

# Banks in Sweden



Svenska  
**Bankföreningen**  
Swedish Bankers' Association



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# The Swedish financial market

## The economic role of the financial sector

Efficient and reliable systems for saving, financing, mediating payments, and risk management are of fundamental importance for Sweden's economic prosperity. These systems are operated by banks and other credit institutions, insurance companies, securities companies and other companies in the financial sector. The financial sector efficiently channels savings in society to investment and consumption, such as household needs to smooth out the consumption of various life stages and the need for companies to finance investment.

In 2014, the financial industry accounted for 4.8 per cent of the total output in Sweden, expressed as its GDP. Over 85,000 people, representing about two per cent of the total workforce, work in the financial industry. This can be compared with the manufacturing industry that employs 13 per cent of the workforce and hotel- and restaurant sector that employs 3 per cent.

## Types of financial enterprise

The financial companies' overall balance sheet in 2013 was SEK 17,000 billion. It can be seen in relation to Sweden's GDP in 2013 of SEK 3,640 billion. The three largest groups of companies on the Swedish financial market are banks, insurance companies and mortgage institutions. Banks' share of the total assets of the financial market was 39 per cent at the end of 2013. In addition to the above mentioned companies, there are also private equity companies. Private equity companies mediate risk capital by investing and taking a part of the ownership in companies.

## Market changes

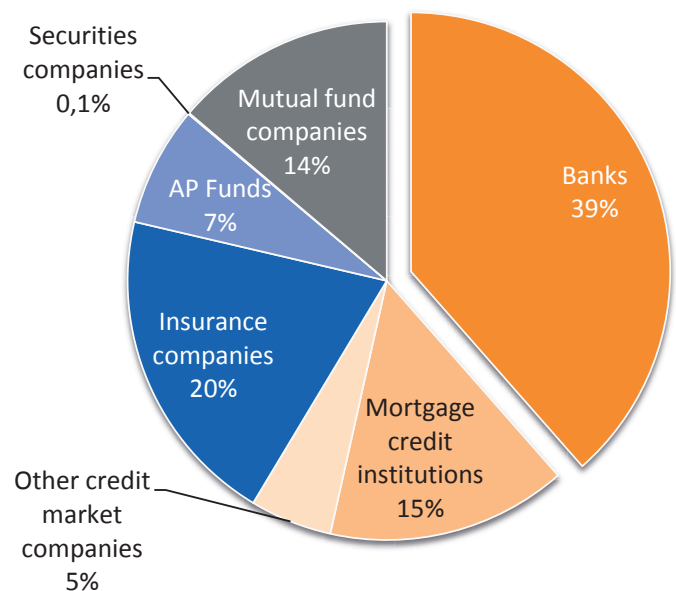
The financial sector is experiencing a significant change in its structure. Established companies have broadened the scope of their business, while many new companies, both Swedish and foreign, have entered the market.

An important change is that branch offices have become less important for bank customers' daily services. Today normal bank services are to a large extent performed through computers, mobile phones and tablets/iPads.

Moreover, new ways to perform bank services have been created, e.g. credit applications in chain stores, e-invoices, etc. These new channels of distribution have enabled the development of new services while existing services have changed. The new technology has also paved the way for the establishment of new banks and increased competition in banking.

Mutual funds and insurance savings have become some of the most important forms of household savings. Over 75 per cent of the population have some of their savings in mutual funds. Bank savings are, however, the largest household savings type.

Players on the financial market, Dec 2013



Source: The Riksbank

# Structure of the banking

## Number of banks

There are four main categories of banks on the Swedish market: Swedish commercial banks, foreign banks, savings banks and co-operative banks. In December 2014, Sweden had a total of 117 banks. The number of commercial banks and foreign bank branches in Sweden has increased from 48 in 2004 to 68 in 2014. The increase is due to the fact that, among other things, more foreign banks have been established in Sweden. In addition, the number of Swedish commercial banks have increased, including securities firms and credit market companies that has become banks

## Swedish commercial banks

Swedish commercial banks are divided in three groups. The largest are the four big banks: Swedbank, Handelsbanken, Nordea and SEB. These banks are important actors on most segments of the financial market. The second group is savings banks that have been converted into joint stock companies, often with Swedbank as a shareholder. The third category constitutes other Swedish commercial banks with a diverse business focus and ownership structure. Several of the other commercial banks were formed during the mid-1990's and ahead. At first these banks were mainly focused on the retail banking market and distributed their products and services through telephone and online, but also through e.g. retail stores. In recent years several new banks were established with a background in securities trading and financing business. The new established banks have in course of time increased the selection of financial products and many of these are today regarded as full-service banks for private customers.

## Foreign banks

The first foreign bank was established in 1986, when foreign banks were first allowed to open subsidiaries. During a few years, in connection with the financial crisis in the beginning of the 1990's, the number of foreign banks declined. Foreign banks were permitted to open branches in 1990 and, since then, they have increased. In December 2014, they amounted to 29. Most foreign banks focus on the corporate banking and securities market. The largest foreign bank is Danske Bank which is the fifth largest bank in Sweden.

## Savings banks

There are numerous independent savings banks in Sweden and they are active in regional or local markets. Most savings banks operate in co-operation with Swedbank as regards technical solutions and the provision of

a common range of products and services. The number of savings banks has declined due to small savings banks having merged.

