly, we received a lot of questions relatively quickly on the deposit guarantee and guarantees for savers and thirdly we had Riksgäldspar [National Debt Office savings], where deposits increased dramatically. It was communication aimed at a large number of different target groups and at different levels of detail with the government, the banks, the markets, the media and the general public. The high volumes then continued throughout the autumn with the guarantee and support programme. In addition, there was a considerable increase in the frequency of meetings and discussions with the government, Finansinspektionen, the Riksbank and the banks' representatives”.

When the acute threat of a catastrophe relating to liquidity in the interbank market lifted through the efforts made on 18 September, broadly speaking problems with the deposit guarantee and Riksgäldspar became the most important. “The unrest was so great that we could have had a “run” on the banks. Communication therefore focused on the media and the general public.”

How did the National Debt Office perceive the danger and how did they deal with it?

“There was a risk profile at a high level within the public bodies responsible for the system that suggested that a run was quite possible. I personally believed that the risk was not that great, but we did have something that could perhaps be described as a “virtual run”. People took their money out of Swedbank in particular and deposited it in Riksgäldspar. There was close on SEK 10 billion during a short period. A lot of money later ended up at other banks and some ended up under the mattress. It all calmed down when we received clear information on the extended coverage of the deposit guarantee at the beginning of October, which was big news in the media.

As an illustration of the scope of the unrest, Bo Lundgren tells the following story: “We also received a letter from a CEO of a listed company who asked what he should do with SEK 6.5 billion that would take him several years to deposit in Riksgäldsspar because we had a deposit limit of five million a day. What advice could I give him? He wouldn't have written a letter like that if there hadn't been some concern behind it. I was also in close contact with many heads of finance at large Swedish companies and they were very, very worried. They had their funding programmes and they could no longer count on the foreign banks or even on the Swedish banks when things looked at their worst. It was this concern that led to Svensk Exportkredit receiving a guarantee framework of SEK 450 billion, which was actually quite incredible. But I agree with the government. You have to do it properly. It is extremely bad for confidence if you have to come back and say 'That wasn't enough, we got it wrong'.”

In order to spread calm among the general public, the National Debt Office relied on the same messages that had been prepared at the Riksbank and Finansinspektionen. Bo Lundgren took pains to emphasise in all contexts that the Swedish banking system was strong and stable. In their own organisations they could quickly strengthen the call-centre service when the exchange was swamped by worried savers. This had been prepared for a long time, with ready-purchased capacity and a message providing calming information with reference to the tests and assessments of the Riksbank and Finansinspektionen. Specific information was also quickly made available on the Internet, including questions and answers on the crisis.

Bo Lundgren has a large number of observations concerning the role of the media in the crisis and he is more open than others to both the public and the private side, though he appears to shy away from any debate on whether the media handled the crisis well or badly. When we asked him questions about this he mostly replied that he had no view on it.

“I fully understand the commercial circumstances in which the media operate and the issues of freedom of the press in Sweden. However, it is clear that rumours that were spread in the media made the situation more difficult. The Swedish media are more alarmist now than they were in the crises of the 1990s. Swedbank got into difficulties partly because they themselves failed to handle their communication successfully and partly because the media were spreading rumours. When we issued additional treasury bills to support the market, Dagens Industri wrote that our aim was to support Swedbank. That undermined confidence in Swedbank. A few days later, DI wrote about a rumour that hedge funds in London were spreading malicious rumours about Swedbank's situation. That completely destroyed confidence. It also spilled over into greater concern about the entire banking system. It is a well-known fact that the media have power over people's perception of reality. And when the evening papers, week in week out, shout about a crisis and greater risks for the banks, people become afraid and put off their decisions to invest and carry out purchases and that has an adverse effect on the economy. The image portrayed by the media was more negative than it needed to be. I am talking about the headlines and newspapers and Dagens Industri, not about the broadcast media or the morning newspapers.”

The National Debt Office Head of Information Marja Lång attempts to explain: “It may perhaps have been due to the fact that the crisis was so serious in other countries such as the USA and England that Swedish journalists found it difficult to believe the message that Sweden was stable, with stable banks. A real crisis is a big occasion for a journalist...”

Regardless of the explanations, there is no reason to shy away from a debate on the role of the media in a crisis situation. On the contrary, our observation is that the media are often slow to evaluate and after such a turbulent period as that experienced by the Swedish financial system there is a great need for a debate on the role of the media. In this regard, there are also dangers relating to the perception of the use of language by the media itself and others. To say that the media “monitor” the course of events is an underestimation. The media are and always have been very much a protagonist. In a crisis situation, the media become extremely important as a channel for all the irrational and emotional reactions that drive the course of events. We will come back to this when we examine Swedbank.

The role of the media gives Bo Lundgren an opportunity to discuss the problem of transparency in a crisis. “Transparency is absolutely necessary for credible communication. The bottom line is that you must always be open. When Swedbank was under pressure, it would have been better if they had opened their books and been perfectly honest, saying 'This is how it is'. The fact that they were so uncommunicative gave rise to irritation, rumours and problems. There was little risk of them being exposed to a run; their capital was relatively strong. But of course there are times when you can't be open because openness itself can lead to effects that you would prefer to avoid. If we knew that a bank could crash within a couple of days, in those circumstances openness could speed up the process and therefore destroy any bailout operations.”

Were you prepared for any such situations?

“Yes, we were prepared and had plans ready for most scenarios. We had to prepare for the worst... and deal with it. The trick is that when you issue information on the current situation – when you are being completely transparent – you must also have measures prepared and they must be the main focus of the communication. There are always two aspects to transparency: openness about the situation and action”.

Bo Lundgren is willing to go so far as to state that the fundamental reason for the international financial crisis was the lack of transparency in much of the financial system. “The analyses were not accurate because we had insufficient accurate facts to base them on. For that reason decisions were also incorrect and badly timed. I believe that we will face further crises. It is in the nature of



market economics. For that reason we need to prepare ourselves mentally, discuss matters openly and prepare for any action that will be needed.”

### 3.1.16 FINANSINSPEKTIONEN

In the Swedish financial system, Finansinspektionen (FI) plays the role of “scout” due to the fact that it monitors financial institutions' financial positions and business using stress tests as one of its primary tools. Head of Information Lars Malmström describes FI's role as watching out for large and small crises and helping to avert them. The target groups consist of the financial sector, the general public via the media and the government and the Riksdag.

Thomas Flodén, Chief Economist and important strategic adviser to the DG at Finansinspektionen, states that FI had understood the seriousness of the threat of a crisis by autumn 2007.

“In the stability report for the autumn, we clearly pointed out the uncertainties that were building up for the banks in particular. It is always a question of weighing up how dramatic to be, but I think that we stated the situation clearly. We also described the effects of a range of scenarios.”

However, there is a problem of confidence here that FI grappled with almost throughout the period. “We saw no dramatic loan losses for the Swedish banks either in mortgage loans or industry loans during the period. At the same time, when we were communicating this we felt that we risked undermining our credibility since there was a fairly solid mistrust of any positive view. It is extremely difficult to decide where to place the emphasis between the positive view that we believe in and the negative trends that we have identified but do not wish to emphasise as clearly because they are actually manageable.”

In this context, Thomas Flodén points to the liquidity situation that was well understood within FI to be a critical factor that could trigger a crisis. However, that factor was also manageable through the inexhaustible resources of the Riksbank and the National Debt Office.

“Liquidity is always manageable as long as one has confidence in the solvency of the Swedish banks, and we were confident and we communicated that. The question was how much they might lose in the Baltic States. However many scenarios we considered and however many aspects we looked at, they were in a position to successfully manage the situation. The calculations were based on the assumption that they would not sustain large loan losses in Sweden. We did not see that as a risk and so it proved. However, we found it difficult to achieve credibility because the banks' loan portfolios in Sweden were satisfactory.”

There was mistrust in the media and therefore also to some extent in the general public that was difficult to turn around, states Thomas Flodén. “We had a well prepared communication strategy and a main message to substantiate the premise that the Swedish banking system was extremely stable. We did not foresee the extent of the crisis in the Baltic States, but the course of events was included in our scenarios and the outcome in terms of solvency was approximately as we expected, i.e. no great catastrophe.”

Liquidity was what triggered the real threat of a crisis in Sweden. However, Thomas Flodén repeats that if liquidity disappears from the system and the banks are solvent, that is manageable. It is another matter altogether if there is a lack of liquidity because the banks have no money. That would have been really dangerous, but it was not the case in Sweden. It is therefore possible to state that communication was reasonable.

However, Thomas Flodén admits that Finansinspektionen and the entire financial stability establishment failed to spot the liquidity risks. “We were closely monitoring the Baltic States and if we had not experienced a liquidity problem, the Baltic States would not have become a problem.

We knew that the banks would experience loan losses and we had discussed that and it would have been manageable. However, we were not monitoring the possibility that liquidity would disappear in an instant and threaten the whole system. And because the contagion came from outside and was triggered by Lehman, it is very difficult to see what we could have done about it. We could not have shut off the source of the contagion – the Swedish bank's international finance. Even if we had understood what the course of the contagion would be, we would never have got through it by restricting the banks to just the Swedish capital market. One thing we could probably have done would have been to persuade the EU that the risks of international contagion for liquidity were a communal structural problem. However, no-one was brilliant enough to spot the liquidity risks in advance and how the contagion would spread. Ignorance of the liquidity risks was not a problem in terms of society and stability, but it became a problem in combination with the crisis in the Baltic States and none of us saw that coming.

In the distribution of responsibility between the Riksbank and Finansinspektionen, FI focused on solvency issues and the Riksbank focused on liquidity and the overall stability of the payments system. There was close synchronisation between the two of them in their assessments and their communication. “We wanted to know whether we had missed anything and whether we had assessed the situation in approximately the same way. Matters were constantly synchronised at various levels, between the heads of communication, between Mattias Persson at the Riksbank and I and between our acting DG Erik Saers and the Governor of the Riksbank. During the most acute stage, I talked to Mattias Persson several times a day”.

Lars Malmström was Finansinspektionen's Head of Communication. He told how FI became a formal crisis organisation after the Lehman crash. This organisation was ready with plans for special procedures, decisions and organisational management. The crisis organisation was activated for several weeks and meant that FI was divided into two teams working 12-hour shifts to achieve 24-hour operations.

Communication was ascribed high priority and there were also such measures as special emergency duty on the website, a higher state of alert for security issues and a decree that everyone should have their mobile phones switched on. “The pressure also increased greatly with a much higher number of visits to the website, many more telephone calls from the general public and greater interest from foreign journalists. Our status reports became a highly sought-after source of information and they were issued in quick succession during the peak of the crisis: On 18 September, the situation at the large banks; on 29 September, an update; on 2 October, the situation at smaller banks; on 9 October, the situation at pension companies and a new update on the large banks on 16 October.” Otherwise FI made no change to the established system for issuing information: press releases for news, summaries of reports to provide more detail and then the full report.

Finansinspektionen's message and choice of words was at all times close to that of the Riksbank. “That was a deliberate decision in order to generate joint credibility for our stability reports, which also *de facto* contained the same assessments. We chose to use the term financial unrest, not crisis. In fact, the financial system continued to function on an everyday level in society throughout the period. However, when we prepared the annual report, we went back to using the term “crisis”. By that time the term had become established throughout society as denoting a period and a situation”.

During that period, Finansinspektionen was understaffed as far as communication was concerned and at times it was led by an acting DG, Erik Saers. Lars Malmström is aware that this could have affected the credibility and effectiveness of FI's communication. “Our media policy is to assign questions to the people who are most familiar with the subject-matter. During the crisis, we

wished to coordinate communication so that it was centred on fewer people at a higher level. It is possible that this led to bottlenecks when these people were also extremely busy dealing with the urgent situation. The most frequent spokesman was Thomas Flodén on the situation at the banks and macro-economic issues, whereas Erik Saers dealt with press conferences and other larger-scale appearances.

The fact that FI and the Riksbank were well in tune with each other in their assessments was reflected in their attitudes towards communication. Thomas Flodén also confirms their awareness that “radio silence” was to be avoided: “We began to issue status reports on the overall picture during the most serious stage of the crisis. If we had no new information, we wanted in any case to state that the situation was the same as in our previous report”. The decision to issue status reports with no set time of issue indicates an understanding of “need-driven” communication. Publication was regularly harmonised with the Riksbank's plans and communications. “We constantly felt that people wanted clear answers, but sometimes there were no answers. Many questions were just about liquidity at different banks. There is no simple measurement of that and it is not always possible to compare liquidity at different banks. In those cases, we repeated our earlier assessments. In our job you have to go out and talk, otherwise the talking will be done by someone else, someone who is perhaps not so well informed”.

One constant fear was that a false rumour could spark off a real run on the banks in Sweden. Thomas Flodén: “We were constantly on the lookout for information that could trigger a run, i.e. false rumours and inaccuracies. The Aftonbladet article on which accounts were protected by the depositor guarantee was completely inaccurate and was one example of this. We also heard rumours that the money in the ATMs would run out. Those things are very dangerous. In those circumstances, we were particularly careful to monitor what was written, particularly about Swedbank but also about other Swedish banks in the Baltic States”.

“There was also a tendency for the banks to take advantage of their competitor's weaknesses in their marketing, which can lead to the spread of rumours. We were very careful to call up and asked the banks if they were behind those rumours. The last thing we wanted was for them to turn on each other in such a sensitive situation. We couldn't punish them for it, but we wanted to keep a close check on them and make them understand that spreading rumours would not benefit anyone in that situation.” Thomas Flodén is referring to attempts by Handelsbanken to win over customers from Kaupthing and Swedbank by such means as inaccurate information in the press and “switch bank days”. On one occasion Finansinspektionen was forced to issue a unique press release and rebuke Handelsbanken with regard to Kaupthing.

In this context, Thomas Flodén states that “we didn't want to comment on the situations of individual banks in negative terms because then we would also be contributing to the spread of rumours. We always tried to refer to the banks as a group”.

The new Director General, Martin Andersson, who has extensive experience of the Riksbank and international finance markets, adopts the most self-critical attitude of all the public bodies responsible for stability with regard to communication and messages, though we should make it clear that he was not responsible for FI during the most critical period.

“Yes, obviously it is easy to be wise after the event, but looking at the way the problems in the world of international finance were piling up in 2007 and 2008, it is now difficult to see how Sweden could have got through the crisis without being affected at some point. We were all fully aware that Sweden was enormously dependent on international finance and of the fact that the Swedish banks received a great deal of their finance via international banks. The banks all fell throughout Europe in September 2007. Lehman was the great watershed, when we went from a situation of individual banks in crisis to situation of crisis in the system as a whole. The politicians

then began to realise how serious the situation was and we started to tackle the problems with the system”.

Sweden itself managed to deal with the crisis in an effective manner, states Martin Andersson. “A whole raft of measures was put in place quickly, injections of capital, a guarantee programme, loan operations, support laws, etc. However we have many lessons to learn from the era before the Lehman crash. We underestimated the Swedish banks' need for finance and the problem of how short-term that finance was and what threats that entailed. We also underestimated their exposure in the Baltic States and the problems that would derive from that. My analysis is by no means complete, but it is clear that we underestimated all the crisis signals that were being received one after the other in 2007 and 2008. We failed to grasp the magnitude of the situation. That is perhaps because Sweden is a small country and it is easy to create a consensus, “group think” – we had a stable economy and solvent banks, we wouldn't be adversely affected!”

“Of course we issued warnings along with the Riksbank about greater uncertainty and greater risks. But it is possible that these warnings were issued at a level that was too academic, with extremely good, technically competent analyses that always ended with “... and stability is satisfactory”. We became blind to the defects in our own country and we were caught up in “conventional wisdom”.”

