ING's Michel Tilmant sees opportunity everywhere–from U.S. boomers to Japanese savers.

CEO Interview

Orange You Glad For Online Banking?

Michel Tilmant, ING Group

It's hard to miss the ubiquitous orange advertisements of Amsterdam-based ING Group. Harder to spot–bank branches. There are none. ING Group, with $819 billion in assets, has quickly become the No. 1 online bank, with $270 billion in Web-based accounts. Michel Tilmant, 55, the cigar-chomping boss of this nontraditional financial institution, earned his banker's stripes as the quintessential fix-it man—and now he's looking to "fix" the way we bank. The Belgium-born banker is known for his ability to correct ailing balance sheets and boost sagging morale. He tackled those issues at Banque Bruxelles Lambert, which was acquired by ING in 1997. It wasn't long before he was needed to do the same for ING itself, which was then a patchwork of too many money-losing businesses. "Tilmant has always had the guts to take losses when necessary and avoid short-term solutions," says Cor Kluis, an analyst with Rabo Securities, an investment firm in Amsterdam.

Tilmant wasn't born a mover and shaker. The son of a wealthy beer brewer, he was plagued with illness as a child. Tilmant credits his current determination to his childhood hardship. "I learned to be a fighter," he says. The Belgium of his youth suffered from economic malaise, with rampant unemployment and closing coal mines, prompting Tilmant to leave for the U.S. "In a different environment, you can reconstruct yourself," he says. In 1977 he joined the J.P. Morgan training program and worked for the bank in New York, then France and Luxembourg.

Likewise, Tilmant wasn't afraid to make some bold changes when he took the helm at ING—though many of those changes wrought substantial condemnation. Tilmant drew the ire of the European business community by immediately breaking with tradition and mercilessly slashing unprofitable businesses while dramatically raising executive pay. He sold nine of ING's 15 businesses for $2.3 billion and aligned the bank's relatively modest executive compensation with American norms. (The ING board increased Tilmant's own pay to $5 million, generating more criticism in Europe, even though that puts him at the low end of American CEO pay.) Investors, however, rewarded

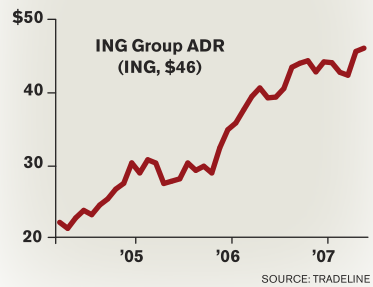
Photograph by Marco Hillen/Getty Images

his choices: Since he was appointed CEO in April 2004, ING's American Depositary Receipts have more than doubled, to $46. Now, though, Tilmant faces a new set of challenges, all of which have put pressure on the stock. For starters, there's today's difficult interest-rate environment, in which long-term interest rates are near or lower than short-term rates—a bad situation for banks that pay customers those higher short-term rates while the banks' own investments languish in lower-yielding, long-term fixed-income accounts. Also, an $84 billion planned merger between ABN AMRO and Barclays has riled investors who fear that ING will be pressured to make its own acquisition.

Senior writer **Dyan Machan** met with Tilmant in ING's outrageous, all-glass, boot-shaped Amsterdam headquarters to discuss interest rates, Formula 1 racing and Tilmant's backdoor plan to take on the Asian market.

BANK ON THIS

Tilmant's growth strategy? Online banking, aging boomers and, of course, China.



Your building looks like a gigantic boot. Where do you want to do some walking?

We want to revisit Holland's early tradition as a global trader, riding on three fundamental trends: the aging of the world's population, a shift in distributing bank services over the Internet, and following the new wealth being created in Asia.

We're in a very difficult interest-rate environment, yet you were able to post a 24.3 percent profit increase in 2006. How?

We do not cherish an inverted yield curve, but it cannot stay that way forever because economies cannot finance themselves. While we cannot control interest rates, we can control costs. That has been my motto. Also, ING benefits from a natural offset in interest-rate risk between banking and insurance. In other words, while ING is paying out higher rates on its deposits, it's also able to receive those same higher rates on the cash it brings in from insurance premiums. So while the one hurts, the other helps. They balance each other out.

We plan to be the biggest and the best. The beauty of ING Direct is the cost: We have a big competitive advantage since we don't have to subsidize branches.

ING Direct has the largest share of online banking. Where do you go from here?

We plan to be the biggest and the best. Internet-based accounts [now 0.8 percent of deposits in the U.S.] could make up 5 percent to 10 percent [of all U.S. deposits], though we can't predict when that will happen. The beauty of ING Direct is the cost: We have a big competitive advantage since we don't have to subsidize branches. Internet deposits cost no more than 0.4 percent of assets to maintain, versus 2 percent to 2.5 percent to provide out of a branch. We can split that profit with the customer.

In the U.K., people pulled their accounts after the Bank of England raised interest rates, and you didn't follow by raising rates you paid to depositors. Perhaps the $270 billion under ING Direct is not so sticky?

Our main customer, someone with $15,000 in savings, is sticky. We lost only at the very top end—and it was not a meaningful amount. If we had raised rates any higher [they are now 4.75 percent], we would have lost money. As for competitors, we think they have increased the market for us. Most of them enter and fade away very quickly. Few can match our rates and service without hidden costs.

You've also been chasing American baby boomers into retirement, with your retirement plan management up 21.7 percent in the fourth quarter of 2006. Good strategy, but you're hardly the first bank to see dollar signs there.

We aren't trying to be Fidelity in the large-company market. We are focusing on schoolteachers and government-employee pension plans—offering account servicing and asset management. Our other customers are small to medium-size businesses and the fastest growing.

So that's how you're capitalizing on the U.S.'s biggest market. What's your strategy for Asia's biggest opportunity–extremely high personal-savings rates?

It's difficult to enter the crowded banking market in Asia. So we took a different route. We started offering life insurance 15 years ago, when it was a whole green field. Now the traditional role of life insurance is changing, and we are selling insurance that has features of savings accounts. Last year premium revenue grew at 35 percent.

You chose to spend 5 percent, or $61 million, of your marketing budget to sponsor Renault in Formula 1 racing. What was your goal besides good seats?

I doubt I'll have time to attend the races. We thought the race was the fastest way to build a global brand quickly. We may get as many as 45 million people seeing our ads every two weeks—across every social category. The only place it doesn't have reach is the U.S.

One last question. Your favorite color?

Orange, of course.