## Co-operative banks

A co-operative bank is an economic association that has as its purpose to produce bank services for its members. To be able to use the bank services of a co-operative bank the customer must become a member by paying a member share. There are two small co-operative banks in Sweden.

### Number of banks in Sweden

Type of bank	2014	2004
Swedish commercial banks	38	26
- of which four big banks	4	4
- of which former savings banks	14	12
- of which other Swedish commercial banks	20	10
Foreign banks	29	22
- of which subsidiaries	1	3
- of which branches	28	19
Savings banks	48	76
Co-operative banks	2	2
<b>Total</b>	<b>117</b>	<b>126</b>

Source: Finansinspektionen

# Banks function

## Deposits and lending

Banks' core business is to accept deposits and provide credit. In December 2014, the banks' deposits from the public amounted to SEK 3,663 billion. The bulk of these deposits – 39 per cent - come from Swedish households. Foreign public account for 28 per cent of the deposits and Swedish companies for 21 per cent.

Since 1 July 2004 credit market institutions, besides banks, are also allowed to receive deposits. From 2008, all credit institutions that are permitted to accept deposits in accounts are covered by the deposit insurance. In addition, the so-called deposit companies may, with some restrictions, receive deposits. However, deposits in deposit companies are not covered by the deposit insurance.

Lending to the public in Sweden takes place mainly through banks and mortgage institutions. Banks provide loans with different types of security and also smaller loans without collateral. Banks, like mortgage institutions, also provide loans secured on homes and other buildings and property. Lending to the public from banks amounted to SEK 3,743 billion in December 2014. Foreign borrowers account for 33 per cent of total lending to the public, while Swedish businesses account for 32 percent and Swedish households 28 per.

## Interest rates

The interest rates that banks set for their deposits and credits are highly dependent on the interest rates prevailing on the money market. Other factors affecting interest rates include the borrower's creditworthiness, the risk in the undertaking, the banks' financing costs, the competition among credit institutions, and the competition between different savings and loan forms. The banks' average deposit and lending rates have shown a clear downward trend since the early 1990's. In recent years, the interest rates have varied but are still generally lower than in the 1990's.

## Mediation of payments

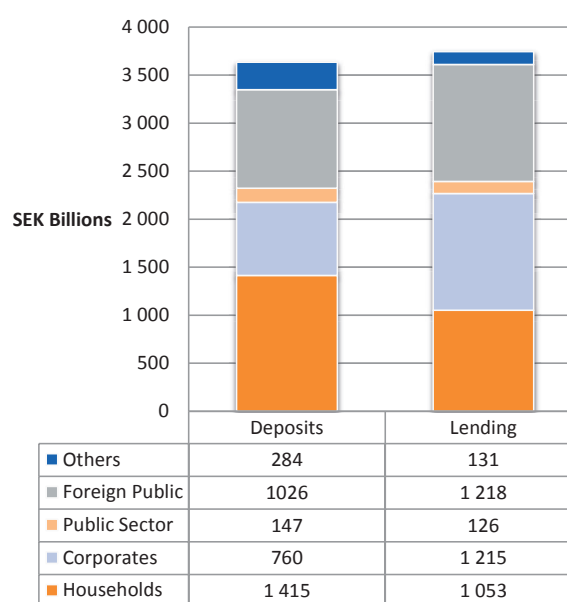
In addition to depositing and lending money another important function of a bank is to provide a means of payment. The Swedish payment system is represented by among other things the bank giro, commonly owned by the banks. The Swedish payment system is technically advanced, and has high efficiency. This means that payments are transacted quickly, safely and at low cost. These systems for payments, but also securities transac-

tions, belong to the financial infrastructure. The financial infrastructure is an important part of Sweden's total infrastructure.

## Risk diversification

A third task for the banks is to offer corporate and retail customers the opportunity to reduce, redistribute and spread risks, for example by offering trading in futures and options.

**Bank deposits from and lending to the public, December 2014**



Source: Sveriges Riksbank

# The major banking groups

## Swedish banking groups

From the mid-1990's, Sweden's leading banks have evolved into financial groups with extensive international activities, especially within the Nordic and Baltic regions. This development is partly due to areas such as life insurance, fund management and mortgage lending becoming an increasingly important part of the groups' business activities alongside traditional banking.

**Nordea** is the largest financial company in the Nordic region with around 29,500 employees. The group includes leading banks in Sweden, Finland, Denmark and Norway. Nordea's lending consists of 75 per cent of lending from countries outside Sweden. The Bank's Swedish operations include one of the largest finance companies and major players in fund management and mortgage credits. Nordea also owns the credit transfer payment system Plusgirot.

**SEB** is the name of the financial group formed around Skandinaviska Enskilda Banken. SEB has developed extensive international activities among others in Germany and the Baltic region. In Sweden, SEB has a strong position in fund management and life insurance, as well as in the mortgage and finance company sectors. SEB is also a strong player on the stock market and in currency trading as well as international payments.

**Svenska Handelsbanken** (SHB) has more than 460 branch offices in Sweden. From the 1990's the bank has also expanded in the Nordic region, both through acquisitions and by opening branch offices. The bank has branches also in United Kingdom and the Netherlands. The wholly owned mortgage institution Stadshypotek belongs to the largest players on the Swedish mortgage credit market. Handelsbanken also has extensive operations in the fund management and finance company sectors.

