

## INTERNATIONAL SAVINGS BANKS

21 July 2020

# The Savings Banks Organisation in Sweden

The 59 savings banks in Sweden have a market share in deposits and loans of approximately 8%. Their central institution, Swedbank, is one of Sweden's four largest banking groups and is the market leader in retail banking in Sweden and in the three Baltic States of Estonia, Lithuania and Latvia.

Most Swedish savings banks are still owned by foundations. 14 savings banks have been converted into public limited companies. Swedbank has a stake of between 22% and 50% in 5 of these savings banks. Conversely, the savings banks and the savings bank foundations together hold 14.3% of the shares in Swedbank. These mutual interdependencies and a long-term cooperation agreement result in close ties between the savings banks and Swedbank.

Swedbank is a public limited company listed on the Stockholm Stock Exchange. Nevertheless, because of its history, it often acts like a savings bank and sees itself as a bank for the people, which has an obligation towards the people and the economy of the region. With the exception of Sparbanken Syd, all Swedish savings banks are members of the national savings bank association Sparbankernas Riksförbund.

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# The Swedish banking market

In macroeconomic terms, the banking sector in Sweden is as important as in other European countries. The balance sheet total of all Swedish banks in 2019 was about 2.7 times as large as Sweden's overall economic output. By comparison, the European average was 2.4 times GDP. The bank branch network in Sweden has a population of 7,055 per branch, which is well below average. By comparison, the European average is 3,145 inhabitants per branch (see charts 1 and 2).

In 2019, the portfolio of loans at risk of default at Swedish banks was 0.5%, well below the average of 2.7% in other European countries. In 2019, the cost-income-ratio of Swedish banks was 53%, below the level of other European competitors. Profitability, measured by return on equity, was 12% in 2019, well above that of other banks in Europe (see charts 3 and 4).

Since the mid-1980s, the Swedish banking market has been extensively deregulated. As a result, there has been an increase in the volume of credit, which has fuelled a real estate and equity boom. At the beginning of the 1990s, this development led to a system-wide banking crisis that could only be overcome by massive government measures (establishment of bad banks and nationalisation of important banks). In the wake of the clearing up of the banking crisis, the banking market underwent a far-reaching reorganization. The Swedish banking market survived the financial crisis from 2007 onwards relatively well thanks to targeted support measures.

Similar to Norway, the high level of household debt and the continuing rise in property prices continue to pose a major risk to the Swedish financial market. Household debt to GDP reached a new high of 205.3% in 2019. The growth rate<sup>1</sup> for new real estate loans declined by 1.4% year-on-year to 5.2%.

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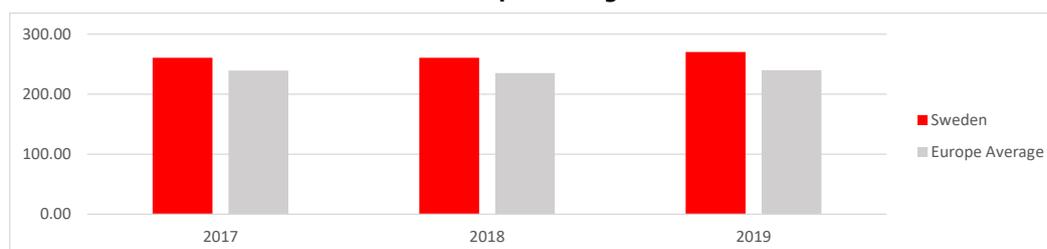
<sup>1</sup> Status 06/2019 Swedish Bankers Association

**Table 1: The largest Swedish banks by balance sheet total**

Group	2019	2018	2017
Nordea Bank	555	551	582
Svenska Handelsbanken	292	292	282
Skandinaviska Enskilda Banken	272	252	260
Swedbank	229	220	225