Martin Andersson agrees that estimates were extremely good as far as the banks' solvency status was concerned, but that was not the problem. “Kaupthing crashed with 14 per cent capital adequacy, but it lacked liquidity. The solvency estimates were based on retrospective information, but liquidity was current and future. We focused too much on solvency. In the Baltic States we saw the problems pile up over a number of years while the banks steadily increased their risks. We issued warnings but did not act. We should have sent out clearer signals. We talked almost exclusively to the managements. We should have talked to the boards of directors as well.”

Martin Andersson is just as big a believer in transparency as the heads of the other public bodies. “We have a great deal of informal contact with the banks and also between ourselves in the public bodies. I am a great believer in public discussion and also in discussions among public bodies . Publicity is necessary if we are to deal with problems at an early stage. That is when you get rapid evaluation and debate and responsibility is assumed. The media play a vital role in all this. It should be difficult to say that something is a problem and then not do anything about it. The public bodies must improve their debating skills. At FI we have come to the conclusion that we must upgrade our communication resources and we are doing that now”.

He describes the roles of the public bodies during a crisis as follows: “The Riksbank has a central role, along with the National Debt Office, in managing the crisis. Our role at FI should be more preventive. There has been a tendency for supervision to be a little too flat; it has been a bit too close to the market. We must all invest a little more in knowledge and compiling facts to ensure that we are constantly aware of the status of the financial system.”

### 3.1.17 THE GOVERNMENT

Even though we have carried out no special study on the government's “crisis communication”, there is reason to comment on its role and on its teamwork with the other parties concerned during the urgent stage of the crisis.

The government started up its public communication fairly late even though it was naturally extremely active in teamwork and communication with the bodies involved in safeguarding stability from 15 September onwards. The press release of 22 September concerning the initiative to strengthen the financial sector gave the impression of being almost misdirected, with measures that hardly matched the seriousness of the situation. Nevertheless, there is a point at which it is

time to take action with legislation on how banks are to be managed in the event of a serious financial crisis. In this connection, it was necessary to overhaul the deposit guarantee, an issue that would become urgent over the following few weeks. It was actually only on 6 October, with the information that the government was widening the deposit guarantee, that public communication aimed at stability began.

At that point, the Ministry of Finance adopted a clear position. The wider guarantee was intended to “maintain a sense of security among Swedish savers. The measure is about ensuring that savers continue to have confidence in the financial system”, says Finance Minister Anders Borg and Minister for Local Government and Financial Markets Mats Odell. “The government is the ultimate guarantor of financial stability.”

On 14 October, the government gave notice of a stability plan in a press release and established five fundamental points where the government assumed responsibility for ensuring that stability would be safeguarded and taxpayers would not be affected. In a new press release on 20 October, the package was more or less ready for examination by the Lagrådet (Council on Legislation) and a decision by the Riksdag. It was now clear that the issue of bonuses would be big: “While we are taking actions to maintain stability and restore confidence to the markets, the basic guiding principle is that Swedish taxpayers will not have to bear the costs of any future measures. Clear restrictions with regard to executive compensation and bonuses will be implemented in conjunction with the measures, which give economic advantages to some institutions”. A press release of 29 October contained a substantial presentation of the full package when the government had made the decision. The regulations entered into force the following day.

This approach was skilfully implemented in terms of communication, as a three-stage rocket which was distributed to the media in a satisfactory manner each time. The package also showed how quickly and effectively the national, Swedish decision-making apparatus could work. We have spoken to representatives of the finance committee who have spoken of intensive work in the Riksdag, occasionally during the day and the night, involving negotiations between the parties in which the focus was on the seriousness of the situation and where people assumed responsibility instead of bickering along party lines. Here we have a good example of the confidence in society referred to by the Governor of the Riksbank – a kind of civility and public spirit that closes ranks for the good of the country.

In the stability plan, the government took the initiative with regard to communication of the management of the threat to stability and the main lines of communication were clearly drawn for government representatives to follow. And at this point the art of political communication was seen in its element: by the middle of October the government had already assigned various roles to the parties involved according to extremely old classical narrative patterns which were so indelibly imprinted on people's senses that they became a natural way of classifying and interpreting situations: here are the victims, the white knights and the black knights. It was tailor-made for the media.

The conditions for communication in the political sphere were not the same as for the banks. The public sphere largely had free access to the media at any time if the message was adapted to the logic of the media and a crisis situation is highly potent fertiliser for journalists. This was extremely clear to the government's communications specialists. They deliberately planned the manoeuvre in several stages to gain maximum attention. It is perhaps possible to take offence at these tactics, but hardly on the basis of an assessment of communication – repeated messages are better explained and better understood.

Another aspect of the government's communication skills was revealed. The messages were delivered using language and metaphors that made them more understandable. One

representative said: “We spent a lot of time finding good metaphors to describe the economic situation, which was becoming more and more difficult and which would require tougher political measures. In the end we opted for weather metaphors. Everyone understands them. Anders Borg would therefore say that dark clouds were piling up on the horizon etc. Weather metaphors are good, they cover the whole spectrum from good times to bad times”.

The fact that the narrative technique placed the banks – collectively – in the dock as more or less guilty of the crisis was not only a communication tactic on the part of the government. According to our interviews, there was a strong feeling within the government that the banks should bear a large part of the blame for the crisis. For that reason, the driving forces behind such dangerous conduct must be highlighted and condemned. Systems of remuneration that incite greater risk-taking therefore become a problem in terms of stability. The fact that this conforms to media logic and came to be overused in certain situations is not the main point, stated the people we interviewed.

When the financial system is going through a crisis and politicians and private organisations are forced to share the communication arena, there is a certain clash of cultures. Both spheres are working under such different conditions. The banks, with their strict rules on communication, their corporate secrecy and their focus on customers and shareholders, find it difficult to “argue” in public with politicians who are like fish in water as far as the media and “popular” communication on the TV screen are concerned. However, there are good reasons why the banks should learn something from politicians: you can tell good stories and use good metaphors even if you are a bank listed on the stock exchange.

### **3.1.18 COMMUNICATION BY THE PRIVATE ORGANISATIONS AND THE MORTGAGE DEBATE**

We repeat that the banks' perspective in terms of communication when a financial crisis threatens is different from that of the public institutions responsible for stability, particularly in situations like the one that occurred on 15 September 2008 in Sweden. Something unique happened during the three days leading up to 18 September: a collapse of confidence among the banks brought the vital interbank market to a halt, which was followed by fear and doubt creeping in over Sweden's borders. Foreign funding disappeared and on the morning of 18 September important parts of the interbank market seized up.

Despite the fundamental importance for the stability of the financial system, there is no social communication role set out for the banks when the system is under threat. Public communication regarding the stability of the financial system is the responsibility of Finansinspektionen and the Riksbank. They are expected to provide information on system-critical solvency and the liquidity situation at the four large banks which are critical for stability. They assume responsibility for the “story” and assess the situation for all the millions of economic agents that are dependent on the large banks to make their day-to-day finances work. Basically, this is a reflection of the fact that in principle, financial business is forbidden. A permit is required to carry on financial business and such a permit can only be granted under conditions decided on and then monitored by the Riksdag and the state. The reason for this is naturally that banking business is important for society. If the banks don't work, then almost nothing else works in society.

Over the following few months, the four large banks would be the focus of the nation's interest. In the messages and vocabulary of public Sweden, they are often referred to collectively as “the banks”, despite the fact that there are great differences between them in terms of their ability to deal with a crisis and the way in which they deal with it. They are now expected to act and communicate as “citizens of society”, a role for which they are not ascribed particularly good conditions by society itself.

Like other stock market companies, they are trained for a communication environment which is different from the political and social environment. They are, for example, restricted in terms of what, when and how they are able to communicate by stock market rules and the customs surrounding the financial reporting cycle. Thus, for example, they would soon be entering a silent period prior to the imminent quarterly reports in the second half of October. Also, they are characterised to an enormous extent by market competition – which is also preserved and monitored by the authorities – which is not conducive to attitudes among managements and boards of directors enabling them to act together when the financial system is under serious threat.

Whereas the public institutions pump out well crafted and coordinated messages and have full access at any time, for practically any kind of communication, to the media and a general public which is starving and thirsty for news and threatened by a crisis, the bank's external communications will be thin and disjointed by comparison, badly timed, badly adapted to the needs of their target groups, defensive and ultimately less confidence-inspiring. The industry association, *Svenska Bankföreningen* [the Swedish Bankers' Association], was remarkably passive throughout the period as far as its communication was concerned. Some of these problems came up in the debate on the banks' mortgage rates and was largely played out in the media. The rate reductions carried out by the Riksbank during the autumn did not have an immediate impact in the form of lower mortgage rates. Finance Minister Anders Borg attracted a great deal of attention in the media when, during an appearance, he brought out an article on mortgages he had torn out of a newspaper himself and stated that bank customers had good reason to be irritated and encouraged them to “telephone their bank”. A number of newspaper articles stated that the banks had increased their margins on mortgages and that borrowers were therefore being made to pay for the financial crisis. The debate and the reporting of the matter reached its peak in November and the beginning of December when the Riksbank carried out the biggest rate reduction in history on 4 December, lowering the repo rate by a full 1.75 per cent.

The banks obviously found it difficult to communicate with a Finance Minister who was on the offensive in one of the corners of the ring. However, all the responsible communicators at the banks bore witness to the fact that great efforts were being made to inform their customer advisers and branches on mortgages and margins to enable them to answer customers' questions. However, it may be said that the banks had made a great effort to provide information outside the media spotlight, despite the fact that it appeared in the media debate as though the banks had not succeeded in explaining to the general public that the Riksbank's rate reduction would not immediately lead to a drop in rates generally, something that neither the Finance Minister nor the media bothered to clarify.

It was up to Finansinspektionen to explain the position with regard to interest margins and borrowing rates. It is therefore interesting to look at how FI chose to communicate:

In a report dated 13 November, Finansinspektionen stated that “the general public ... has had access to lower interest rates since the stability programme was introduced ... borrowers have benefited and lenders have being penalised.” On 27 November, FI wrote that “the banks lowered borrowing rates to the general public as rates fell in general.”

On 19 November, a kind of an answer appeared when the Authority finally reported that “the banks have lowered mortgage rates by significantly more than the reduction in the repo rate since 13 October when the government presented the Swedish stability package. The rate for short-term mortgages has fallen by over three percentage points, which is over 75 points more than the repo rate, and somewhat more than the corresponding internal bank rate.”

However, FI's "acquittal" of the banks came so late that it failed to affect the media image of higher mortgage margins. On the contrary, it lent support to the interpretation that the banks had "eaten humble pie" as a result of customer outrage sparked off by the country's Finance Minister.

However, the debate on mortgage margins has continued and, in view of the central importance of the issue in the media, there is a tremendous need for some form of regular measurement and authorised interpretation in which Finansinspektionen's reports can certainly be refined and improved, particularly to achieve greater impact.

### 3.1.19 NORDEA

The problems are illustrated by the specific problems that the banks experienced from the first day onwards when the Lehman crash occurred on 15 September. It was practically under torture that Nordea decided to issue information on its exposure with Lehman. "On the one hand we have a policy of not commenting on customers and, on the other, it was an unbelievably complicated job to go through thousands of transactions with Lehman in such a short time. We had 25 people, banking experts and lawyers working like the devil to enable us to produce a press release on the next day, the 16th", relates Nordea's Head of IR, Johan Ekwall. According to Ekwall, no contact was made with the other banks. However, Nordea decided that it was an extraordinary situation and the CEO gave the OK for a press release to be issued on the 16th. The conclusion was that the exposure was insignificant and unimportant. Swedbank's press release on the same day came as a shock. It talked about over one billion in secured and non-secured exposures. Swedbank thus started out on an unhappy journey in the media that did not come to an end until a new CEO took over in March 2009.

Nordea differs from the other large Swedish banks in that it is almost as large as all the others put together and because it is a pan-Nordic bank. In other words, Sweden is only one of its three markets and its exposure in the Baltic States was negligible. This naturally had a great effect on its communication strategies and its practical communication work. "Our communication is more complex because we have a similar set-up in each country and in practice we need to issue press releases and other information in at least five different languages", says Head of Information, Helena Östman. One interesting point is also that the crisis took a different course in the Nordic countries, which contributed to a feeling of "We could take advantage of one another's experiences. Denmark was in front of Sweden and Finland was behind. Our network of press officers in the other Nordic countries helped to achieve proactive communication. Reactions from customers and the media in one country could quickly spread to Nordea in the other countries and our information officers were then able to prepare themselves in time". In this context, she also points out that only in Sweden did the media and the politicians focus mainly on conditions regarding pay.

According to Helena Östman, Nordea chose to implement a careful communication strategy. "There was no crisis in our bank, we did not lose any customers and our results were good throughout the period, which give rise to communication that was consistent over time precisely to avoid the stamp of a crisis. However, it soon became clear that we needed to strengthen our communication with customers. Almost immediately we launched a special news box on the front page of the website to provide information to customers and we also gradually extended the website to include more than just marketing. We worked round the clock on giving simple, clear messages to our customer centre, often as a result of things that had been reported in the media". The challenge from the management as far as communication was concerned was to continue to focus mainly on customers and not to become associated with the problems of confidence suffered by other parties and to retain our AA rating".



She and Johan Ekwall relate how the bank was unprepared for crisis communication. There were no special organisations or guidelines in place. “If one was to be self-critical, there was room for improvement”, says Johan Ekwall. “There were suddenly so many units and people from the group management, Markets, Financial Institutions, Group Credit, lawyers, information and IR and people in different Nordic countries who were supposed to be cooperating on communication issues. Basically, to some extent it was a question of who owned the issue. An informal group was soon put together and this group had a large number of meetings on communication. We mainly addressed our own staff and our customers”.

“However, as a former Head of Information at Finansinspektionen, I had worked on crises with operators in the financial sector and it was naturally an advantage to have had that experience, plus the experience of handling other crises in my previous job”, says Helena Östman.

“Customer information became important, plus the ability to provide calming information at the branches and reassure people that the bank was strong and that there was no danger for depositors”, says Helena Östman. “We also had evidence in black and white that the bank was doing well and that the first half of 2009 was the best ever”.

The bank also established a motif in its message that was used in a flexible way: that Nordea was a strong Nordic bank which focused on its customers' business and which had a widely-diversified business structure and a strong loan portfolio. It allowed people to read “between the lines” that there was no question here of risky foreign investments and exotic financial instruments. “We were very anxious to put across consistent, unequivocal messages from autumn 2007 when sub-prime mortgages first entered the spotlight. We wanted to put over the image of a large, safe bank, a bit on the boring side”, admits Helena Östman.

She thinks that the decision to “lie low” was correct and that this is confirmed by the conclusion drawn by many people that Nordea and Handelsbanken were the banks that best handled the media storm in 2008 and 2009.

Johan Ekwall says: “We chose to adopt the formal quarterly rhythm for our information on the crisis, with only three exceptions. The first was information on our subprime exposure at the end of July/beginning of August 2007, the second was the press release on our exposure to Lehman and the third was the press release on our exposure to Icelandic financial institutions on 7 October.

Nordea's choice of tone and style was not new in itself, but it took on greater importance in the important communication issued by the CEO. He liked to begin his comments with “I am pleased to note that...” followed by a routine catalogue of successes in terms of the income statement and the balance sheet, with explanations in another routine catalogue of strategic priorities and focus on the customer. As the crisis gradually grew, Christian Clausen also added digressions on the magnitude of the financial turbulence and its potential future effects. For any shareholders and bank analysts following Nordea, there were clues in the language. Changes in the choice of words and the emphasis could be translated to mean changes in future prospects and risks in the surrounding environment. The traditional format of this communication engendered a sense of safety and security among the public.

Helena Östman and Johan Ekwall emphasise the importance of openness and transparency. When the media or analysts contacted us, they always received a satisfactory answer as soon as possible. “There was a feeling that we were too optimistic about the Baltic States and credit risks and that we had toned down our view and put the brakes on too late. But because we were always able to issue carefully put-together special reports showing that the amounts concerned were so small and that we had considerably less exposure than other operators, the media stopped

pursuing us on that point”, says Johan Ekwall. Helena Östman adds that: “We chose to be conspicuous in the media and we often explained to journalists, who understood the reasons for it, that certain issues did not concern us and for that reason we did not comment on them”.

Nordea also held special “educational meetings” with Danish journalists in particular to show them figures and explain the situation to them. This openness included a number of extraordinary efforts such as visits to the Baltic States by analysts. “We received a large number of enquiries. People wanted to meet our country managers in Latvia and Lithuania. Our policy was always to refuse”. Nordea also did more to restrict communication to people with specialist skills. The number of people making statements became smaller. Statements were only made by members of the management with specialist skills. “Meetings with the media and investors were often totally defensive. There was detailed information on loans, funding, markets, capital, the Baltic States and practically nothing else”.

Added to that, Nordea was forced to carry out a new issue in any case. Johan Ekwall makes an interesting observation on how market psychology more or less gave rise to a requirement for a reinforcement of capital which in a more normal market situation would probably not have been needed. “We met all capital requirements comfortably. However there was something of a race between the banks with regard to who had the most capital, or perhaps we should say who had the least. The question of confidence had a very high profile in the prevailing threat situation and it could not be overcome by communication.”

It may be said that it is possible to establish the exact hour at which this issue of confidence came to a head for Nordea: “I was with Christian Clausen at a conference with an exclusive group of investors and analysts. The mood was very gloomy. The outlook contained nothing but problems. There were a lot of very negative questions after Christian had given his speech, and then someone asked: When are you going to carry out a new issue? Then all the transaction-driven investment banks and advisers started to tell how one bank after another had replenished their capital and what the new ranking lists for European banks looked like as far as capital adequacy was concerned. And there were questions about the future of our AA rating. That was the straw that broke the camel's back as far as the board of directors were concerned. They said that we should not be anywhere near discussions on whether our capital adequacy was sufficient”.

To sum up, we can state that Nordea was never really in the firing line during that period. Confidence in the bank was never seriously questioned. The management and the communicators successfully managed to convey convincing confidence in the strength and stability of the bank by choosing a strategy that involved a great deal of transparency as far as facts were concerned and an emphasis on competence through an ability to show relevant information on the situation. In principle, they never refused a single request for meetings or information. Use was also made of its legitimacy as a large, safe bank, the largest in the Nordic area. In view of these basic conditions, the tactic of “lying low” also proved to be the correct choice.

### **3.1.20 SEB**

During the urgent phase of the crisis from autumn 2008 to summer 2009, SEB had its good reputation questioned in the media and among the general public. Not to such a great extent as Swedbank and actually not so much with regard to financial stability, but more in connection with issues concerning the management's remuneration in winter 2009.

SEB is the bank that best prepared its public through well-informed communication on the reasons for the crisis, the course of events and the risks. Annika Falkengren was the first bank CEO to predict the subsequent tangible economic crisis in the media. Over the next few months, she was prominent as a clear spokesperson for the bank with a good story concerning the crisis. In

an earlier section on the prelude to the acute stage of the crisis from 15 September, we noted Falkengren's comments in the interim report, the CEO's comments in the annual report and her speech at the annual general meeting. She spotted the seriousness of the crisis at an early stage and developed a didactic account which provided a good basis for the bank in terms of its communication.

This was also part of the bank's deliberate communication management in the changed market situation, states Director of Information Viveka Hirdman-Ryrberg. "We gradually became more transparent with regard to our credit exposure from the middle of 2007 when the sub-prime crisis began to spread around the world. We prepared specific summaries of our exposures in countries and industries and for different types of assets. We changed the emphasis of our external communication in order to provide a better response to questions arising from our analysis of the crisis and to strengthen confidence that we were monitoring the situation".

The bank quickly issued information on its Lehman exposure on 15 September, though the relatively large total debt of EUR 64 million lacked the level of detail of Handelsbanken's information on the same day. There was no explanation or evaluation of the risks associated with that amount. The press release was also written using expert vocabulary which was understood by and was therefore primarily aimed at market operators. The bank described the situation with greater clarity in the press release of 7 October on its Icelandic exposures, naming individual institutions in Iceland and in other Nordic countries.

Over the next few months, interest was focused on the bank's solvency, credit exposure and commitment in the Baltic States. SEB was regularly named in the media as being vulnerable, but not in the same sceptical tone as Swedbank. One may think that this would encourage them to issue a reply in their defence, but SEB chose to communicate defensively according to reporting procedures associated with quarterly reports. When the rumours of a new issue picked up speed at the end of January/beginning of February 2009, the bank was forced to issue a short press release confirming that a new issue was planned and also later when the pay debacle was generating negative headlines.

The background to the new issue was the same as for Nordea – rapidly increasing requirements for solidity in the surrounding environment triggered off a "competition" among the banks with regard to capital adequacy that in a normal market situation would probably not have occurred. The SEB Chair communicated the issue as a buffer and a safety measure in an uncertain business climate.

SEB was relatively well prepared for the Lehman crash on 15 September. "At that moment we went over to crisis communication as we had practised. A flexible number of people made up a special crisis group that met at least twice a day. Meetings could involve between two and 20 people, depending on the problem. This group applied hands-on management of all issues relating to the crisis and communication was always on the agenda. A red "crisis team" was appointed for risk and capital management, while the "green team" – most of the staff – concentrated on the customers.

As with the other banks, priority was given to communication with the bank's own staff and thereby the branches as the main channel to the customers regarding the bank's situation. A lot of work was done on providing staff with material and information on how to answer questions from worried customers. The website for the customers and the bank's own web site were partly restructured and supplied with content consisting of facts, assessments of the situation and questions and answers. "We coordinated the descriptions of the situation and the assessments so that the entire bank put over the same message", relates Viveka Hirdman-Ryrberg.

One problem they experienced was the potential discrepancy between what the bank's experts, such as the Chief Economist Robert Bergqvist, who had a didactic approach and was popular in the media, said as macro-commentators and what the bank said as an operator and a listed company, with all the attendant restrictions. This was no small problem, at least in media relations, since the commentators were often asked direct questions on the banks' situations and risks. In one situation, for example, the Swedbank Chief Economist was asked directly whether Swedbank could go under. His answer was "No". The problem was solved as far as SEB was concerned when the economic experts learned to deal with such questions and at the same time maintain their credibility and their usefulness as commentators in the media. "The most important thing", says Viveka Hirdman-Ryrberg, "was that we made it clear to the market and to the media that decisive communication for the bank's confidence as a listed company took place through the regular investor relations channels".

The person responsible for that was Head of IR Ulf Grunnesjö, who states that, to sum up, SEB actually only had a single communication problem associated with the crisis in Sweden in autumn 2008. That was the Baltic States. The damage to confidence in the bank in connection with the pay issues during the winter and spring of 2009 had nothing to do with the crisis, but naturally became linked to it through the media exposure.

He tells the story as follows: "When we got a new CEO in 2005, we gradually slowed down our activities in the Baltic States and deliberately lost market share. The Governor of the Latvian central bank called the CEO and asked why SEB did not wish to support the country's growth. Our brand was slightly at stake in the Baltic States. However, we had changed our assessments and had a much gloomier view of the region's future. We downgraded our assessment from 40 per cent annual growth to 20 per cent. Now in retrospect it is easy to say that we should have been clearer in our communication on the deterioration in the outlook, but it is very difficult to decide how this should be phrased in communication. However we communicated to the market that we were fast losing market share, from 25 to 15 per cent in Latvia and from 27 per cent to 17 per cent in Estonia. We also began to talk about overheating at an early stage and we emphasised information on how we were dealing with problem loans in special detailed sections of our quarterly reports. These were followed up with reviews at our press conferences at the time of the quarterly presentations. However, we did not get any particular credit for our prudence".

From September 2008 onwards, SEB "tightened up" its investor relations communication which was critical for confidence by refining and clarifying the message and clarifying and restricting the task of acting as spokesman to a smaller number of people in order to improve coordination and concentrate the message.

"Our communication strategy was basically simple: We have a good, stable bank. There are no large black holes here; everything is solid and we are comfortably over the margins required in all capital adequacy rules. Priority 1 is to attend to our customers and communicate so that they feel secure. We also touched on our ownership, which consisted of loyal, knowledgeable, committed owners in a strong position in terms of capital".

As far as we have been able to ascertain, SEB was alone in transmitting this message and it bears witness to its belief in the importance of the legitimacy of its owners as far as confidence is concerned.

Ulf Grunnesjö also emphasised a deliberate attitude, which may be interpreted as an expression of the bank's social responsibility and responsibility for the stability of the financial system and which echoed the CEO's analyses of the situation in the observations and the CEO's comments. "We decided at an early stage not to behave in such a way as to worsen other banks' problems. We

said that we would not do anything that could create further unrest and disrupt other banks and that our statements would be supportive of the banking system as a whole”.

One fly in the ointment for the market's confidence in the bank's communication was the rumour which was followed by a leak concerning a planned new issue that SEB was obliged to confirm by means of a press release on the third of February.

It was the same day as the government announced the programme “to strengthen the banks' own funds and thereby increase lending”, according to the reasons given in the press release. That press release also referred to the condition of a “two-year suspension of increases in salaries and fees and a block on bonuses... at the institutions receiving a capital contribution”.

Two days later, on 5 February, SEB issued its press release (of unaudited annual earnings figures, etc.). This announced an issue of 15 billion with a suspension of dividends and a new long-term objective for the Tier-1 capital ratio of 10 per cent. CEO Annika Falkengren also welcomed the government's work to strengthen the position of the banking system and said that “it was extremely likely that SEB would take part in the revised state stability programme”. The news was not exactly unexpected and the reactions were less extreme than when Swedbank's new issue was announced on 27 October.

Ulf Grunnesjö considers that the communication was handled well. Shareholders, analysts and the market understood our dilemma in the Baltic States and they considered that the situation had been handled well and was under control. However, the media mainly wanted to see the risks and they emphasised that.

SEB fared badly in the media. On this point, Ulf Grunnesjö was somewhat more eloquent than several other people we interviewed: “There were too many uninformed articles on the banks. At the end of September and the beginning of October there was a very alarmist mood in the media. We were proactive, we rang journalists up and tried to provide them with accurate, balanced information, but we got no response. I understand that there was an enormous hunger for information in society and that the media have to write about something. But it also made journalists write about rumours and in some cases speculative articles with headlines that generated an even more alarmist mood and that made you want to tear your hair out.”

Ulf Grunnesjö clearly understands that an information vacuum in a crisis situation can easily feed such speculation. “Information spreads so incredibly quickly nowadays and “radio silence” was not an option. One small rumour in one part of the world can be spread electronically as fast as lightning to become a big problem in another part of the world. In the world of the media, even rumours can be a kind of truth and if the media write about a crisis enough times then there will be a crisis. The media have power over the agenda. We imported a crisis from abroad and, through their actions, the media helped to increase the threat”.

He and Viveka Hirdman-Ryrberg also have views on how politicians took advantage of certain situations. Viveka Hirdman-Ryrberg states that the banks were thrust into the political arena when the support programme was launched. “The politicians have a command over the communication arena that we can never match and rhetoric that we cannot equal. We responded with comments and descriptions on mortgage rates on our website. Our CEO Annika Falkengren also appeared on the “Agenda” programme on SVT to comment on the financial crisis and discuss mortgage rates. But what can you say when Anders Borg appears on TV waving a press cutting showing a table of interest rates and encouraging people to call their bank?”

Ulf Grunnesjö: “The government never sought the banks' views on the guarantee programme when it launched it in October. Many of us felt that we would be stigmatised if we used it (which SEB never did, our note). The politicians also communicated in such a way that there was never

any feeling of “We are in this together” to strength the stability of the financial system. The attitude in the message was “We, the politicians, are helping you, the banks, to escape from a situation that you yourselves have created”. At SEB we knew that we could successfully cover our financing, which was also clearly shown by Finansinspektionen's and the Riksbank's stress tests. Our solvency was not endangered. We had not managed the bank badly. On the contrary, we had obtained extremely good results for a long time and had strengthened our financial position. However, instead of calming the market, we felt that certain politicians were stirring up the crisis and creating tension between ourselves and the public through their actions.” However, he has only praise for the Riksbank, which appeared objective and balanced in its communication and constantly created facilities for the banks to resolve the liquidity crisis.

These opinions cast some light on why SEB's communication with regard to collaboration with the guarantee programme and the pay issue did not inspire confidence. Annika Falkengren's pay had occasionally been scrutinised in the media during the autumn and winter, along with that of other bank CEOs, and she stood out as the best paid.

In a press release on 13 March, SEB was forced to make an ignominious public retreat from a negotiation position in discussions on participation in the guarantee programme, as reported above. CEO Annika Falkengren was forced to make a public apology which was extremely unusual in its content and choice of words and its unreserved appeal for continued confidence despite serious faults in management: “I realise the great damage that the discussion on the bank management's salaries in the past few days has inflicted on confidence in SEB and in me. As a bank, the confidence of the surrounding world is of decisive importance for us, just as it is important for society that SEB should be a stable, trustworthy operator. Words cannot express how sorry I am for this error. We in the SEB management will do our utmost to restore confidence...”

Even though such a startling choice of words testifies to wrong decisions, we believe that this type of communication inspires respect in the long run. It shows a deep understanding of the prerequisites for generating confidence. We also consider that this largely characterised SEB's way of handling the problem in terms of its communication during the period. Despite being restricted by stock market and other rules, it successfully managed concerns over the risks in the Baltic States in such a way that they did not undermine confidence in the same way as for Swedbank. In this context we believe that SEB's good investor relations information played an important role in keeping the analysts on-side, which meant that this important communication group did not spark off any rumours to stir up the media even more.

It is actually possible to question whether the pay issue was a communication problem. Our speculative interpretation is that the sector had a deep ideological attitude to the issue of variable remuneration that ran completely counter to the government's position which, one might dare say, was extremely inopportune with opinion being the way it was, particularly in the media. The question is whether any decision that did not clearly coincide with the government's line on the issue could have been communicated without generating indignant headlines. Anyway, the SEB board of directors made a decision that had no chance of being communicated in a way that would gain a positive response. When this had become obvious, they ate humble pie and apologised, which we think was courageous of them.

SEB is a bank with a high communication profile and a large, skilful communication staff. The bank's communication shows its understanding of the ingredients for confidence. They deliberately made use of legitimacy when they marketed the owners and their support for the issue. Their communication was imbued with great banking competence and contained the best

“narrative” and insight into the development of the international financial crisis and its consequences. They took pains to achieve a high level of transparency, with good material and continuous dialogue with the media and other parties watching the bank. Despite this, they ultimately suffered real damage in terms of confidence with regard to one factor, integrity, when an unfortunate decision on the CEO's pay was perceived as a trick to mislead opinion.

### 3.1.21 SWEDBANK

Swedbank was the big loser in the Swedish financial system during the crisis period and, strictly speaking, the only large Swedish bank that can be said to have been in crisis. The bank lost confidence and its brand was damaged. It was forced to carry out two new issues and change both its CEO and the Chairman of its Board of Directors in the midst of extremely negative publicity. Several operators' analyses now more or less agree that bad communication contributed to the crisis. “There was such a big difference between Swedbank's reality and the media's reality that confidence was shattered. The gap could have been bridged with better communication by the management”, as one of the people responsible for communication put it. In this section on Swedbank, the people responsible for communication that we interviewed requested anonymity when it came to direct quotes.

However, such serious consequences are not very easy to explain. It is obvious that there was a series of problems of varying magnitude, from the bank's strategy and how it was implemented, to the management's competence, their personalities and the prioritisation of communication and the role of the communication department in the bank. Closer examination of Swedbank's crisis communication during the acute stage provides several examples for analysis.

The people we interviewed stated that the management and the CEO, Jan Lidén, were largely responsible. He has been with the bank for a long time and has worked his way up via the most important positions in the bank. He is described as a supremely gifted salesman who is aggressive and enormously knowledgeable about the bank, but who is also self-reliant, prone to recruit on the basis of friendship and not particularly interested in external communication. The bank is described as managed from the top. Carl Eric Stålberg is a working Chairman in the literal sense of the term and is close to his CEO. “It was a matter of having the boss's ear”, is a common observation. The Risk Manager did not present risk reports to the board of directors; that was done by the CEO himself.

“The CEO had a view of analysts, for example, that did not provide any opportunities for cultivating their knowledge to any great extent. He chose not to give them any time and he was penalised for that later during the crisis”, states one interviewee. It was also generally stated in the communication department that the management were not interested in the media, that they had a poor opinion of journalists and that they had little confidence in their own information organisation.

This was apparent from the start of Swedbank's journey through the crisis. The bank had no crisis organisation or crisis communication to fall back on. A feeling that the crisis was about to overwhelm the bank gradually grew. “Our management was to some extent in denial about our problems and this became well established in September. This was despite the fact that the chiefs of staff had already held meetings in summer 2008 when questions began to arise, from analysts and authorities among others, with regard to our borrowing, which was more expensive than that of other Swedish banks. This primarily concerned Treasury and the Head of IR”.

“On the communication side we did not receive any satisfactory information on the borrowing situation. I had a feeling that we would be conveying the impression that there was no problem. For that reason, we also found it difficult to translate this into preparations for external communication if that should become an issue and still less give the management advice on how to formulate its responses and what messages would be suitable. Today I feel that the management had no confidence in the communicators' role”, says another interviewee.

When the Lehman crash occurred on 15 September, Jan Lidén was on a plane from America. The information management at Swedbank received a telephone call from the SEB Head of Communication, Odd Eiken, that they would be issuing details of their exposure to Lehman. Finansinspektionen also called and urged Swedbank to issue information. The information department itself had no knowledge at all of the exposure or how large it was.

There was then frantic activity to survey the size of the exposure and when the CEO landed at 10 pm a decision was made to issue information before the stock exchange opened on 16 September.

“The size of the exposure and the fact that we issued information after SEB and Handelsbanken sparked off a reaction against Swedbank that soon came to be about other issues”.

At this point the management made an unfortunate decision, supported by advice from the then PR consultant who had worked most with the Board of Directors and the management and who had few contacts with the bank's own information organisation, namely to “keep quiet for a while and let it all blow over”. This decision is inexplicable in retrospect and is against all established knowledge on the danger of remaining silent when a crisis is blowing up. Confidence in Swedbank was under pressure in the media with a torrent of questions concerning the bank's loan positions, speculation about its capital strength and concern on the part of savers over the safety of their funds.

The Swedbank management remained silent for approximately one week despite the fact that its own information department argued that the management must issue a response in the media. “The management said that we had our message and that is what we should transmit. All media questions would go via the press department and we should respond by e-mail. We could answer some questions directly on the phone, but many of them required background information, more details or a direct quote from the management and so we asked for those questions to be sent by e-mail. This was naturally extremely unusual and unacceptable as far as journalists were concerned”.

“I thought it was extremely unprofessional to act in that way. However, there were important questions at management level and in those cases the press department can't just issue the answers themselves. Handling the media in that way was hard work and tremendously frustrating. Silence made things worse. It was noticed and it gave rise to more questions”.

Another problem was that the organisation began to leak. “More and more people started to speak out anonymously with negative comments, probably as a consequence of the fact that various people wanted to distance themselves from the management and the problems that people felt were associated with them”, stated one interviewee. “These problems can easily arise when the management says nothing and there is no real leading spokesperson.”

This silent week had a huge effect on confidence in the bank, which had already been eroded. Writings in the media gave the impression that things were being covered up at Swedbank and the customers began to wonder why things were being covered up at the “people's bank”. The story as told by the communication department illustrates this: “We worked hard to improve internal communication so that our branches could provide proper responses to increasing numbers of questions from worried customers. We used internal TV and the intranet to convey questions to



the management and answers to the staff and the branches. However, we quickly got signals from the branches that this was not enough. Doubt as to the bank's stability was an important issue as far as the customers were concerned. In the communication department and in the branches we felt that the customers actually didn't believe us."

The communication department began to work on changes in which we tightened up communication and messages in internal channels so that all important publications concerning the crisis and customer concern could be planned and collected together in a single place – questions and answers, press releases, statements, news articles and media summaries. The heading was "Collected information on financial unrest".

After another week with even more rumours, a panel of branch staff in different parts of the country was set up and the communication department was able to speak to this panel to obtain information on customers' concerns and questions. It was a way for us in communication to "draw attention to the fact that the customer's view of reality was considerably more worrying than the management's, according to our understanding". This was an initiative that fully conformed to how a good communication department should work to support its management. And the very fact that, in a sense, the communication department had one foot in each camp was one reason why the communicators did not have the full confidence of the management, state some of our sources. This "channel for customer reality" also provided backbone and stability in communication work, which at times was extremely disorganised, with people at all possible levels of the organisation sending mail backwards and forwards saying "We have to do something now". In customers' minds there were now actually only two questions: "Could Swedbank go bankrupt?" and "Dare I keep my money in the bank?". That was one reason why communication work gradually became concentrated on the important, urgent questions.

#### How serious was it about to become?

As previously stated, there was real concern among the institutions responsible for stability that the Swedbank situation might trigger a run on the banks. The National Debt Office saw the situation as a "virtual run", with large withdrawals, some of which were then deposited in Riksgäldspar. Withdrawals from Swedbank increased from 20 September until the reinforcement of the depositor guarantee on 6 October and amounted to almost SEK 30 billion. The bank's liquidity situation also began to cause concern and some foreign banks reduced their commitments. In other words, it was like a mini-run that took place partly on the Internet. However, things calmed down considerably after the announcement of the reinforced depositor guarantee on 6 October. The management could also point out in the annual accounts a little bit later that deposits had even increased over the full year. One of the communicators commented that: "When a bank has lost legitimacy and confidence, it must receive help from the authorities and the public sector, otherwise all room for manoeuvre is quickly lost."

"We heard from the branches that customers were withdrawing their money at an increasing rate, but we would still keep to the message that we were seeing normal levels of withdrawals. We also discussed this at internal meetings and argued that this information must get out sooner or later. Then the message became that we were seeing a certain increase in withdrawals. Internally, many people understood that this information was not accurate. Managers appeared on internal TV and said that we were not seeing any abnormal outflow, while those watching the programme were saying "What's he talking about? There are withdrawals happening every day!"

The Swedbank communication staff are fairly clear in their analysis. "It was a strategic mistake to clam up in the first week of the crisis. Had we been more open from the beginning and had we

been proactive in communication from 16 September onwards with the CEO to the fore, I think we would have had a good chance of damping down the rumours. Instead, there was silence when calming messages were what was most required. We tried to take proactive initiatives such as inviting the press in, but there was disagreement about this and nothing came of it”.

However, with regard to the question of how the issue of outflows should have been handled, there is really no correct answer, they state. We share this opinion and it is also supported by both Stefan Ingves' and Bo Lundgren's earlier thoughts on the limits of transparency in a crisis. “There was an enormous risk that if we admitted an increasing outflow and the beginning of a run that it could trigger even greater withdrawals”. That is an extremely reasonable speculation which has parallels with what occurred on the liquidity side in interbank trade. A run is due to people's fear of being the last to reach the exit.

During this period of increasing mistrust of Swedbank, a number of events also occurred in the market that put the bank under even more pressure. A local branch of Handelsbanken announced “switch your bank days” and opened on Saturdays. A fairly ridiculous TV feature showed a handful of customers outside a Swedbank branch waiting for the doors to open one morning and someone asks whether people are worried about their money. There were statements from other banks that could be interpreted as them attempting to profit from Swedbank's dilemma. The Riksbank was quick to act in the case of these tendencies among competitors towards disloyalty “to the stability of the Swedish financial system”. Head of Communication Pernilla Meyersson took the initiative and called a meeting with the banks' communicators to underline the need for fast, open communication that avoided statements of this kind which could damage public confidence in the Swedish banking sector.

Swedbank's communicators were therefore tied down during a critical period as far as external communication was concerned and they therefore prioritised internal communication. They made use of their various web channels to a greater extent than their banking colleagues, which helped to maintain what was under the circumstances a high standard of internal communication for an information department that did not receive any additional resources, despite a greatly increased workload.

The web channel became particularly important for issuing information to branches that were under stress from customer concern. After the initial confusion, the special “crisis site” on the Internet came to be used to summarise and coordinate what was actually said and what was occurring in and outside the bank. It was controlled by the communication staff. The bank's home page on Swedbank.se was more or less completely devoted to crisis communication and also included a web TV feature showing the CEO explaining the situation. This page was normally dominated by marketing messages, but these were removed as far as possible. “Instead, we concentrated on a crisis-related message about safety and stability”, says a spokesperson.

In the second half of October, the structure and impact of Swedbank's communications began to improve, the CEO and the Chairman of the Board of Directors appeared in interviews and were more visible in the media. However, the damage had already been done and the two of them were forced to endure some extremely hard, negative coverage. Speculation began on whether the management's time had come. At that time, the future Director of Communication, Thomas Backteman, was engaged as a consultant and was forced to hit the ground running with the third quarterly report and the new issue that had caused such speculation in the media. The issue of confidence began to stabilise as far as Swedbank was concerned when Folksam became a new large owner.

The tone of the bank's external communication changed – it became gloomier, it described the crisis. The message had more safety content. The new issue was justified by stating that the bank

was currently in a sound financial position, but because the capital markets were so volatile and the economic outlook was so uncertain, the management wished to strengthen its financial position. On the fourth of November, Swedbank was the first bank to apply to take part in the government's guarantee programme. On the following day there was an announcement that a new CEO, Michael Wolf, had been appointed. It could therefore be said that the acute stage of the bank's crisis of confidence and crisis of communication was over.

Swedbank's management, CEO and Chairman of the Board of Directors stated in clear terms in the annual accounts that the bank's problems could partly be blamed on the media. Jan Lidén wrote as follows in the 2008 annual accounts: "As the bank with the most customers in Sweden, Swedbank was the centre of intense media attention. In a sense, the bank came to symbolise the general crisis of confidence which formed the backdrop to the continued financial crisis in Sweden". The Chairman's comments were also on the same theme: "Swedbank in particular was in the spotlight because it was the leading bank in its home markets. The intensive media exposure during the autumn gave rise to mistrust of the bank and concern on the part of our customers".

Essentially, that was not an inaccurate description. The media were the bank's great problem in terms of communication. The causal connection with this negative attention would require more detailed analysis. However, statements that the crisis was due to the fact that "Swedbank was the bank with the most customers", or "Swedbank was the leading bank on its home markets" appear to be a denial of the fact that Swedbank was also the bank that had the most problems and that there had been no communication or transparency to solve those problems prior to the crisis. The lack of transparency and integrity were therefore factors that contributed to greater mistrust.

We also wish to emphasise legitimacy as an element of confidence, without carrying out any direct analysis. Several of our sources talked about the fact that the customers did not really recognise their old safe savings bank. There was therefore a store of legitimacy in Swedbank's roots in the savings bank business and the agriculturalist business, "the little people" who had close relationships with their branches. The image of Swedbank as the bank which is "closest to the soil" with strong local roots does not really go with its new image of growth in promising countries in the Baltic States and Ukraine and Russia. It may be concluded that the management communicated growth and expansion and too little legitimacy in the old values among the most important target groups.

However, we also wish to take the management's description of the media's role in the bank's problems seriously. It undeniably puts the spotlight on the media's actions in a crisis situation, which we touched upon previously. Media research teaches us that the media influence perception and interpretation frameworks not only as monitors but also as protagonists in some courses of events. Crises are typical situations in which the media's power over people's perceptions of what is happening increases dramatically. One overall lesson from the period we are researching is that there must be significantly more discussion of the media's actions in the crisis situation. It cannot be denied that the media made life difficult for the management. However, the problem is perhaps that the media should have made life difficult for the management a lot earlier than it did.

### **3.1.22 HANDELSBANKEN**

Handelsbanken chose to adopt a low profile and to limit its own communication throughout the financial crisis. No special crisis group was set up and communication was reactive rather than proactive. The bank acted as though it were only affected by the financial crisis indirectly. That

was also the image that had been projected in the media in connection with the presentation of the quarterly report for the third quarter of 2008. Dagens Industri chose the headline “We are not affected” after CEO Pär Boman's appearance at a press conference. Boman commented on the liquidity situation saying that the bank could release SEK 250 billion within 24 hours.

The tone of Handelsbanken's quarterly reports was fairly quiet; they contained few value judgements and they were presented in an almost fiscal tone. The figures spoke for themselves.

In terms of communication, the fact that Handelsbanken had not participated in any state support measures or received any state support in connection with the previous financial crisis in 1990-91 was a strong card. Even though the bank declared at an early stage that it shared the Government's and the authorities' view of the financial crisis and that it supported the various measures, it did not intend to accept support that it did not need this time either. The bank chose neither to take part in the government's guarantee programme nor to make use of the facilities that the Riksbank made available to the market.

The bank was also the only one of the four large banks not to give notice of any new issue during the financial crisis. Handelsbanken largely avoided speculation in the media concerning loan losses, liquidity problems, shortage of capital and rumours of issues.

However, Handelsbanken's situation and communication led to friction between Handelsbanken and the other banks and also with the authorities concerned. Handelsbanken became irritated when, in their communication, the authorities referred to “the four large banks” as a unit and failed to distinguish Handelsbanken's relatively stronger position with regard to such aspects as feared loan losses and liquidity situation. As stated earlier in this report, on 19 September 2008 the bank issued a special press release in which it indirectly disputed Finansinspektionen's report on the stability situation at “the four large Swedish banks”. Handelsbanken had been asked questions by investors on its situation and was therefore careful to point out that it had negligible lending in the Baltic States and that it alone accounted for almost a third of the capital buffer that the four large banks together were said to have.

The other banks and also Finansinspektionen and the Riksbank were at times clearly irritated by the fact that Handelsbanken was seen to take advantage of the precarious situation by unashamedly attempted to attract new customers to the bank. As stated earlier in this report, there was a squabble with Finansinspektionen in connection with the crisis relating to Kaupthing Bank, which Handelsbanken was seen to exploit in its own interest. The background was the feared difficulties for savers in withdrawing funds invested in the Kaupthing Edge high interest account, when Handelsbanken offered to grant temporary interest-free loans, an offer that it was later forced to withdraw.

The Riksbank was also on the lookout for tendencies towards what they felt was disloyalty among the banks to the financial system as a whole and, as described above, it took the initiative of calling a meeting with the people responsible for communication at all the banks. Handelsbanken also took part in this meeting.

However, there was marked caution on the part of Handelsbanken, which “sat on the fence” as far as cooperation with its main competitors was concerned. Handelsbanken stated that communal action could be seen as restricting competition and fuelling discussions concerning oligopolies.

In view of this, there was a delicate balance for both Handelsbanken and the other banks between standing up for free competition between the banks and endeavouring to maintain a payment system in which they all simultaneously depended on one another.

Handelsbanken obtained a large, spontaneous stream of customers, particularly in the wake of the intensive reporting in the media in autumn 2008. The bank deliberately kept a low profile and

avoided taking advantage of its relatively strong position, including with regard to awards such as “Bank of the Year” from the Privata Affärer newspaper in 2009, which under other circumstances would probably have been used more in its marketing.

In terms of communication, the most difficult question for Handelsbanken was the debate on mortgage margins and the statements in the media that the banks “profited” from their customers. In that context, Handelsbanken was in the same situation as the other Swedish banks and it was forced to refute estimates of the progress of its margins published in the media.

(As reported above, Handelsbanken chose not to cooperate with this study and the above conclusions are therefore based on information obtained without Handelsbanken's active cooperation.)