**Swedbank** has an extensive network of around 305 bank branch offices in Sweden. In addition, Swedbank is in close co-operation with the independent savings banks and partly owned banks among the savings banks movement. Swedbank also has major activities in the Baltic region. The group includes Swedbank Robur, Sweden's largest fund management company, and Swedbank Hypotek, which is one of the largest mortgage finance institutions.

## The "big four" banking groups, 2014

	Employees (2013)		Lending to the public	Total Balance
	Total	Of which Sweden	SEK Billions	SEK Billions
Nordea <sup>1</sup>	29 429	6 881	3 270	6 287
Handelsbanken	11 503	7 537	1 808	2 817
SEB	17 096	8 553	1 356	2 641
Swedbank	16 022	8 501	1 405	2 121

Source: Banks' annual reports

<sup>1</sup> The figures for Nordea relate to the entire Nordea Group, where the bank's activities in the other Nordic countries are also included.

## Other Nordic financial groups

Other Nordic financial groups with a strong position in Sweden are Danske Bank, SBAB, Länsförsäkringar and Skandia. Danske Bank is Denmark's largest bank and has banking operations in all the Nordic countries. SBAB is originally a mortgage institution, but received a banking licence in 2010 and expanded its operations to among other things deposit activity. Länsförsäkringar consists of 23 regional insurance companies in co-operation, and together they own Länsförsäkringar Bank. Skandiabanken is owned by Skandia which has operations among others in property and life insurance.



# Banks in Sweden

## Universal banks

Banks that are represented in the major part of the financial market and that offer all kinds of financial services are categorised as universal banks. Among them we find the “big four” banks – Nordea, Swedbank, Svenska Handelsbanken and SEB. Together they have a strong position on the Swedish market although the market shares vary in different niche markets. Their market share on the deposit market is 63 per cent, but varies considerably on other submarkets. The big four banks share many similarities, but they also differ in many ways. For example, there is a big difference in terms of client-type, pricing of services and distribution channel. It is, therefore, incorrect to refer to these banks as a homogeneous group – in fact, they compete not only with all other banks on the market but also with each other.

On the Swedish market, Svenska Handelsbanken and Swedbank have the most branch offices, 462 and 305, respectively. Most of the services offered by banks’ branch offices are also offered through their Internet channels and to a large extent through mobile phones. Consequently, branch offices have therefore shifted their focus to providing advisory services and selling the banks’ products and services.

## Other banks

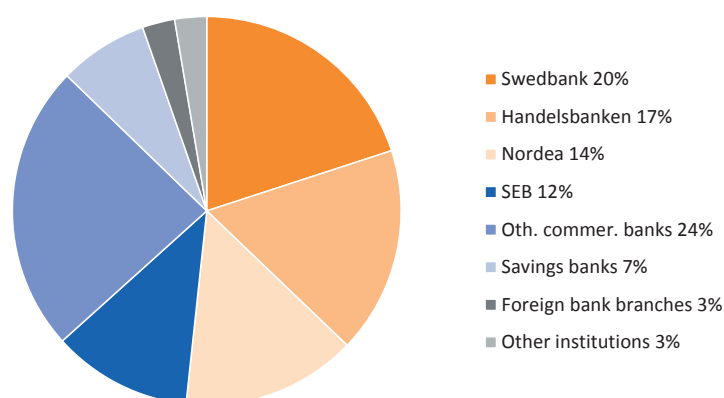
Since the end of the 1990’s other commercial banks and the foreign bank branches have gained market shares on households’ deposits in Sweden. Banks, such as Skandia-Banken, Länsförsäkringar Bank and Ikano Banken, established telephone- and Internet banks in the mid-1990’s and ICA Banken in the early 2000’s. Although they have gradually expanded their range of services, they are still mainly focused on household retail banking. Several of the newest banks started as securities firms and are primarily focused on trading and asset management, such as the banks Avanza and Nordnet. Another category of new banks are former credit market institutions, for example Volvofinans Bank and Marginalen Bank.

The presence of foreign banks in Sweden is significant, mainly due to Danske Bank, with some 40 branch offices. In certain segments, such as investment banking, foreign banks have large market shares.

## Savings banks

The independent savings banks and the limited company savings banks operate on the local or regional markets. The savings banks and the limited company savings banks have a market share of over 10 per cent of households’ deposits in Sweden, but an individual savings bank’s local market share can be much higher. At the end of 2013, the savings banks had 167 branch offices, representing almost 10 per cent of the 1,822 branch offices in Sweden.

### Deposits from Swedish households, share of the total. December 2014



Source: Statistics Sweden (SCB)

# Other credit market companies

Among the credit market companies, the mortgage credit institutions comprise the largest group. Finance companies as well as corporate and municipal financing institutions are normally referred to as “other credit market companies”.

## Finance companies

The finance companies mainly direct their business towards corporate customers (instalment finance, leasing, factoring etc.), but also to the retail market (credit and debit cards, hire purchase finance etc.). The use of instalment finance enables companies to spread out the cost of a major investment. Leasing is a means whereby a company can invest without having to tie up capital. Factoring allows customer invoices to be converted into liquid funds.

There are more than 35 finance companies in Sweden, with aggregate credit and leasing outstanding of SEK 308 billion at the end of 2013. Although the largest finance companies are owned by banks, the majority are owned by non-financial enterprises that wish to offer financing facilities to their customers. The main source of financing for the finance companies is loans from other credit institutions, mainly banks. Some of the larger finance companies also issue their own certificates on the securities market. From 1 July 2004, it is legally possible for finance companies to give deposits.

Finance companies grew fast in the 1980's partly as a result of the tightly regulated nature of the bank market. At the end of the 1980's, Sweden had almost 300 finance companies, but in connection with the turbulence on the financial markets during the first half of the 1990's, this number fell sharply.

## Corporate and local government financing companies

Corporate and municipal financing companies focus on certain sectors of the industry or on lending to the local government sector. They are financed by issuing bonds and certificates.

The largest of these companies is Svensk Exportkredit (SEK), which is owned by the Swedish state. SEK is specialised in providing credit to Swedish export companies. Kommuninvest is owned by several municipalities and grants credit to its members.

## Total assets of the ten largest companies in the “other credit market companies” segment

SEK million, Dec. 2013

Svensk Exportkredit	306
Kommuninvest i Sverige	285
Nordea Finans Sverige	49
Handelsbanken Finans	47
Swedbank Finans	36
Volkswagen Finans	24
Wasa Kredit	14
Hoist Kredit	11
Entercard Sverige	10
Toyota Material Handling Europe Rental	7
Total ten largest	788
Total “other credit market companies”	870

Source: Sveriges Riksbank

# Household loans

The Swedish households' loans amount to SEK 3,053 billion in December 2014. Households borrow above all in order to finance housing. Total household lending secured on housing amounted to SEK 2,489 billion in December 2014.

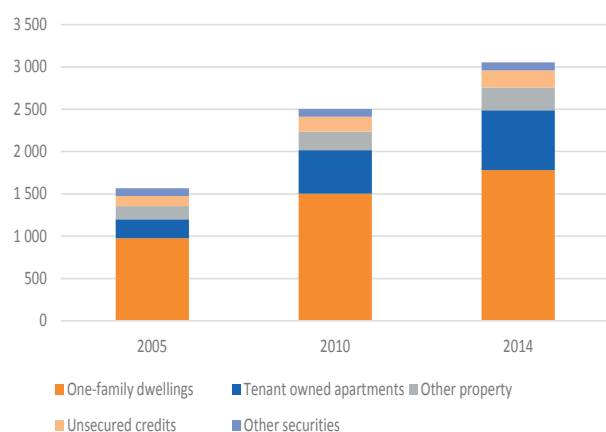
Around 70 per cent of Swedish households own their dwelling. Of these households, 88 per cent have a mortgage loan. In December 2014, single family homes and tenant-owned apartments were used as a security for 82 per cent of the household loans. The comparably high share of households with mortgage loans is a sign of a mature mortgage market. Other countries with similar shares are Norway, Denmark and the Netherlands.

The households also have loans secured in property that are not homes, e.g. farming- and forest properties and multi-family houses. These loans make up 9 per cent of the households' total loans.

Loans without security, blank credits, constitute 7 per cent of the households' total loans.

Other securities make up 3 per cent of the households' loans. Other securities consist of, among others, securities and different kinds of guarantees.

**Household loans by security SEK Billions**



Source: Statistics Sweden

## Household lenders

Mortgage institutions are the largest providers of loans to Swedish households; 64 per cent in December 2014. Mortgage institutions lending is secured on homes and buildings, e.g. single-family homes, tenant-owned apartments and apartment buildings.

Banks are also a major provider of household loans and accounted for 34 per cent of total household loans in December 2014. A significant part of the bank lending is secured on homes and buildings. Household loans from banks are also secured in for example bonds and guarantees. Banks also offer blank credits, unsecured loans, to households.

Finance companies and other credit market institutions account for 2 per cent of loans to households. Finance companies typically finance cars, boats, appliances, etc. and the object of the loan is normally the security. However, more than 45 per cent of the finance companies' lending to households is unsecured lending. Among other credit institutions, you find companies that are specialised in lending to farming and forestry.

## Other companies

There are financial institutions that offer mortgage products, which are different from traditional mortgages. One example is companies that provide mortgage loans to borrowers who, for various reasons, do not qualify for loans in banks and mortgage institutions. Another example is companies specialised in offering retired persons, with little debt in relation to the house value, to release capital from their homes with amortisation- and interest-free credits. The credit and interests are repaid from the value of the home when it is sold, or if the borrower dies. Similar products are also offered by banks.

## Amortisations

From October 2010, the Swedish FSA introduced new rules regarding mortgage lending, which means that new mortgage loans shall not exceed 85 per cent of the market value of the property. From mid-2015 the Swedish FSA will probably introduce new amortisation rules. These rules are suggested to imply that new mortgage loans should be amortised down to 50 per cent of the market value of the property.

# Household savings

## Household financial assets

The financial assets of Swedish households have increased by more than 175 per cent since 1996 and amounted in December 2014 to SEK 4,062 billion. The increase has occurred above all in insurance and mutual fund savings and, since the first years after year 2000, in bank savings. Parts of the household financial assets are tied to developments of different stock exchanges in the world; shares, mutual funds and to some extent insurance-/pension savings. The value of these financial assets varies with the developments on the international stock markets.

## Bank deposits

The stock of bank deposits was relatively stable in the 1990's but has increased since the year 2000. Bank deposits now constitute the largest share of total household financial assets. Bank deposits amounted in December 2014 to 35 per cent of the household financial assets.

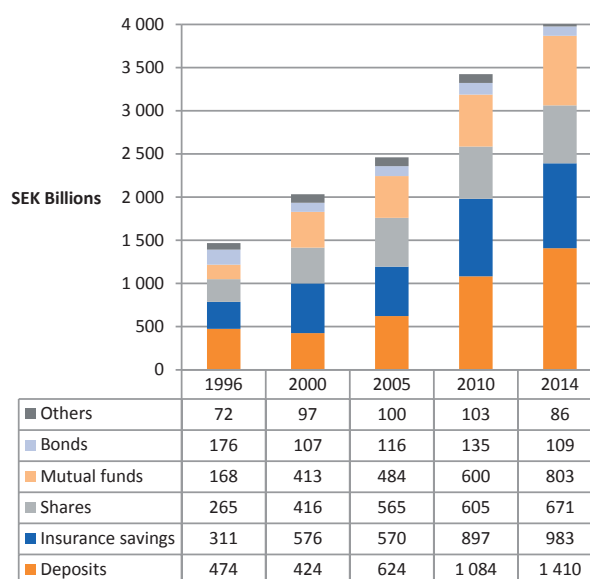
## Fund saving

Already in the early 1980's, many Swedes began to invest parts of their savings in mutual funds, partly because of the tax breaks available on certain types of such savings. Today, 76 per cent of the Swedish adult population have some of their private savings invested in mutual funds (excluding the Premium Pension). The new pension system has resulted in almost all adult Swedes having parts of their pension funds in mutual funds since a certain share of an individual's pension premiums is invested in private and government mutual funds.

## Insurance saving

Insurance and pension savings' share of the household financial assets increased from 15 per cent at the early 1990's to until 30 per cent around 2000. The share has declined thereafter and is in 2014 around 24 per cent. One of the most common forms of insurance savings is traditional life insurance. Another is unit-linked life insurance, which is a form of insurance whereby investments are placed in mutual funds of the investor's choice. Another form of pension saving, but without the insurance factor, is IPS (Individual Pension Saving), whereby the investor can invest in equities, mutual funds, bonds or bank accounts. From 2015 the yearly amount of tax subsidised pension savings was lowered from SEK 12,000 to SEK 1,800. It is proposed to abolish the tax subsidies on pension savings all together in the coming years.

## Household financial assets



Source: Statistics Sweden

## Life insurance companies

All of Sweden's major commercial banks have their own life insurance companies. The largest bank-owned insurance company is SEB Trygg Liv, which together with Alecta, Skandia and AMF, has the largest market share for life insurance and unit-linked life insurance.

# Mutual fund companies

## Fund saving

Households' savings in mutual funds increased steadily until 2000 when around 20 per cent of the Swedes' financial assets consisted of mutual funds. The share of mutual funds in the households' financial assets has varied slightly since then and amounted in December 2014 to 20 per cent. At present households also to a larger extent invest indirectly in mutual funds through e.g. life insurances and endowment insurance. 76 per cent of all Swedes have private savings in mutual funds.

In the 1980's, fund saving was stimulated both by the strong performance of the stock market and favourable tax rules. This attracted many Swedes, which in turn generated widespread knowledge of mutual funds.

The total assets of Swedish mutual funds rose from SEK 120 billion in 1990 to nearly SEK 900 billion in early 2000. After that, the total assets of mutual funds have diminished in some years when stock markets have fallen. In the long run there has been a long-term rise in the mutual fund values and in December 2014 the mutual fund assets amounted to SEK 3,002 billion. Excluding the state Premium Pension, the mutual fund assets amounted to SEK 2,243 billion.

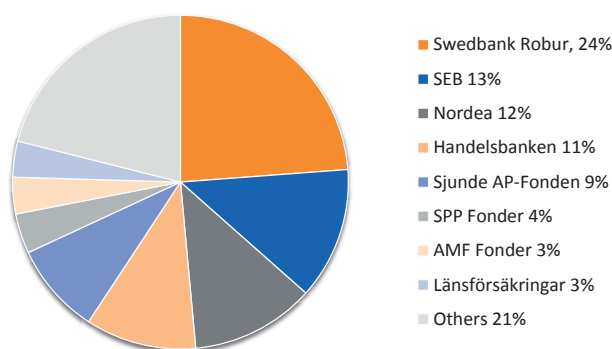
In December 2014 some 56 per cent of the mutual fund assets were equity funds, 19 per cent were interest funds, 24 per cent mixed funds, and 1 per cent hedge funds. The proportions vary over time depending on, among other things, falling stock markets, when interest rate funds tend to increase and equity funds to diminish and the opposite when stock markets increase.

## Fund managers

The number and variety of mutual funds has increased in pace with the growing interest of investors. The big four banks' fund companies have had a relatively large market share of the mutual funds market, but for several years other fund companies on the market have been expanding due to their relatively high share of new fund investments.

The largest players on the Swedish fund market are Swedbank Robur, SEB Fonder, Nordea Fonder and Handelsbanken Fonder. These fund companies all have a wide range of funds focusing on different geographical regions, sectors of industry or type of instruments like equities or bonds. It has also become more common for fund managers to extend their own portfolio of funds with those from other fund managers.

**Mutual fund companies in Sweden. Share of total assets of Swedish savers managed by Swedish mutual fund companies, December 2014**



Source: The "Fond & Bank" newsletter

# Payment services

## Means of payment

Besides for minor cash payments, virtually all payments in Sweden are transmitted through banks or credit card companies. The most common means of payment are the various charge cards and electronic giro systems. Most payments are linked to bank transaction accounts, which register salary deposits, ATM withdrawals, credit and charge card purchases and automatic transfers.

## Electronic payments

Over the past few decades, the use of paper-based payments such as giro forms, cheques and cash payments have rapidly been replaced by electronic payments of various types. As an example, the use of different kinds of cards has increased from 100 million transactions in the middle of the 1990s to around 2,400 million transactions in 2013. During the same period, the use of cheques has in practice ceased.

While the share of electronic giro payments, mainly online, has increased, the share of paper-based giro transactions has decreased. According to a query by the Post and Telecom Authority, 79 per cent of the Swedes older than 15 years paid their bills through an Internet bank in 2012. In the younger age groups (aged up to 34 years), up to 96 per cent pay their bills through the Internet. At the same time the use of paper based payments, such as giro forms, was only used by 12 per cent of the Swedes in 2012.

There is an increasing demand for e-invoice in Sweden. With e-invoice, the bank customer receives the bill electronically directly at the customer's Internet bank with all the necessary information and the customer must thereafter simply approve it. During 2013, e-invoices to private customers constituted 21 per cent of all private customers' credit transfers through the Internet and amounted to 83 million.

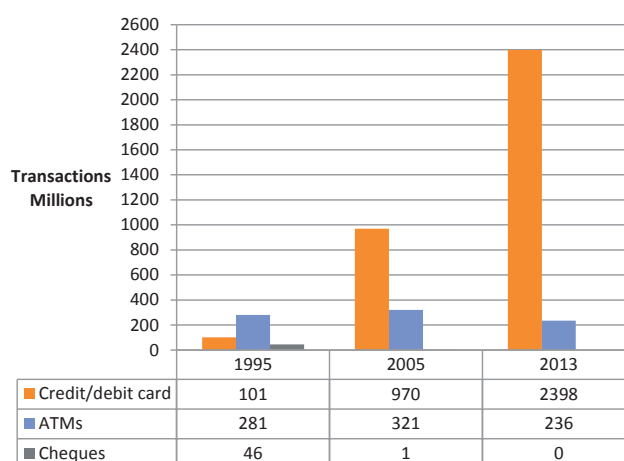
## Giro systems

There are two different giro (credit transfer) systems in Sweden. The Bank giro is owned jointly by the banks, while Nordea owns the Plus giro. Both of these competing systems are technically advanced and provide quick, secure payment facilities. The giro systems can handle a number of different transactions, for example Internet payment, bank transfers, bank depositions and giro payments by paper forms.

## The ATM network

The Swedish ATM network is also highly developed, with approx. 3,237 ATMs nationwide. In 2013, the ATM withdrawals amounted to 236 million and the average withdrawal was slightly more than 950 SEK. The system is designed rationally in that any bank's ATMs can be used by the customers of more or less any other bank.

### Use of means of payment 1995, 2005, and 2013



Source: Sveriges Riksbank

## Mobile payments

Today almost all banking services could be reached through a smart phone, e.g. money transfer, information and financial advisory. Swish was introduced in 2012 and is an app for mobile payments through smart phones with Android or iPhone IOS. Swish enables private individuals to send money with their smart phone to another individual smart phone number. The money is recorded directly on the recipient's bank account. In the beginning of 2015 more than 2.2 million customers was connected to Swish and the amount transferred through Swish in January 2015 amounted to SEK 1.7 billion.

# Supervision of Swedish banks

## Supervision of Swedish banks

The main functions of the financial system are to accept deposits and provide credit, mediate payments and to diversify risks. It is of great importance that the function and reputation of the system is maintained and, therefore, society has found it necessary to create laws that regulate the institutions that constitute the financial system. Among these institutions, the banks play an important role and there are a number of laws and regulations that regulate their activities.

Finansinspektionen (the Swedish Financial Supervisory Authority) and The Riksbank (the Swedish central bank) have the main responsibility of monitoring compliance with these laws and regulations, and to maintain financial stability. Finansinspektionen has a direct responsibility to supervise the individual institutions on the financial market. The Riksbank has an overall responsibility to promote a stable function of the financial system. The task of promoting stability in the financial system is shared between the two authorities.

Finansinspektionen and the Riksbank form together with the Government and the Swedish National Debt Office the forum called the Financial Stability Council. In the Financial Stability Council members discuss issues of financial stability and how financial imbalances could be counteracted. If a financial crisis should arise, the Council would also discuss and handle measures.

## Finansinspektionen

Finansinspektionen is a public authority under the jurisdiction of the Finance Ministry. Finansinspektionen is responsible for supervising the institutions on the financial market and the financial marketplaces. Finansinspektionen has also an overall objective to contribute to the stability and efficiency of the financial system, and to promote consumer protection. Finansinspektionen has also been mandated by the Government to be responsible for the financial stability.

The laws regulating banks and other financial institutions are passed by the Swedish parliament. The laws are in some cases in the form of framework legislation and within this framework Finansinspektionen issues detailed regulations for financial activity. Finansinspektionen also issues general guidelines that, unlike laws, are optional, but should be followed by financial institutions to be conside-

red as carrying out sound activities. Finansinspektionen is the authority that issues permits and licences for different activities on the financial markets, e.g. bank licence.

To monitor compliance with the laws, regulations and general guidelines, Finansinspektionen supervises financial institutions. The supervision is performed in different ways, e.g. on-site inspections of financial institutions or by requiring different information that Finansinspektionen wants to control and analyse.

## The Riksbank

The Riksbank is an authority with an independent status under the jurisdiction of the Swedish parliament. The main task of the Riksbank is to maintain price stability.

A second important task for the Riksbank is to promote stability in the financial system and particularly in promoting a safe and efficient payment system, and to be ready to handle a possible financial crisis. The payment system includes, among other things, the whole infrastructure for payments and securities transactions.

The Riksbank promotes the financial stability by regularly monitoring and analysing risks and threats to the stability of the financial system. In this purpose, the Riksbank, besides for the payment system, also analyses the four major banking groups, the banks borrowers, and the macroeconomic development.

# Banking laws

## **Banking and Financing Business Act**

The act on Banking and Financing Business is the fundamental act regarding the business of banks and financing companies. The act contains rules concerning, among other things, requirements to obtain a licence to conduct banking and financing business, what kind of financial operations these companies may perform, credit assessment, cross-border operations, what kind of property credit institutions may hold and rules on supervision and interventions by authorities. The Act is applicable to both banks and financing companies.

## **The Capital Requirements Regulation**

The EU Capital Requirements Regulation has rules that aim to ensure that bank and credit market companies have sufficient capital to meet the risks in the business. There are capital requirements on credit risks, market risks and operational risk. The regulation states how to calculate capital requirements depending on the type of assets, commitments and investments of the financial institutions. The regulation also contains limits of the level of exposures that a financial institution may have with a customer or a group of customers. An EU regulation is valid as Swedish law.

## **Consumer Credit Act**

The Act states what the credit institutions shall observe when granting loans to consumers. The Act states information obligations regarding marketing of credits, prior information and the content of a credit agreement. It also states the conditions for changing the interest rate to the disadvantage of the customer and for repaying a loan prematurely.

## **The Covered Bond Act**

Banks and credit market institutions can issue covered bonds according to a certain act, provided that the bonds have preferential rights on the assets of the issuing institution and that these assets meet certain criteria.

## **Payment Services Act**

In this act, it is stated as to what obligations a supplier of payment services shall fulfil, among other things information to costumers and how long a payment transaction may take. By this new act, a new category of financial institutions is introduced; payment institutions.

## **The Act on Deposit Guarantee Scheme**

The act guarantees every customer an amount equivalent to a maximum EUR 100,000 for deposits in all kinds of accounts at banks, securities companies and some other institutions. The guarantee covers losses if an institution goes bankrupt or due to a decision made by Finansinspektionen.

## **The Act on Money Laundering**

The Act applies to banks and credit market institutions, but also to a number of other companies. It is forbidden to take part in money laundering and the institutions are obliged to report to the police those transactions suspected as money laundering or the financing of terrorism.

## **Other acts**

Most of the acts mentioned are mainly based on EU-directives. The acts are completed with more detailed provisions in the regulations and general guidelines, as issued by Finansinspektionen, which is the Swedish Supervisory Authority.

Most of the Swedish banks are universal banks. This means that securities trading, asset management and corporate finance also constitute significant parts of their operations. In these different areas, there is further legislation. An important act among these is the act on the market for financial instruments. The Markets in Financial Instruments Directive (MiFID) is implemented in Sweden by this act.

# Financial stability measures

After the financial crisis in 2008 and 2009, different programmes for guarantees and capital infusions to protect financial stability were introduced. The Swedish National Debt Office has as support agency a central role in state measures to protect financial stability. In the role of support agency, the Debt Office is responsible for the preparation and handling of the support measures decided by the government. During the financial crisis in 2008 and 2009 the authority created different measures like for example loan guarantees, capital infusions and emergency support.

## Bank guarantee programme

The guarantee programme, between the years 2009 and 2011, gave banks, mortgage institutions and certain credit market companies an opportunity to contract with the government for a guarantee covering part of their borrowing. Put simply, this meant that the government promised, for a charge, to intervene if the institution could not pay its lenders. The programme is closed for new contract since 2011 and the last guaranteed loan expires in the second quarter of 2015.

## Capital infusion programme

The capital infusion programme was created for already financially strong banks. It implied that these banks could obtain a government capital infusion in the form of share capital or so-called hybrid capital. The programme was limited to SEK 50 Billion and applied from 2009 until the 30 June 2011. In April 2009, the state subscribed for Nordea shares amounting to SEK 5.6 Billion.

The capital infusion provided to a bank might correspond to an increase of at most two percentage points of the capital adequacy ratio. Furthermore, the remuneration for senior executives of the banks participating was restricted.

## Emergency support for banks

The Debt Office can intervene on behalf of the government if a financial institution should encounter such grave financial difficulties that there is a risk of serious disruption to the financial system. The Debt Office has a broad mandate to implement measures and it is difficult to predict measures considered necessary. Examples are liquidity support and capital reinforcement.

## The stability fund

To finance state measures to support the financial system the parliament, The Riksdag, has decided to build up a stability fund. Banks and other credit institutions will pay an annual fee to the fund. The fee amounts to 0.036 per cent of a reference base derived from the institute's balance sheet. In 2013, the total amount of fees paid to the stability fund by the banks and credit market institutions amounted to SEK 3.2 Billion. The objective is for the fund to accumulate a sum corresponding to 2.5 per cent of GDP until year 2023. The Government initially provided 15 billion kronor to the fund. The total value of the fund in October 2014 was SEK 53 Billion. The modelling and function of the stability fund might be changed during 2015 when new EU rules on handling banking crises are incorporated in Swedish law.

## Deposit insurance

Deposit insurance means that the state through the guarantee compensates savers for their money in all types of accounts at banks, credit market institutions and investment firms.

If an institution goes bankrupt or if the Finansinspektionen decides, the deposit insurance compensates at a maximum of 100,000 euro per customer and institution. The aim of the deposit guarantee is the protection of deposits given by the public and to contribute to the stability of the financial system. Institutions connected to the deposit guarantee pay a fee to the Debt Office.

Note: 1 SEK is approximately 0.11 EUR.

# Covered bonds

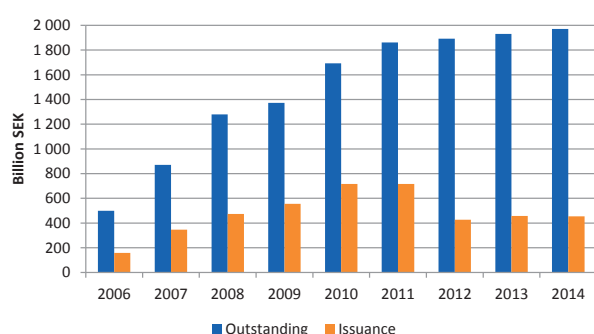
Mortgage loans constitute a large share of the lending to the public in Sweden. This applies in particular to loans to households where 82 per cent of the loans are secured against residential property (one-family homes and tenant-owned apartments).

Mortgage institutions and banks, which provide mortgage lending, need in their turn funding for the loans. The most common funding sources are bank deposits together with certificates and bonds (short- and long-term securities). However, the major share of the institutions' funding of mortgage loans comes from a specific type of bonds – covered bonds.

## The development of covered bonds

Until year 2006, the main funding of mortgages from banks and mortgage institutions consisted of mortgage bonds. A couple of years earlier, in year 2004, funding with covered bonds became possible with a new covered bonds act in Sweden. From year 2006 and a couple of years ahead, all mortgage bonds were converted into covered bonds.

**Covered bonds. Total outstanding and issued during the year, Billion SEK.**



Total amount of outstanding covered bonds have grown to 1,971 Billion SEK at the end of 2014. During 2014, the institutions have issued new covered bonds amounting to 455 Billion SEK.

## The structure of covered bonds

Unlike mortgage bonds and other corporate bonds, there is a cover pool tied to a covered bond. If the issuer of the covered bond is not able to repay the value of the covered bond, e.g. bankruptcy, the holder has a direct pledge in the covered bond's cover pool.

The cover pool of a covered bond consist of loans secured by one-family homes and tenant own apartments, but in some cases also loans secured by agriculture and commercial properties. Loans to local authorities or loans guaranteed by local authorities could also be included in the cover pool.

To secure the high quality of the cover pool only mortgage loans where the loan amount does not exceed 75 per cent of the market value of the residential property, are allowed to be included in the cover pool. In the same way, loans to agricultural and commercial property may be included in the cover pool if the loan amount does not exceed 70 per cent respectively 60 per cent of the value of the collateral. In the covered bonds act, there are also strict requirements regarding the following up and control of the quality of the cover pool.

## Good reputation

Swedish covered bonds have since first issued in 2006 always had good reputation among domestic and foreign investors. During 2008 and 2009 when the international financial markets periodically were very strained, the confidence in Swedish covered bonds were unaffected and Swedish banks and mortgage institutions could continue to issue new covered bonds in Sweden and abroad every month.

# The banks in the society

The Swedish banks conduct a responsible and sustainable business from an economic, environmental and social perspective. Corporate Social Responsibility (CSR) is an important part of their business and there is a strong correlation between being useful to society at large and have long-term success and profitability.

The banks help companies and economies to grow at local, national and transnational levels, thus driving the economic and social development. In addition to this, banks provide companies and organizations support in several areas, such as social commitment, education, sports and culture.

Most of the banks have guidelines for ethical and environmentally friendly investments and follow international standards in this area. Several of them have for example signed the UN Principles for Responsible Investment. Even in lending operations CSR aspects are important.

Work for reducing environmental and climate impacts are also underway within the organization, such as the purchase of furnishings and supplies, paper consumption and various forms of energy saving. It has among other things resulted in a significant reduction in banks' carbon emissions. To procure paper from sustainable forestry in line with international standards and that travel and transport takes place in a climate friendly way, are other examples.

Many banks contribute to develop the financial skills of the public. This could mean providing training to teachers and tutors, but also to be out at school and teach private economy. It may also be providing financial support for academic institutions, educational programs and research in banking and finance. Several banks offer support through mentoring and internships for students.

The Financial Coalition against child pornography is an example of social responsibility where Swedish banks in cooperation with the police is working to prevent that the Swedish payment system are used for purchase and sale of child pornography images. This Swedish initiative has been a role model for other European countries in the fight against child pornography.

Sponsorship of various kinds is very common. In many cases it is an important contribution to organizations and associations that have difficulty obtaining financial support from other sources. Sponsorship of various sporting and cultural activities is common.





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