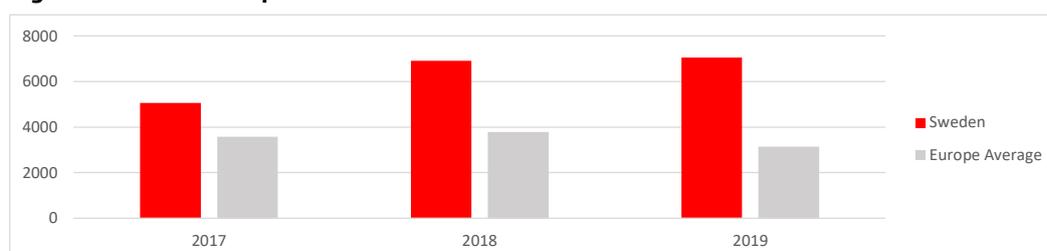
Source: Financial Report of the respective group<sup>2</sup> 2019, in billion euros

**Chart 1: Balance sheet total of banks as a percentage of GDP**



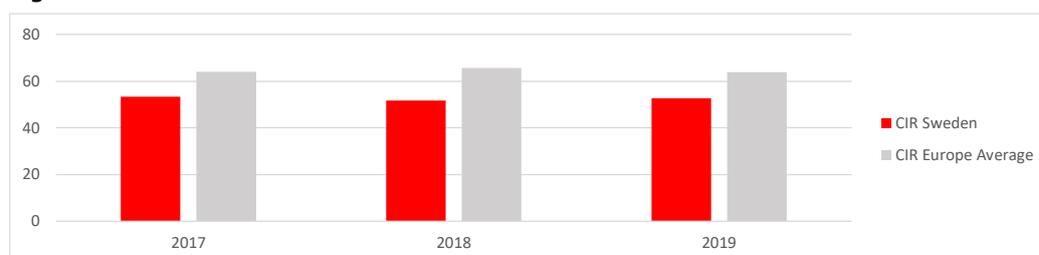
Source: European Central Bank 2020, own calculations

**Figure 2: Inhabitants per branch office**



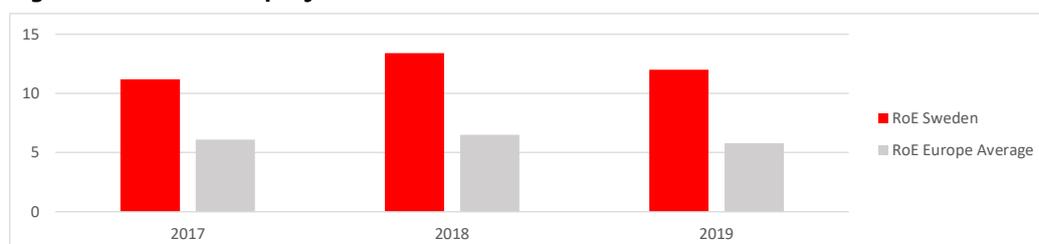
Source: European Central Bank, Eurostat 2020, own calculations

**Figure 3: Cost-income ratio (CIR), in %**



Source: European Central Bank, 2020

**Figure 4: Return on equity (RoE), in %**



Source: EBA Dashboard, 2019

<sup>2</sup> Nordea moved its head office to Helsinki in Finland on 1 October 2018, thus becoming a member of the Banking Union.

## The Swedish savings banks

The first Swedish savings bank was founded in Gothenburg in 1820. The Swedish savings banks of the early 19th century were intended to offer financial services to broad sections of the population, especially poorer people. For a long time, there was a deposit ceiling to comply with this target group orientation, which hindered the institutions in their growth. It was not until 1969 that the activities of the savings banks were put on an equal footing with those of commercial banks.

The savings banks, managed in the form of foundations, were managed by respected citizens from the local community. The Swedish savings banks had a local focus from the outset. Even though a limitation of activities to the local framework (regional principle) was not mandatory, it was voluntarily observed.

The number of Swedish savings banks has fallen sharply over the years. In the peak year 1928 there were 498 savings banks, in 1960 there were 434. In 1980 there were still 164 savings banks, after many small institutions had merged to form regional banks. As a result of an increasingly difficult competitive environment, combined with the deregulation of the Swedish banking market, further mergers took place in the following period. An additional driver of consolidation was the concentration of many Swedish companies and the associated relocation of their headquarters from the province to the capital Stockholm, which meant that the locally operating savings banks lost competitive advantages.

**Table 2: Structural information on the Swedish Savings Banks**

**Quantity** 59 savings banks - thereof 58 members of the association<sup>3</sup>  
Of the 58 savings banks that are members of the association

- 14 stock corporations
- 44 private foundations

Of the 14 stock corporations

- 9 stock corporations 100% owned by local savings banks foundations
- 5 Stock Corporations with Swedbank participation (partly-owned banks)

There are therefore a total of 54 savings banks without Swedbank participation (independent savings banks).

