Scandinavian insurance crisis fueled by 'Reaganomics'

by Poul Rasmussen

Over the last two years, a storm of devastating financial crises has swept through the Scandinavian countries of Norway, Sweden, and Finland. Bankruptcies have hit banks, real estate companies, brokerage institutions, and insurance companies. Billions of the taxpayers' Norwegian and Swedish kroner and Finnish marks have been pumped in by government interventions to save the institutions. In just one year, the Norwegian government has spent more than 17 billion kroner ($2.5 billion) to keep the Norwegian banking system afloat.

But one country seemed completely immune to the Scandinavian disease—Denmark. The fairy tale country of Hans Christian Andersen seemed to live in a world totally of its own. While banks collapsed and financial panic spread like wildfire on the Swedish side of the narrow sound separating the two countries, Denmark maintained an almost unreal economic atmosphere of tranquility and calm. For two years, Denmark has had the lowest inflation rate in the world, presently 2.25% per annum. Also, Denmark is probably the only country in the western world with a sizable trade surplus vis-à-vis both Germany and Japan. Danish export of sides of pork and bacon to Japan comfortably exceeds the import of Toyota and Honda cars. On top of this, German reunification has almost tripled the export of Danish industrial products to Germany.

Therefore, month after month, the tiny country of Denmark has presented a balance of payments surplus in the neigborhood of $1-2 billion. Only a few years ago, Denmark had the dubious honor of having the largest debt per capita in the world. Now, to the delight of the international banks, the country is the fastest debt-repayer in the world—at the expense of 300,000 Danes unemployed, which is 10% of the work force.

Growing bank crisis

During the second week of August, the Danish banks presented their earnings from the first half of 1992. And what a miserable sight. Denmark was definitely showing the first symptoms of the Scandinavian disease. Only three of the 10 largest banks could show profits, the rest presented losses anywhere from 10 million to 1 billion Danish kroner. Even the three banks that stayed out of the red ink had nothing to cheer about. They only posted earnings in the double-digit million range. And for one of them, the largest bank in Denmark, Den Danske Bank, the worst was still to come.

When Den Danske Bank presented its profit of a few million kroner, it looked good compared to the 1 billion kroner loss of the second largest Danish bank, Unibank. But a few days later the picture looked quite different.

On Aug. 19, Holger Lavesen, the chairman of the board of Hafnia, the second largest Danish insurance company, announced that Hafnia Holding, the mother company of Hafnia Insurance, could no longer meet its obligations on its 6 billion kroner ($1.2 billion) debt and declared a stop on all payments. Therefore, in order to continue the daily operations of the insurance company, a new holding corporation, called Hafnia Holding of 1992, was established. All assets of the old Hafnia Holding were transferred to Hafnia Holding of 1992, while all the liabilities were left in the old holding corporation. Therefore, Hafnia Holding of 1992 now controlled assets worth 5.9 billion kroner.

This was very bad news for Den Danske Bank. Only seven weeks earlier, Den Danske Bank had injected 1.2 billion kroner into the ailing Hafnia Holding. This money was now gone forever.

The Hafnia bankruptcy sent shockwaves throughout the financial markets of Europe. When the news hit Frankfurt, the DAX index of the Frankfurt stock market fell 12 points or almost 1%, while the stocks of the German Commerzbank, one of the international financial backers of Hafnia, fell nearly 7% that day.

The Scandinavian insurance war

On the surface, the Hafnia collapse simply drew Denmark into the Scandinavian financial crisis. But there is more to it than that. The downfall of Hafnia began in the spring of 1989, when the then-corporate director of Hafnia, Per Villum Hansen, decided to embark upon an American-style hostile takeover of the largest Danish insurance company Baltica.

Scandinavian insurance has been totally dominated by four large insurance companies: Hafnia and Baltica of Denmark, Uni Storbrand of Norway, and Skandia of Sweden. All of them are interconnected through mutual stock ownership. But in the spirit of the European Community plans for the "single market of 1992," and "only the biggest survive" philosophy, Hafnia wanted to become the one and only.

By November 1989, Baltica realized that a hostile take-

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over attempt was under way, and protected itself through collaboration with the French Suez-Victoire Group. This did not stop Per Villum Hansen, and the Hafnia attack on Baltica continued throughout 1990. By the end of the year, Hafnia held 33.5% of Baltica stock.

