

# **Banks in Sweden**

## **Facts about the Swedish banking market**

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Contact: Lena Alfredsson  
e-mail: [lena.alfredsson@bankforeningen.se](mailto:lena.alfredsson@bankforeningen.se)  
phone: +46 (0)8-453 44 09

**Svenska Bankföreningen**

## The Swedish financial market

### The economic role of the financial sector

Efficient and reliable systems for saving, financing, mediating payments, and controlling risk are vital for the well-being of the Swedish economy. These systems are handled by banks and other credit institutions, insurance companies, securities companies and other types of enterprise in the financial sector. The financial industry account for just over four per cent of the country's total output, defined as its Gross Domestic Product (GDP). More than 90,000 people, about two per cent of the country's total working population, work in the Swedish financial industry.

### Types of financial enterprise

The aggregate balance sheet total of the financial companies amounted to almost 8,000 billion kronor in 2002. The three largest categories of company on the Swedish financial market are banks, mortgage credit institutions and life insurance companies. Mutual fund companies and the state administered AP Funds (general supplementary pension funds) are also important players on the market. At the end of 2002, banks accounted for some 42 per cent of the total capital employed on the financial market.

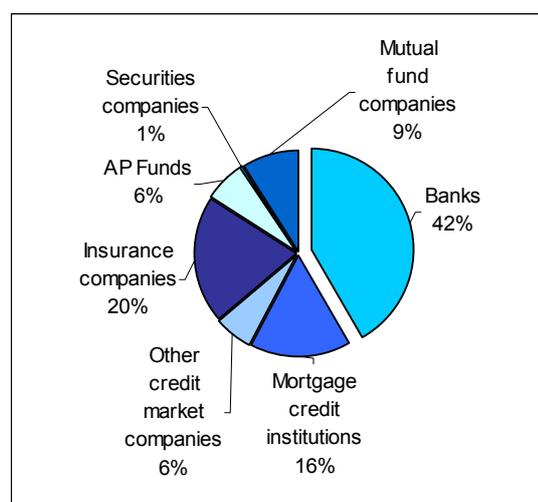
### Market changes

The financial sector has expanded rapidly during the past decade. Established companies have broadened the scope of their business, and many new companies have entered the market. One important change is that banks and insurance companies have moved into

each other's areas, and as a consequence, all of Sweden's major banks are now involved in the life insurance business and some insurance companies own their own banks.

Another change is that customers are banking more and more via the internet or the phone. These new channels of distribution have enabled the development of new services and intensified competition on the banking market through the establishment of new banks. Moreover, Swedes are investing increasingly in funds and insurance policies as they turn away from traditional bank saving. More than 85 per cent of the population have some of their savings in funds or equities, which by international standards is a very high proportion.

### Players on the Swedish financial market



Source: Sveriges Riksbank

## Structure of the banking industry

### Number of banks

There are four main types of banks on the Swedish market: Swedish commercial banks (joint stock banks), foreign banks, savings banks and co-operative banks. At the end of 2002 Sweden had a total of 128 banks. The number of joint stock banks and foreign banks has risen sharply since the early nineties – from around 15 to almost 50.

### Swedish commercial banks

Swedish commercial banks can be divided into three categories, the largest of which comprises the “big four” banks: FöreningsSparbanken (Swedbank), Svenska Handelsbanken, Nordea and SEB. These four banks have a strong position on most segments of the financial market, and they account for more than 80 per cent of the total assets on the banking market. Alongside the big four, there are many smaller, Swedish-owned commercial banks whose activities and ownership structure vary widely in character. Some of them are savings banks that have been converted into joint stock companies, often with FöreningsSparbanken as a shareholder. Most of the other Swedish commercial banks were formed during the past ten years. They focus on the retail banking market and mainly distribute their products and services online or in the form of telebanking. Three of the newest banks are ICA Bank, Resurs Bank and Forex Bank.

### Foreign banks

The first foreign bank was established in Sweden in 1986, when foreign banks were first allowed to open subsidiaries in the country.

There were a few years in connection with the financial crisis in the beginning of the nineties when the number of foreign banks in Sweden declined. Foreign banks were permitted to open branches in 1990. The number has since then reached 22 by the end of 2002. Most foreign banks concentrate on the corporate banking market and the securities market. The largest foreign bank in Sweden is Danske Bank, which became the fifth largest bank in Sweden when it acquired Östgöta Enskilda Bank in 1997 and set up what it called “provincial banks”.

### Savings banks

There are also numerous independent savings banks in Sweden. Generally, they are small and active only on their own regional or local markets. Most savings banks operate in close co-operation with FöreningsSparbanken as regards technical solutions and the provision of a common range of products and services.

### Number of banks in Sweden

Type of bank	2000 (Dec)	2002 (Dec)
Swedish commercial banks	22	27
- of which the “big four”	4	4
- of which former savings banks	9	11
- of which other Swedish commercial banks	9	12
Foreign banks	21	22
- of which subsidiaries	2	1
- of which branches	19	21
Savings banks	79	77
Co-operative banks	2	2
<b>Total</b>	<b>124</b>	<b>128</b>

Source: The Swedish Financial Supervisory Authority (Finansinspektionen)

## Deposits and lending

### Deposits and lending

The core activity of a bank is to accept deposits and provide credit. At the end of 2002, bank deposits from the public (i.e. mainly households and non-financial enterprises) amounted to 1,242 billion kronor. The bulk of these deposits – approximately 42 per cent - come from Swedish households. Swedish companies account for around 32 per cent of total deposits and foreign depositors for some 22 per cent.

Bank lending has increased in recent years, to reach 1,360 billion kronor by the end of 2002. 47 per cent of this lending to the public goes to the Swedish business sector, while households and foreign borrowers account for 21 per cent and 27 per cent respectively.

### Interest rates

The interest rates banks set for their deposits and credit are largely dependent on the rates prevailing on the money market. Other factors that influence interest rates include the credit-worthiness of the borrower, competition among credit institutions, and competition for different types of saving. The average rate of interest paid and charged by the banks has been declining steadily since the beginning of the 1990s. The interest spread – the gap between the average interest rate received on credits and that paid on deposits – has also tended to narrow during the same period.

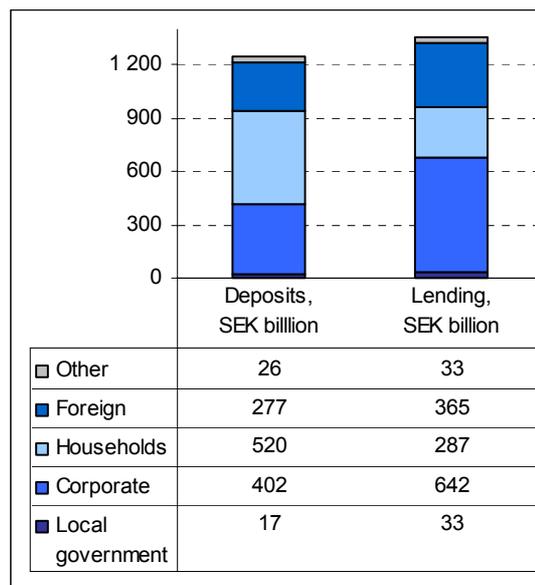
### Mediation of payments

Another important function of a bank is to provide a means of payment. The Swedish payment system, which includes the bank giro service and the postal giro, is technically rather advanced, and has a reputation for efficiency. This means that payments are transacted quickly, securely and at low cost.

### Risk diversification

A third important function is to offer corporate and retail customers a means of reducing, laying off and diversifying risk by offering trading in futures or options etc.

### Bank deposits and lending, December 2002



Source: Sveriges Riksbank

## The major banking groups

### Swedish banking groups

Over the past decade, Sweden's leading banks have evolved into financial groups with extensive international activities. 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. It has also involved geographical expansion by the groups, especially within the Nordic and Baltic regions.

**Nordea** is the largest financial enterprise in the Nordic region. The group includes leading banks in Sweden, Finland, Denmark and Norway, and Postgirot Bank, which was acquired in 2001. The Swedish business, conducted under the name Nordea Bank Sverige, includes one of Sweden's largest finance companies and major players in fund management and mortgage credits.

**Svenska Handelsbanken** (SHB) has more than 450 branches in Sweden. The bank also expanded in the Nordic region in the 1990s via acquisition and by opening branch offices. Stadshypotek, Handelsbankens' wholly owned mortgage credit institution, is the largest player on the Swedish mortgage credit market. Handelsbanken also has extensive operations in the fund management, life insurance and finance company sectors.

**SEB** is the name of the financial group that has been formed around Skandinaviska Enskilda Banken. SEB has developed substantial international activities, partly via the acquisition of Germany's BfG Bank (now SEB). In Sweden, SEB has a particularly strong position in fund management and life insurance, as well as in the mortgage and finance company sectors. SEB is also a traditionally strong player on the

stock market and in currency trading as well as in international payments.

**FöreningsSparbanken** (Swedbank) was formed in 1997 as a result of the merger of Sparbanken Sverige and the Föreningsbanken group of co-operative banks. The bank has an extensive network of over 540 branches in Sweden, and is also working closely with Sweden's independent savings banks. The group includes Robur, Sweden's largest fund management company, and Spintab, which is the second largest mortgage finance institution in the country. In September 2002, the group acquired HSB Bank, a small Swedish bank specialising in mortgage credit.

### Other Nordic financial groups

Two other Nordic financial groups with a strong position in Sweden are Danske Bank and Skandia. Danske Bank is Denmark's largest bank, which also has considerable banking operations in Sweden and Norway. Skandia is market leader in life insurance and also has a strong position in fund investments. The group also includes SkandiaBanken.

### The "big four" Swedish banking groups, December 2002

	Number of employees	Total assets (SEK million)	Operation profit (SEK million)
Nordea <sup>1</sup>	37 322	2 284 713	14 374
Svenska Handelsbanken	9 752	1 277 514	10 190
SEB	19 994	1 241 112	6 464
FöreningsSparbanken	17 223	957 503	6 848

Source: Each bank's annual report

<sup>1</sup> The figures for Nordea relate to the entire Nordea Group. The Nordea Bank Sverige AB subsidiary had total assets of MSEK 606,968 in 2002.

## Banks in Sweden

### Universal banks

Together, the “big four” banks – Nordea, FöreningsSparbanken, Svenska Handelsbanken and SEB – have a strong position on the Swedish banking market, for both deposits and credit. Their combined share of the deposits market is almost 80 per cent, and for the credit market, almost 75 per cent.

The big four banks share many similarities, but they also differ in many ways. For example, there are extensive differences in terms of client-type, pricing of services and distribution channel. It is therefore fundamentally incorrect to refer to the big four banks as a homogeneous group – in fact, they compete fiercely not only with all other banks on the market but also with each other.

On the Swedish market, FöreningsSparbanken and Svenska Handelsbanken have the most branches, with approximately 540 and 450 respectively. Nordea has just over 260 branches and SEB around 200. Many of the banks also offer their services in cooperation with other players, such as the Swedish Cashier Service (Svensk Kassaservice), supermarkets and petrol stations. In recent years, their branches have begun to shift their focus from primarily providing a range of teller services, such as payments, to providing advisory services and selling the bank’s products and services.

### Niche banks and foreign banks

Over the past five years, niche (or boutique) banks and the branches of foreign banks as a group have taken higher market shares in Sweden. Niche banks, such as SkandiaBanken, Länsförsäkringar Bank and Ikano Banken opened telephone banks and internet banks in

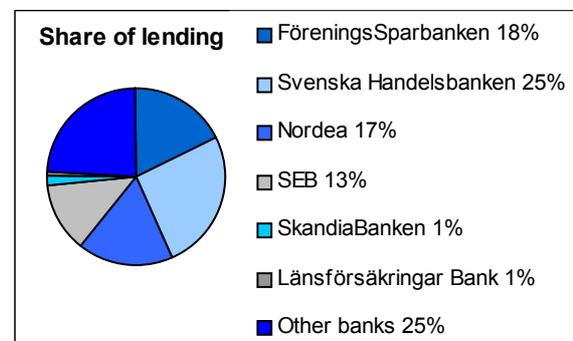
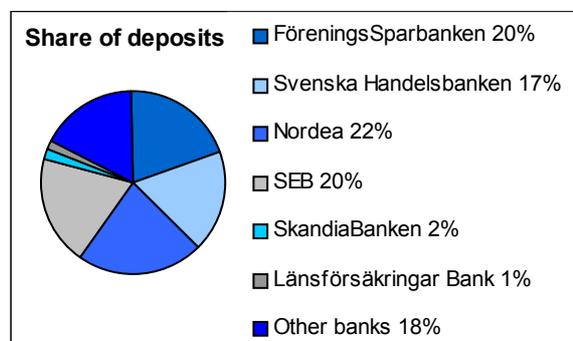
the mid 1990s. Although they have gradually expanded their range of services since then, they are still strongly focused on the retail banking market.

The presence of foreign banks in Sweden has strengthened, mainly due to the expansion of Danske Bank, which now has some 50 branches in the country. In certain segments, such as investment banking, foreign banks have large market shares.

### Savings banks

The independent savings banks operate on local or regional markets. Even though the savings banks have a market share of only some 5 per cent in the country as a whole, an individual savings bank’s share of its local market can be much higher.

### Deposits from and lending to the public in Sweden, December 2002



Source: Statistics Sweden (SCB)

## Mortgage credit institutions

### Mortgage loans

In Sweden, mortgage loans are usually provided by specialist credit market companies known as mortgage credit institutions. The total volume of outstanding loans of these institutions amounted to SEK 1,200 billion at the end of 2002. For many years now, lending by mortgage credit institutions has exceeded the volume of bank lending in Sweden.

The mortgage credit institutions provide credit primarily for residential property, but also for commercial and office buildings and municipalities. Mortgage loans are secured by collateral, normally in the form of a mortgage on the property. The lending consists of a first mortgage, which involves pledging the property for up to 70-80 percent of its value. Additional credit is then often provided in the form of a second mortgage by the bank that owns the mortgage institution or by another bank with which the institution co-operates. Mortgage institutions offer a wide range of credit facilities at variable or fixed interest rates.

### Mortgage credit institutions

The two largest mortgage credit institutions, Stadshypotek and Spintab, are owned by Handelsbanken and FöreningsSparbanken respectively. Nordea and SEB are also important players on the market through their mortgage credit subsidiaries. The fourth largest institution, SBAB, is a state-owned company which originally only financed mortgages provided or guaranteed by the state, but which since the early 1990s has been competing with the other institutions. Banks such as SkandiaBanken, HSB Bank, ICA Banken etc. also provide

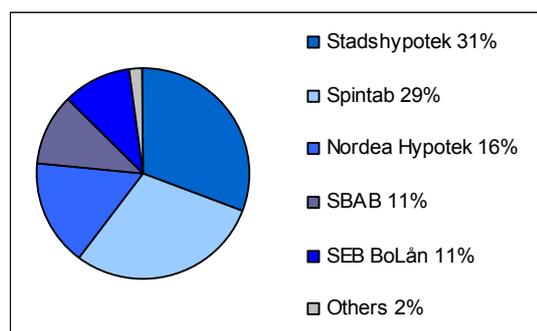
mortgage loans and thereby compete with the mortgage finance institutions.

The bank-owned mortgage institutes co-operate closely with their parent banks. This means that contacts with their customers often are made through the parent bank's branches. In recent years, the internet has emerged as an important sales channel, and today most mortgage credit institutions offer an online mortgage application service.

### Forms of funding

The credit provided by the mortgage credit institutions is largely financed by the issue of bonds and commercial papers on the market. The bank-owned institutions also finance their lending by raising loans from their parent banks. However, mortgage credit institutions are not allowed to accept deposits. A more recent form of financing is securitisation, which means that assets in the form of, e.g. loans secured on property are sold to an external company, which in turn finances the purchase by issuing securities.

### Swedish mortgage institutions: market shares, December 2002<sup>1</sup>



Source: Statistics Sweden (SCB)

<sup>1</sup> Each institution's share of the total lending provided by all mortgage credit institutions.

## Other credit market companies

In the sector known as “credit market companies” 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.), and, to some extent, to the retail market (credit and debit cards, hire purchase finance etc.). The use of instalment finance enables companies to spread 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.

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

SEK million, Dec. 2002	
Svensk Exportkredit	133
Kommuninvest Sverige	50
Landshypotek	34
Handelsbanken Finans	33
Nordea Finans	31
SEB Finans	25
Volvofinans	24
Föreningssparbanken Jordbrukskredit	21
Föreningssparbanken Finans	15
Telia Finans	10
<b>Total ten largest</b>	<b>376</b>
<b>Total “other credit market companies”</b>	<b>472</b>

Source: Sveriges Riksbank

There are about 60 finance companies in Sweden, with aggregate credit outstanding of just over MSEK 200,000 at the end of 2002. 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.

Finance companies experienced vigorous growth in the 1980s, partly owing to the tightly regulated nature of the bank market. At the end of the 1980s, Sweden had almost 300 finance companies, but in connection with the turbulence on the financial markets during the first half of the 1990s, this number fell sharply.

### Corporate and local government financing companies

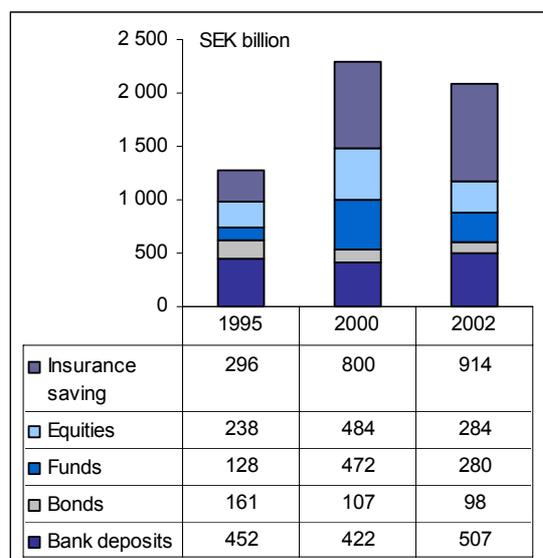
Corporate and municipal financing companies focus on certain sectors of industry or on lending to the local government sector. The largest of these companies is Svensk Exportkredit (SEK), owned by the Swedish state, which specialises in providing credit to Swedish exporters. Kommuninvest is owned by several municipalities and grants credit to its members. The third largest company in this group is Landshypotek, which provides loans secured on first mortgages (see page 6) to the agricultural and forest industry.

## Savings

### Household financial assets

The financial assets of Swedish households have more than doubled since the beginning of the 1990s, and in December 2002 they amounted to some MSEK 2,100,000. The increase has been particularly dramatic in insurance and fund savings, while bank deposits only increased during the stock market turbulence of the past year. In relation to total assets, bank deposits declined from over 46 per cent in 1990 to around 24 per cent in 2002. During recent years household financial assets held in the form of equities and fund units has declined. New investments in these types of saving also declined, whereas bank deposits rose by almost MSEK 30,000 during 2002.

### Household financial assets at the end of 1995 and 2000, and 2002



Source: The Swedish Financial Supervisory Authority, (Finansinspektionen)

### Fund saving

An important factor behind the rapid growth of fund saving is the stock market boom that was particularly strong during the second half of the 1990s. Even in the early 1980s, many Swedes had already begun to invest some of their savings in mutual funds, partly in respon-

se to the tax breaks available on certain types of such saving. Today, it is estimated that more than 85 per cent of the Swedish population have some of their savings invested in mutual funds. The new pension system has given an additional boost to fund savings, since a percentage of an individual's pension premiums must be invested in mutual funds managed by private or state-run fund companies.

### Insurance saving

Insurance and pension saving has also risen dramatically since the beginning of the 1990s. Although this partly can be explained by the increase in value of the assets, mainly equities and property, in which insurance companies invest their money, net saving has also increased noticeably. During the second half of the 1990s, a growing proportion of insurance saving has been in unit-linked life insurance, which is a form of insurance whereby investments are placed in a mutual fund of the investor's choice. Another form of pension saving is IPS (Individual Pension Saving), whereby the investor can invest in equities, mutual funds, bonds or in a bank account.

### 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 competes with Skandia for the number one position on the Swedish market for life insurance and unit-linked life insurance. Other leading companies are AMF Pension, Handelsbanken (including SPP), Länsförsäkringar, Folksam, Robur Försäkring (FöreningsSparbanken) and Nordea Liv.

## Mutual fund companies

### Fund saving

Savings in mutual funds has been increasing steadily since the beginning of the 1980s, at which time fund saving was stimulated 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. By the end of 2002, mutual funds accounted for 13 per cent of the financial assets of the Swedish people, and more than 85 per cent of all Swedes owned units in mutual funds.

The total assets of Swedish mutual funds rose from MSEK 120,000 in 1990 to over MSEK 900,000 by the end of 2002. Since then, the total assets of mutual funds had fallen by over SEK 200,000. In the end of 2002 some 49 percent of the mutual fund assets were equity funds, 29 percent were interest funds, 17 percent mixed funds, and 5 percent hedge funds.

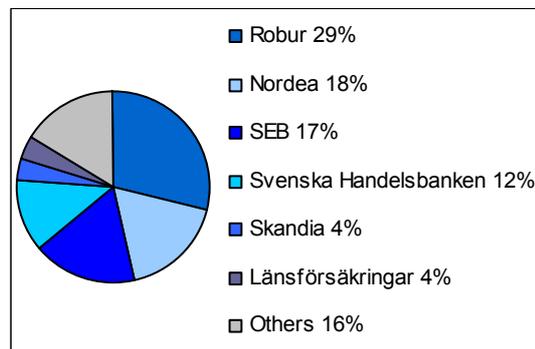
### Fund managers

The number and variety of mutual funds has increased in pace with the growing interest of investors. There are some 80 fund management companies on the Swedish market, which together sell investments in more than 1,000 funds. For a long time, the big four banks' fund companies totally dominated the market, but in recent years other fund companies on the market have been expanding. By way of illu-

stration, the big four banks manage about 76 per cent of the total assets under management, while their share of net fund investments in 2002 was around 64 per cent.

The largest players on the Swedish fund market are Robur (FöreningsSparbanken's mutual fund company), Nordea Fonder, SEB Fonder, and Handelsbanken Fonder. All of these fund companies market an extensive range of funds focusing on different geographical regions or sectors of industry. It has also become more common for fund managers to extend their own portfolio of funds with those from other fund managers, particularly large international ones.

### Mutual fund companies in Sweden. Share of total assets managed by Swedish mutual fund companies, December 2002



Source: The "Fond & Bank" newsletter

## Online banking

### Internet banks in Sweden

Swedish banks are among the most advanced in internet banking services. All major banks in Sweden offer online status on accounts and other assets, online payments, and the possibility to buy and sell units in funds and shares. Corporate customers have been able to bank via the internet for many years.

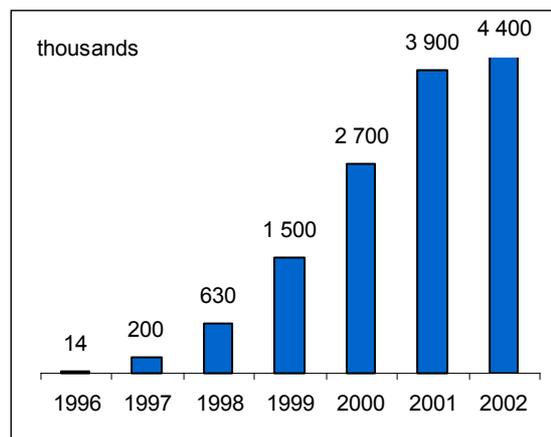
By comparison with banks in most other countries, Swedish banks have a high proportion of internet customers. One key factor behind the success of online banking is that ever since the middle of the 1990s, Swedish banks have invested heavily in developing efficient, customer-friendly online banking services. Another important reason is the large proportion – more than 60 per cent – of Swedish homes with access to the internet.

### Internet banking customers

The first online banking services in Sweden were launched in 1996. Although the range of services was limited in the first few years, as more services have been added and more computers installed in Swedish homes, the number of online banking customers has soared. By the end of 2002, Sweden's banks had more than four million internet customers out of a total population of 8.9 million (7.2 million over 15 years old) – although it must be remembered that some of these customers use more than one bank. According to various surveys, the proportion of the population that uses the internet as its main channel of com-

munication with their bank is between 35 and 40 per cent.

### No. of internet customers of Swedish banks at the end of each year



Source: Swedish Bankers' Association

The growing use of the internet for banking services provides obvious advantages, not only for the banks' customers but also for the banks themselves. The internet gives the customers a better overview of their banking business and enables them to handle their everyday financial transactions without having to visit their local branch. Customers who start to bank online are also proving to be more active as they engage in more banking transactions. As for the banks, the internet enables them to make the distribution and production of their banking services more efficient. Eventually, the growing use of online banking will allow banks to replace their conventional branch offices with ones concentrating on advisory services and sales.

## Payment services

### Means of payment

Apart from minor cash payments, practically all payments in Sweden are made through the mediation of a bank or credit card company. The most common means of payment are the various charge cards and electronic giro systems. Most payments are linked to transaction accounts at a bank, 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 has rapidly been giving way to electronic payments of various types. The use of different kinds of cards, for instance, has increased ten-fold since the early 1990s.

While the share of electronic giro payments, mainly online, has increased the share of paper-based giro transactions has decreased.

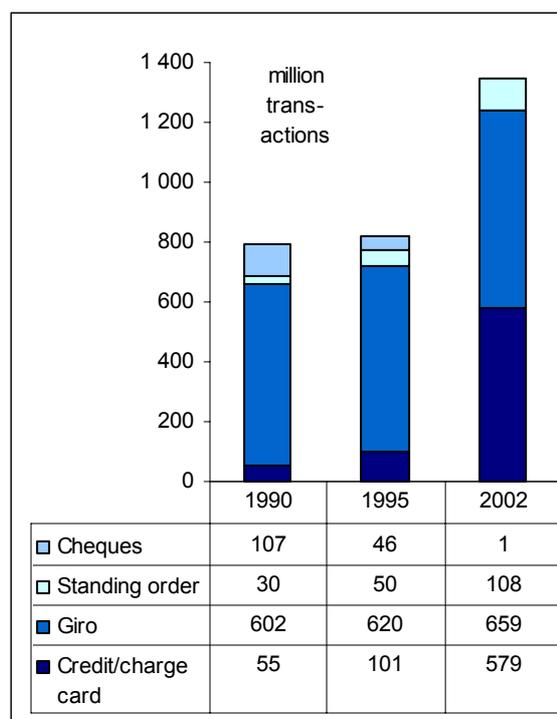
### Giro systems

There are two different giro systems in Sweden. The Bank giro is owned jointly by the banks, while the Postal giro is owned by Nordea (since 2001). Both these competing systems are technically advanced and provide quick, secure payment facilities. In 2000, more than 800 million payments were made via

Bank and Postal giro for a total value of almost 8,000 billion kronor.

The Swedish ATM network is also highly developed, with more than 2,500 ATMs nation-wide, from which more than 300 million withdrawals are made each year. 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 1990, 1995 and 2000



Source: Sveriges Riksbank