**Legal form** Originally private foundations. Since 1991, it has been possible to incorporate the banking business into stock corporations.

**Regional principle** Yes, for foundations; it is adopted by savings banks on a voluntary basis.

In 2018,<sup>4</sup> more than 3,300 employees, about 60% of them women, provided services to 2 million private and corporate customers in 220 business outlets. Total assets and operating profit amounted to EUR 34 billion and EUR 0.34 billion respectively. However, the Swedish savings banks do not have a uniform presence in all parts of the country, but are mainly present in the southern region and there mainly in small and medium-sized towns outside the metropolitan regions.

In 2014, Sparbanken 1826 merged with Färs & Frosta Sparbank and part of Sparbanken Öresund to form Sweden's largest regional savings bank - Sparbanken Skanje. Sparbanken Skanje is 78% owned by savings banks and 22% by Swedbank. The remaining part of Sparbanken Öresund has been taken over by Swedbank.

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<sup>3</sup> Sparbanken Syd is not a member of the Swedish Savings Banks Association.

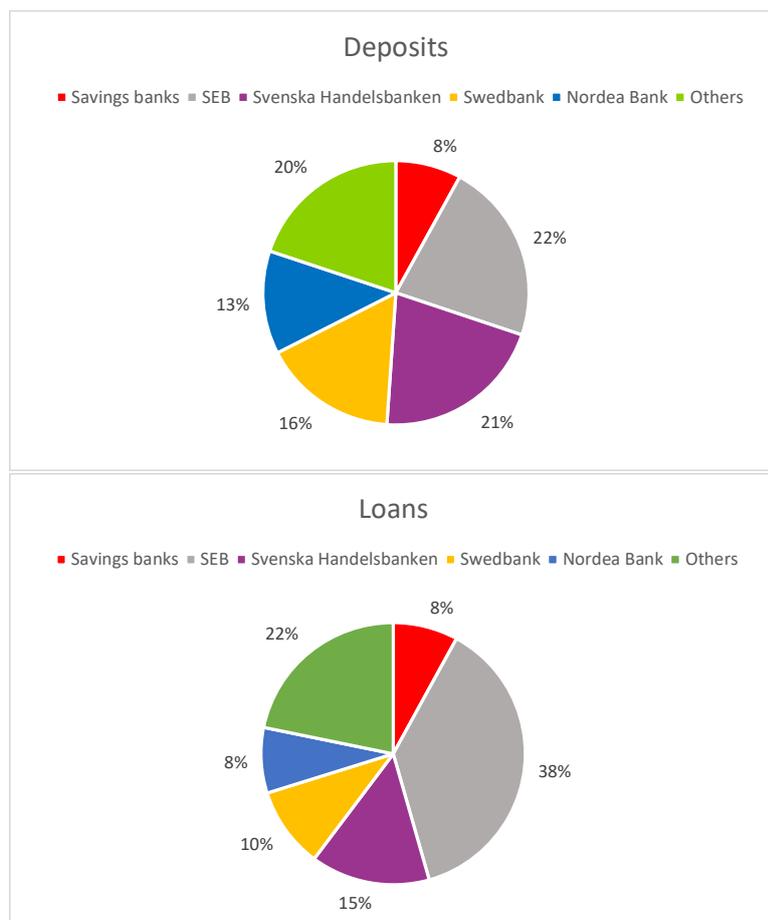
<sup>4</sup> No update of the figures in 2019

**Table 4: The 10 largest Swedish savings banks by balance sheet total**

Savings banks	2019
Sparbanken Nord	2,200
Sörmlands Sparbank	1,505
Sparbanken i Karlshamn	1,083
Orusts Sparbank	1,075
Westra Wermlands Sparbank	1,055
Falkenbergs Sparbank	1,019
Sparbanken Syd	1,012
Roslagens Sparbank	955
Sparbanken i Enköping	955
Sparbanken Västra Mälardalen	906

Source: Svenska Bankföreningen, Bank and Finance Statistics, 2019, in million euros

**Chart 5: Market shares in deposits and loans of Swedish savings banks in 2019**



Source: Svenska Bankföreningen, Bank and Finance Statistics, 2019, own calculations

## Central institution: Swedbank AG

In 1992, the Association of Swedish Savings Banks, the Savings Banks Central Bank and the banking operations of 11 large regional and county savings banks merged to form *Sparbanken Sverige AB*. The 11 savings bank foundations, which contributed their banking business to Sparbanken Sverige AB, became its shareholders. The merger was forced by the banking crisis in the early 1990s, which had hit the expanding savings bank sector particularly hard. Also in 1992, over 350 local cooperative banks in Sweden merged to form *Föreningsbanken AB*. At the end of 1997, Sparbanken Sverige AB merged with Föreningsbanken AB to form *FöreningsSparbanken*, whose name was changed to *Swedbank* in 2006. Although Swedbank grew out of the savings banks, it is no longer a savings bank.

Swedbank and the savings banks are mutually connected. Swedbank holds shares of between 22% and 50% in five savings banks. These include Sparbanken Skåne AB (22%), Sparbanken Sjuhärad AB (47.5%), Sparbanken Rekarne AB (50%), Ölands Bank (49%) and Vimmerby Sparbank AB (40%). This is due to the fact that the savings banks, originally run as private foundations, have had the option of outsourcing their banking business to a public limited company since 1991.

On the other hand, the savings banks, together with the savings bank foundations, hold a total of 14.3% of the shares in Swedbank and thus have a long-term and strategic stake in Swedbank. In order to coordinate the exercise of their voting rights and to act with a common voice vis-à-vis Swedbank's management, the savings banks have joined forces as shareholders in the savings bank group.

Swedbank also cooperates with the vast majority of independent savings banks. This cooperation is governed by a cooperation agreement that Swedbank has concluded with 58 savings banks and which was renewed for another five years at the beginning of September 2018. It covers many areas such as IT, marketing, sales, foreign payment transactions, etc. Approximately 30% of Swedbank's product sales are channelled through the savings banks.

The savings banks in turn benefit above all from Swedbank's weight in the Swedish banking market. The savings banks, which have signed a cooperation agreement, operate under the same logo as Swedbank. Despite the close cooperation with the savings banks in some cases, Swedbank is one of the largest competitors for various parts of the savings bank sector, thanks to its nationwide presence. In 2014, Swedbank

bought the Öresund savings banks. Part of the transaction was the sale of 8 branches of Sparbanken Öresund to Sparbanken Skanje. In Sweden, Swedbank has approximately 4 million private and approximately 250,000 corporate customers.

In addition to its presence in Sweden, Swedbank has a strong market position in the Baltic States and subsidiaries or participations in other countries. Swedbank is the largest universal bank in the Baltic States with 99 branches, 3.3 million private customers and more than 300,000 corporate customers. In 2016 Swedbank took over the retail business of Danske Bank in Lithuania and Latvia. The purchase included the acquisition of approximately 127,000 retail customers and a loan portfolio of approximately EUR 0.5 billion.

**Table 5: Structural information on Swedbank AB Group**

	2019
<b>Shareholders</b>	
Savings banks	10.9%
Savings banks foundations	3.4%
Offices	267
Employees	16,430
Balance sheet total in bn€	229
Equity in bn€	13.2
ROE	14.7%
CIR	43%
<b>Market Shares in Sweden</b>	
Deposits (private)	19%
Deposits (corporate)	16%
Lending (private)	24%
Lending (coporate)	17%

Source: Swedbank 2019 annual report

# The association: Sparbankernas Riksförbund



The Swedish Savings Banks Association comprises all Swedish savings banks except for Sparbanken Syd.

**Members** 58 savings banks.

**Purpose** Representation of the interests of savings banks and savings bank foundations.

**Tasks**

- Protection and promotion of the common interests of the members vis-à-vis authorities and organisations.
- Representation in legal matters and negotiator on important issues.
- Negotiating partner vis-à-vis Swedbank for members who have decided to cooperate.
- Organisation of conferences, seminars etc. to maintain contacts and promote the exchange of views between the savings banks.

The Swedish Savings Banks Association is a member of the World Savings Banks Institute (WSBI) and the European Savings Banks Group (ESBG).

# Imprint

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**Note**

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