During the fall of 1991, Hafnia and the Norwegian Uni Storbrand suddenly started another raid, this time on the Swedish Skandia Insurance. Baltica and Skandia tried to escape the Hafnia Uni Storbrand attack through a merger of the two companies. Hafnia managed to spoil that idea. Millions and millions of Norwegian and Danish kroner were used to buy up artificially inflated stocks.

The dirty hand of McKinsey

For a long time, the directors of the Baltica Group were stunned by the aptness of Hafnia's strategic attacks. How could Per Villum Hansen and company strike as they did? How did they know what they knew? Hafnia clearly acted from inside information about Baltica. Where did that come from? Later, in the case of the Uni Storbrand attack on Skandia, the same pattern appeared. The Norwegians knew something about the Swedes that they were not supposed to know.

It was late in the fall of 1991 that Baltica found the leak: the U.S. consultant firm McKinsey & Co. For years, Baltica had been customers and collaborators of McKinsey & Co. Nevertheless, when Per Villum Hansen secretly hired McKinsey & Co. Denmark as consultants on the hostile takeover of Baltica, the head of the Danish branch, Jan Aarsoe Nielsen, did not say a word of warning to his old friend and customer Baltica.

Baltica Insurance is a part of the old Danish economic establishment, and it answered the McKinsey treason with ferocity. Within days, all the dirty tricks and shady dealings of McKinsey & Co. could be read about in the major Danish financial newspapers. Not only the Hafnia story came out, but also other examples of a dubious McKinsey role in hostile takeover bids in the Danish industrial community as well.

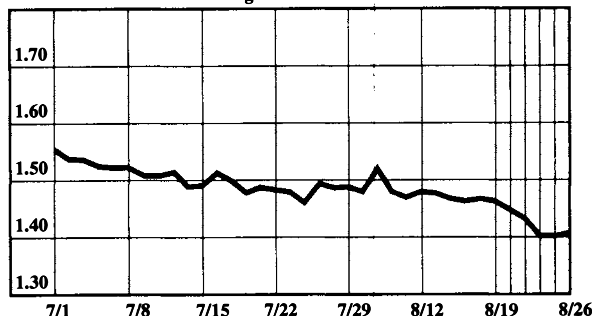
Most damaging was a full-page exposé in the Danish daily *Politiken* on how the small economic newsletter *Mandag Morgen* (*Monday Morning*) could present spectacular inside information about major Danish corporations. It was possible thanks to the personal friendship between the editor of the newsletter, Erik Rasmussen, and the head of McKinsey & Co. Denmark, Jan Aarsoe Nielsen. A few days later, Aarsoe Nielsen was no longer the head of McKinsey & Co. in Denmark.

On Aug. 25, the Norwegian Uni Storbrand went bankrupt, destroyed by the failed hostile takeovers. The combined collapse of Uni Storbrand and Hafnia will mark the beginning of the totally new economic tailspin throughout all of Scandinavia. And the cause of it was not only an import of the worst aspects of "Reaganomics," i.e., hostile takeovers and irresponsible financial speculation, but also the direct involvement of the U.S. experts in manipulation, McKinsey & Co.

Currency Rates

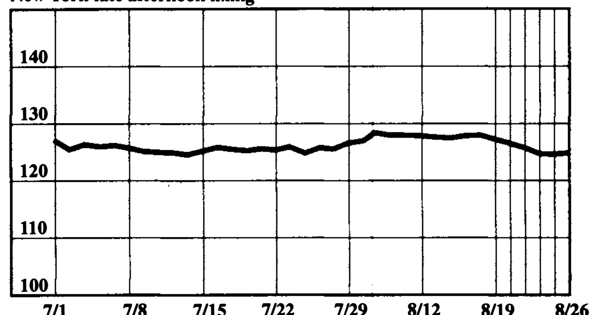
The dollar in deutschemarks

New York late afternoon fixing



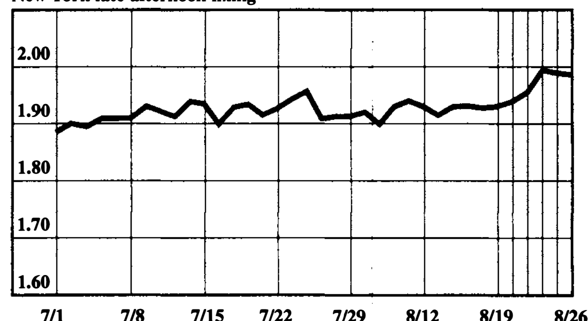
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing