Banks in Sweden

Svenska Bankföreningen
Swedish Bankers’ Association
Contents
The Swedish financial market ................................................................. 4
Banks in Sweden .................................................................................. 5
Banks’ functions .................................................................................. 6
Banking structure ................................................................................ 7
The major banking groups ................................................................. 8
Other credit market companies .......................................................... 9
Household loans ................................................................................ 10
Household savings ............................................................................ 11
Mutual fund companies .................................................................... 12
Payment services ................................................................................ 13
Supervision of Swedish banks ............................................................ 14
Banking laws ...................................................................................... 15
Financial crisis management ............................................................... 16
Covered bonds .................................................................................... 17
Banks in society .................................................................................. 18
The economic role of the financial sector

The three main functions of the financial system are to convert savings into funding, to create the conditions for efficient processing of payments in the economy and to manage risks. An efficient and reliable financial system is of fundamental importance for the Swedish economy and 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 channels savings from households and companies into investment and consumption, such as the needs of households to even out consumption over the various stages of life, as well as the need for companies to finance investment.

In 2017, the financial industry accounted for 4.1 percent of the total output in Sweden, expressed as its GDP. Over 90,000 people, representing about two percent of the total workforce, work in the financial industry. This can be compared with the manufacturing industry, which employs 11 percent of the workforce, and the information and communication sector, which employs 4 percent.

Types of financial enterprises

Banks (commercial banks, foreign bank branches and savings banks) constitute the largest group of companies in the financial sector in Sweden as regards total assets and liabilities. The banks’ total balance sheet items were SEK 9,272 billion in 2018. Credit market companies come next after the banks in size, measured in total balance sheet items. Housing credit institutions are the largest group of companies among the credit market institutions.

Securities companies conduct trade with securities in their own name on behalf of customers and on their own behalf, as well as commission trading. In this capacity they play an important role in creating an efficient market for securities.

Beyond the above-mentioned companies there is a group of companies that have an important role in the financial market as investors: insurance companies, mutual funds companies and pension funds. In addition there are also private equity companies and FinTech. Private equity companies mediate risk capital by investing and taking a part of the ownership in companies. FinTech are companies which offer financial services with the latest digital technology.

Financial companies, December 2018, SEK billion

<table>
<thead>
<tr>
<th>Total balance</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial banks</td>
<td>6,772</td>
</tr>
<tr>
<td>Foreign bank branches</td>
<td>2,269</td>
</tr>
<tr>
<td>Savings banks</td>
<td>232</td>
</tr>
<tr>
<td>Housing credit institutions</td>
<td>3,636</td>
</tr>
<tr>
<td>Other credit market companies</td>
<td>1,062</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>13,970</strong></td>
</tr>
</tbody>
</table>

Source: Statistics Sweden

Market changes

The financial sector is experiencing a significant change in its structure and many new financial companies, both Swedish and foreign, have established on the Swedish 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. Other ways of performing bank services are, for example, real-time payments between customers (Swish), 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 financial services companies (FinTech), and in that way increased competition in banking.

Mutual funds and insurance savings have become some of the most important forms of household savings. Around 80 percent of the population have some of their savings in mutual funds. Bank savings are, however, the largest household savings type.
Banks in Sweden

Number of banks
In December 2018, Sweden had a total of 124 banks. They could be divided into four main categories of bank: commercial banks, foreign banks, savings banks and co-operative banks.

The number of commercial banks and foreign bank branches in Sweden has increased from 63 in 2008 to 75 in 2018. The increase has occurred above all among Swedish commercial banks, when several credit market institutions have transformed into commercial banks.

Commercial banks
Commercial banks are divided into three groups. The largest are the three big Swedish banks: Swedbank, Handelsbanken 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 from the mid-1990s onwards. 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. There are also examples of new banks with a background in securities trading and in the last few years several new banks with a background in the financing business.

The newly established banks have, in the 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. In the space of a few years, in connection with the financial crisis in the beginning of the 1990s, the number of foreign banks declined. Foreign banks were permitted to open branches in 1990 and, since then, they have increased.

In December 2018, the foreign banks amounted to 36. After Nordea moved its headquarters to Finland in October 2018, the bank became by far the largest foreign bank in Sweden. Danske Bank is the second largest foreign bank in Sweden. Nordea and Danske Bank have services and products for all types of customers. Most other foreign banks focus on the corporate banking and securities market.

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

<table>
<thead>
<tr>
<th>Type of bank</th>
<th>2018 (Dec)</th>
<th>2008 (Dec)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial banks</td>
<td>39</td>
<td>30</td>
</tr>
<tr>
<td>– of which are big banks</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>– of which are former savings banks</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>– of which are other Swedish commercial banks</td>
<td>23</td>
<td>13</td>
</tr>
<tr>
<td>Foreign banks</td>
<td>36</td>
<td>33</td>
</tr>
<tr>
<td>– of which are subsidiaries</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>– of which are branches</td>
<td>35</td>
<td>29</td>
</tr>
<tr>
<td>Savings banks</td>
<td>47</td>
<td>53</td>
</tr>
<tr>
<td>Co-operative banks</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>124</strong></td>
<td><strong>118</strong></td>
</tr>
</tbody>
</table>

Source: The Swedish Financial Supervisory Authority (Finansinspektionen)
Banks’ functions

Deposits and lending
Banks’ core business is to accept deposits from the public and provide credit. In this way banks make it possible to convert savings into funding.

In December 2018, the banks’ deposits from the public, households and non-financial companies amounted to SEK 4,370 billion. The bulk of these deposits – 44 percent – come from Swedish households. Swedish companies account for 24 percent of the deposits and the foreign public for 19 percent.

From 2008 all deposits in banks and credit market institutions are covered by the deposit insurance scheme. 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 scheme.

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 4,281 billion in December 2018. Swedish businesses account for 33 percent of total lending to the public, while foreign borrowers and Swedish households account for 30 percent each.

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 1990s.

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, jointly owned by the banks. The Swedish payment system is technically advanced and has high efficiency. These systems for payments and transactions 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 retail and corporate customers the opportunity to reduce, redistribute and spread risks. One example is mutual funds, where portfolios of securities are constructed and where the risks in single securities are spread within the mutual fund.

Bank deposits from and lending to the public, December 2018, SEK billion

<table>
<thead>
<tr>
<th>Category</th>
<th>Deposits</th>
<th>Lending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Others</td>
<td>360</td>
<td>150</td>
</tr>
<tr>
<td>Foreign Public</td>
<td>846</td>
<td>1,286</td>
</tr>
<tr>
<td>Public Sector</td>
<td>196</td>
<td>170</td>
</tr>
<tr>
<td>Corporates</td>
<td>1,035</td>
<td>1,402</td>
</tr>
<tr>
<td>Households</td>
<td>1,934</td>
<td>1,272</td>
</tr>
</tbody>
</table>

Source: Sveriges Riksbank
Banking structure

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 large Swedish banks – Swedbank, Svenska Handelsbanken and SEB, as well as the now Finnish bank Nordea. Together they have a strong position on the Swedish market but their market shares vary in different niche markets. The four banks’ market share on the deposit market is 62 percent.

The big 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, 420 and 218, respectively. Most of the services offered by banks’ branch offices are also offered through their Internet channels, the telephone bank and through mobile phones. Consequently, branch offices have therefore shifted their focus to providing advisory services and selling the banks’ products and services.

Other banks and foreign banks
Since the end of the 1990s other commercial banks and foreign bank branches have gained market shares on households’ deposits in Sweden. Banks, such as SkandiaBanken, Länsförsäkringar Bank and Ikano Banken, established telephone and Internet banks in the mid-1990s and ICA Banken in the early 2000s. Although they have gradually expanded their range of services, they are still mainly focused on household retail banking.

A different category is banks with a background as securities firms and which are primarily focused on trading and asset management, such as the banks Avanza and Nordnet.

Another category of new bank is former credit market institutions, for example Volvofinans Bank and Marginalen Bank.

The presence of foreign banks in Sweden has been significant for many years, partly due to Danske Bank, with some 35 branch offices. From October 2018 Nordea Bank moved its head office from Sweden to Finland and thereby became the largest foreign bank in Sweden. 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 percent of households’ deposits in Sweden, but an individual savings bank’s local market share can be much higher. At the end of 2017, the savings banks had 137 branch offices, representing almost 10 percent of the 1,409 branch offices in Sweden.

Deposits from Swedish households, share of the total, December 2018

<table>
<thead>
<tr>
<th>Bank Type</th>
<th>Share of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Swedbank</td>
<td>20%</td>
</tr>
<tr>
<td>Handelsbanken</td>
<td>18%</td>
</tr>
<tr>
<td>Nordea filial</td>
<td>13%</td>
</tr>
<tr>
<td>SEB</td>
<td>12%</td>
</tr>
<tr>
<td>Other commercial banks</td>
<td>25%</td>
</tr>
<tr>
<td>Savings banks</td>
<td>7%</td>
</tr>
<tr>
<td>Foreign bank branches</td>
<td>3%</td>
</tr>
<tr>
<td>Other institutions</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: Statistics Sweden (SCB)
The major banking groups

Banking groups in Sweden

From the mid-1990s, Sweden’s leading banks have evolved into financial groups with extensive international activities. This development is due to areas such as mortgage lending, fund management and life insurance becoming increasingly important part of the groups’ business activities alongside traditional banking and the fact that the groups have expanded internationally.

Svenska Handelsbanken (SHB) has more than 420 branch offices in Sweden. From the 1990s the bank has also expanded in the Nordic region, both through acquisitions and by opening branch offices. The bank has a subsidiary in the United Kingdom and a branch in 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.

SEB is the name of the financial group formed around Skandinaviska Enskilda Banken. SEB has developed extensive international activities, including in the Baltic region and Germany. 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.

Swedbank has a network of around 218 bank branch offices in Sweden. In addition, Swedbank works 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.

Nordea has been a Finnish bank since October 2018, but with major operations in Sweden, in part through its Swedish bank branches. Nordea is the largest financial company in the Nordic region with more than 30,000 employees. The group includes leading banks and bank branches which are among the largest in Sweden, Finland, Denmark and Norway. The bank’s Swedish operations, besides the bank branches, also include one of the largest finance companies and major players in fund management and mortgage credits.

Other Nordic financial groups

Other Nordic financial groups with a strong position in Sweden are Danske Bank, Länsförsäkringar, SBAB and Skandia.

Danske Bank is Denmark’s largest bank and has banking operations in all the Nordic countries.

Länsförsäkringar consists of 23 regional insurance companies in co-operation, and together they own Länsförsäkringar Bank.

SBAB is originally a mortgage institution but received a banking licence in 2010 and expanded its operations to deposit activity, among other things.

Skandiabanken is owned by Skandia, which has operations in life insurance, among other things.

Four large banking groups in Sweden

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total of which Sweden</td>
<td>SEK Billion</td>
</tr>
<tr>
<td>Nordea¹</td>
<td>30,399</td>
<td>6,912</td>
</tr>
<tr>
<td>Handelsbanken</td>
<td>11,832</td>
<td>7,010</td>
</tr>
<tr>
<td>SEB</td>
<td>15,946</td>
<td>8,053</td>
</tr>
<tr>
<td>Swedbank</td>
<td>14,536</td>
<td>7,404</td>
</tr>
</tbody>
</table>

Source: Annual reports of the respective banks

¹ The figures for Nordea relate to the entire Nordea Group, where the bank’s activities in the other Nordic countries are also included.
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 25 finance companies in Sweden, with aggregate credit and leasing outstanding of SEK 278 billion in December 2018. 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 1980s, partly as a result of 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 the industry or on lending to the local government sector. They are financed by issuing bonds and certificates.

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

Swedish households’ loans amounted to SEK 3,996 billion in December 2018. Households borrow above all to finance housing. Total household lending secured on housing amounted to SEK 3,289 billion in December 2018.

Around 65 percent of Swedish households own their dwelling. Of these households, 84 percent have a mortgage loan. In December 2018, single family homes and tenant-owned apartments were used as a security for 82 percent of 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.

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 8 percent of households’ total loans.

Loans without security, blank credits, constitute 6 percent of households’ total loans.

Other securities make up 3 percent of households’ loans. Other securities consist of, among others, securities and different kinds of guarantees.

Household lenders

Mortgage institutions are the largest providers of loans to Swedish households: 67 percent in December 2018. 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 32 percent of total household loans in December 2018. A significant part of 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 percent 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 50 percent of the finance companies’ lending to households is unsecured lending. Among other credit institutions, you find companies that specialise in lending to farming and forestry.

Amortisations

From October 2010, the Swedish FSA introduced new rules regarding mortgage lending, which means that new mortgage loans shall not exceed 85 percent of the market value of the property. In June 2016 the amortisation requirements on mortgage loans entered into force. The Finansinspektionen requirements imply that new mortgages with a loan-to-value over 50 percent must amortise. Mortgages with a loan-to-value above 70 percent must amortise yearly an amount that corresponds to two percent of the mortgage loan. Mortgages with a loan-to-value between 50 and 70 percent should amortise one percent of the mortgage loan.

From March 2018 stricter amortisation requirements entered into force. The stricter amortisation requirement implies that new borrowers, with a housing loan, and whose housing debts exceeds 4.5 times gross income, must amortise at least 1 percent additional to the fundamental amortisation requirements.

Household loans by security, SEK billion

<table>
<thead>
<tr>
<th>Year</th>
<th>Single family homes</th>
<th>Tenant-owned apartments</th>
<th>Other properties</th>
<th>Other securities</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>500</td>
<td>1,000</td>
<td>1,500</td>
<td>0</td>
</tr>
<tr>
<td>2010</td>
<td>2,000</td>
<td>2,500</td>
<td>3,000</td>
<td>4,500</td>
</tr>
<tr>
<td>2015</td>
<td>3,000</td>
<td>3,500</td>
<td>4,000</td>
<td>4,500</td>
</tr>
<tr>
<td>2018</td>
<td>4,000</td>
<td>4,500</td>
<td>5,000</td>
<td>5,500</td>
</tr>
</tbody>
</table>

Banks in Sweden
Household savings

Household financial assets
The financial assets of Swedish households have increased by almost 200 percent since 1997 and amounted in December 2018 to SEK 5,138 billion. The increase has occurred above all in mutual fund and insurance savings and, since the first few 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
Bank deposits today constitute the largest share of total household financial assets. In relation to total household financial assets, the share of bank deposits diminished during the 1990s, but has increased thereafter and amounted in December 2018 to 37 percent of household financial assets. In the beginning of the 1980s bank deposits made up around 50 percent of household financial assets.

Fund saving
Already in the early 1980s, 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, around 80 percent 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 percent in the early 1990s to 30 percent around 2000. The share has declined thereafter and in 2018 was around 21 percent.

Household financial assets, SEK billion

<table>
<thead>
<tr>
<th>Year</th>
<th>Others</th>
<th>Bonds</th>
<th>Mutual funds</th>
<th>Shares</th>
<th>Insurance savings</th>
<th>Deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>81</td>
<td>160</td>
<td>276</td>
<td>395</td>
<td>369</td>
<td>442</td>
</tr>
<tr>
<td>2000</td>
<td>100</td>
<td>107</td>
<td>493</td>
<td>502</td>
<td>576</td>
<td>424</td>
</tr>
<tr>
<td>2005</td>
<td>100</td>
<td>116</td>
<td>544</td>
<td>565</td>
<td>629</td>
<td>624</td>
</tr>
<tr>
<td>2010</td>
<td>113</td>
<td>135</td>
<td>659</td>
<td>605</td>
<td>932</td>
<td>1,085</td>
</tr>
<tr>
<td>2018</td>
<td>91</td>
<td>96</td>
<td>1,154</td>
<td>815</td>
<td>1,061</td>
<td>1,922</td>
</tr>
</tbody>
</table>

Source: Statistics Sweden

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.

In 2016 tax subsidies on pension savings were abolished, which has led to that part of the pensions savings being moved to other kinds of savings.

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

Fund saving
Households’ savings in mutual funds increased steadily until 2000 when around 20 percent of Swedes’ financial assets consisted of mutual funds. The share of mutual funds in households’ financial assets has varied slightly since then and amounted in December 2018 to 22 percent. Households also invest indirectly in mutual funds through e.g. life insurances and endowment insurance.

In the 1980s, 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. Today almost all Swedes have savings in mutual funds through private savings and the premium pension system.

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 mutual fund values. In December 2018 mutual fund assets amounted to SEK 3.978 billion. Excluding the state premium pension, mutual fund assets amounted to SEK 2.877 billion.

In December 2018 some 57 percent of mutual fund assets were equity funds, 25 percent were mixed funds, 17 percent interest funds, and 1 percent 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. At present there are around 2,500 mutual fund available for savers on the Swedish market. The big banks’ fund companies are important players on the Swedish mutual fund market. As the mutual funds market has grown over time, a lot of new actors have entered the market, both Swedish and foreign. Among 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.


Source: Swedish Investment Fund Association
**Payment services**

**Means of payment**
Besides 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 around 170 million transactions in 1997 to around 3.350 million transactions in 2017. 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 survey by the Post and Telecom Authority, a large proportion of Swedes pay their bills electronically through an Internet bank or by direct debit in 2018. At the same time, the use of paper-based payments, such as giro forms, decreased to 13 percent of the Swedes in 2018.

One of the different electronic payment means are e-invoices. With e-invoices, the bank customer receives the bill electronically directly at the customer’s Internet bank with all the necessary information, while all the customer needs to do is to approve it. During 2017, e-invoices to private customers amounted to 138 million.

**Giro payment system**
The majority of all payments between individuals and most companies is managed through Bankgirot. Bankgirot is owned jointly by seven larger banks and handles retail payments on the Swedish market. The Bankgirot payment system is technically advanced and provides quick, secure retail payment facilities. The Bankgirot system can handle a number of different transactions, for example bank giro payments, account-to-account transfers, clearing of card payments and ATM withdrawals.

**The ATM network**
The Swedish ATM network is also highly developed, with approximately 2,655 ATMs nationwide. In 2017, ATM withdrawals amounted to 121 million and the average withdrawal was around SEK 1,000. The system is designed rationally in that all ATMs can be used by the customers of more or less any other bank.

**Number of card payments and ATM withdrawals per capita 1995–2017**

![Graph showing the number of card payments and ATM withdrawals per capita from 1995 to 2017.](Source: Sveriges Riksbank)
Supervision of Swedish banks

The main functions of the financial system are to accept deposits and provide credit, mediate payments and 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. The responsibility to keep the financial system stable is shared by several authorities: Finansinspektionen (the Swedish Financial Supervisory Authority), Riksbanken (the Swedish central bank), Riksgälden (the Swedish National Debt Office) and the Ministry of Finance. Finansinspektionen is responsible for supervision of financial institutions on both an institute level (micro) and on a system level (macro). Riksbanken has an overall responsibility to promote a stable function of the financial system. The task of the Debt Office in terms of financial stability is to handle banks in crisis and to be responsible for the deposit insurance scheme. The Ministry of Finance is responsible for drawing up laws and regulations that will apply in the financial system.

Finansinspektionen, Riksbanken and Riksgälden, together with the Ministry of Finance, form 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. The Financial Stability Council does not make any decisions. Instead decisions are made independently by the government and the authorities within their respective areas of responsibility.

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 also has 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 stabilisation of the credit market.

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 in order for them to be considered as carrying out sound activities. Finansinspektionen is the authority that issues permits and licences for different activities on the financial markets, e.g. bank licences.

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 supervision also includes identifying, analysing and monitoring systemic risks, such as financial imbalances on the credit market.

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

In a financial crisis the Riksbank can supply liquidity to the financial system. This could entail liquidity assistance to individual institutions, or general measures to improve liquidity like offering loans in Swedish krona at longer maturities than normal or loans in other currencies than Swedish krona.

Riksgälden, The National Debt Office

Historically Riksgälden is the authority which is responsible for the central government debt and raising loans. The assignment of the authority has increased step by step in the field of financial stability. In terms of financial stability, Riksgälden is responsible for handling banks in crisis and the deposit insurance scheme.
Banking laws

The Banking and Financing Business Act
The Banking and Financing Business Act 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 contains 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.

The 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. In September 2018 a new concept was introduced in the act, high cost-credit. High cost-credit is a credit with an effective interest rate that amounts to at least the reference interest rate with an addition of 30 percentage units and which is not mainly intended for credit purchase or is a housing credit.

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

The Payment Services Act
The act states what a payment service provider is required to observe when payment services are offered in Sweden and performed in the EEA. In this act, it is stated what a payment service provider shall fulfil in order to have an authorisation to provide payment services, and in which cases exemptions from the authorisation are permitted. The act stipulates the obligation to provide payment account services, information requirements when providing payment services to customers, fees, time of execution, unauthorised transactions and sanctions, etc.

The Act on Deposit Guarantee Scheme
The act guarantees deposits in all kinds of accounts at banks, credit market institutions and investment institutions up to SEK 950,000 per depositor and institution. In addition, it is possible to apply for extra compensation up to SEK 5 million for deposits resulting from transactions serving a certain social purpose, for example a real estate transaction. The guarantee covers losses if an institution goes bankrupt or due to a decision made by Finansinspektionen.

The Anti-Money Laundering Act
The Act applies to banks and credit market institutions, but also to a number of other companies. The purpose of the regulations is to prevent firms from being used for money laundering and terrorist financing. The act has rules on risk assessment and procedures, customer due diligence, monitoring of transactions, reporting of suspicious transactions and sanctions, etc.

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 (the Swedish Supervisory Authority) and European supervisory authorities. The European supervisory authorities, EBA, ESMA and EIOPA, are responsible for harmonising the European rules and for coordinating the supervision within the EU. These authorities issue, among other things, technical standards, which the European Commission adopts as regulations and which the Swedish banks must follow, and guidelines.

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 in this respect is the Act on the Market for Financial Instruments. The Markets in Financial Instruments Directive (MiFID) is implemented in Sweden by this act.
Financial crisis management

The Swedish National Debt Office has, as a resolution authority, a central role in handling banks in crisis. The National Debt Office is also the responsible authority for the state support measures to viable banks and the deposit insurance scheme.

Managing banking crises (resolution)

In 2016 the former bank support regulation was to a large extent replaced by new rules on managing crises in banks and other financial institutions. The new rules on resolution are based on global principles and the EU Bank Recovery and Resolution Directive. The new regulation establishes a special procedure, resolution, for managing institutions in crisis without putting them into bankruptcy. The purpose of the regulation is to manage failing institutions and to avoid major disruptions to the financial system and without taxpayers bearing the cost.

Through the resolution procedure, the government takes control of the institution in crisis and reconstructs it or winds it up in an orderly way. During this procedure the institution can be kept open. The losses during the resolution procedure will be absorbed by the institution’s shareholders and creditors having their holdings written down and/or converted into equity (“bail-in”). Deposits covered by the deposit insurance scheme will not be affected by “bail-in”.

The Debt Office is Sweden’s resolution authority and is responsible for dealing with crises that arise and for conducting planning work to be prepared if an institution runs into problems. This includes producing a resolution plan for every institution and deciding on requirements concerning how much bail-in able liabilities the institution should have.

Precautionary support

If there is a threat of a serious disturbance to the financial system, the state can in certain cases give precautionary support to viable banks and credit institutions. The Debt Office is the responsible authority and is permitted to support the funding of institutions via guarantees and in special cases also capital injections.

Resolution reserve

Losses arising during the managing of banks in crises shall primarily be covered by shareholders and creditors. In extra ordinary circumstances, external financing might be required and therefore the Resolution Reserve has been created. The Resolution Reserve is financed by yearly resolution fees from banks and other credit institutions. Smaller credit institutions pay a yearly standard fee, while larger institutions pay a fee in relation to the risk they form in the system. The credit institutions paid SEK 6.5 billion (approximately EUR 650 million) in resolution fees to the Resolution Reserve in 2017.

In 2008, the Swedish parliament, the Riksdag, decided to establish a stability fund to finance the measures taken by the government to support the financial system. In conjunction with the new rules from 2016 on managing crisis in banks, resolution, the design and function of the stability fund was changed. Part of the stability fund remained in place for financing eventual measures within the framework of the Precautionary Support Act. The other part of the stability fund, which consist of already paid stability fees, was then transferred to the new resolution reserve.

Deposit insurance scheme

The deposit insurance scheme counteracts the risk of a serious disturbance to the financial system by providing security for savers and reducing the risk of bank runs in times of financial unrest. The Deposit Insurance Act guarantees deposits in all kinds of accounts at credit institutions up to SEK 950,000 per depositor and institution. In addition, it is possible to apply for extra compensation up to SEK 5 million for deposits resulting from transactions serving a certain social purpose, for example a real estate transaction. The guarantee covers losses if an institution goes bankrupt or due to a decision made by Finansinspektionen.

Financial stability funds

Banks and other financial institutions have paid fees to create funds for the deposit insurance scheme and financial stability over a prolonged period. In 1996 a fee was introduced to build up a fund for the deposit insurance scheme. In 2008 another fee was introduced to create the stability fund, which was replaced in 2016 with a new fee to build up the new resolution reserve. The fees that the institutions have paid to the different funds have grown to a total of SEK 109 billion (approximately EUR 11 billion) in 2017.

Funded fees, SEK billion

Source: Swedish Bankers’ Association and the Swedish National Debt Office
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 percent 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 2006, the main funding of mortgages from banks and mortgage institutions consisted of mortgage bonds. A couple of years earlier, in 2004, funding with covered bonds became possible with a new covered bonds act in Sweden. From 2006 onwards, all mortgage bonds were converted into covered bonds.

The total amount of outstanding covered bonds had grown to SEK 2,235 billion at the end of 2018. During 2018, the institutions issued new covered bonds amounting to SEK 681 billion.

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. due to bankruptcy, the holder has a direct pledge in the covered bond’s cover pool.

The cover pool of a covered bond consists of loans secured on 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 percent 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 percent and 60 percent respectively 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

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

Planned EU legislation

In 2018 the EU Commission presented a proposition for a directive on covered bonds as a part of the implementation of the capital market union. The purpose of the directive is a minimum harmonisation of the national rules on covered bonds in the EU. A decision on the directive is expected in 2019. The directive might involve some adjustments to the current Swedish legislation on covered bonds.

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

Source: Swedish Bankers’ Association
Banks in 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.