

INTERNATIONAL SAVINGS BANKS

15 August 2021

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. It is the market leader in retail banking in Sweden as well as 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 five of these savings banks. Conversely, the savings banks and the savings bank foundations together hold 14.5% of the shares in Swedbank. These mutual interdependencies, as well as a long-term cooperation agreement, result in close ties between the savings banks and Swedbank.

Swedbank is a public bank listed on the Stockholm Stock Exchange. Nevertheless, due to its history, it often acts like a savings bank and sees itself as a bank for the people, with an obligation to the people and the economy in 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 2020 was about three times the size of Sweden's total economic output. By comparison, the European average was 2.5 times GDP. The bank branch network in Sweden is significantly below average, with 7,002 inhabitants per branch. In comparison, the European average is 3,125 inhabitants per branch (see charts 1 and 2).

In 2020, the portfolio of loans at risk of default at Swedish banks was 0.5%, significantly below the average of 2.6% in other European countries. The cost-income ratio of Swedish banks in 2020 was 51.3%, below the level of other European competitors. Profitability, measured by return on equity, was 8.9% in 2020, 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 was an increase in the volume of credit, which fuelled a real estate and equity boom. At the beginning of the 1990s, this development culminated in a system-wide banking crisis, which could only be overcome by massive government measures (establishment of bad banks and nationalisation of important banks). In the wake of cleaning up the banking crisis, there has been a profound reorganisation of the banking market. The Swedish banking market weathered the financial crisis from 2007 onwards relatively well due to targeted support measures.

In the context of the annual Article IV Mission 2021, the IMF notes that Sweden's economy has weathered the Corona crisis better than many of its European neighbours. The authorities' comprehensive support package was appropriate and timely. The package provided comprehensive support to households and businesses and helped to avert a financial crisis and stabilise markets.

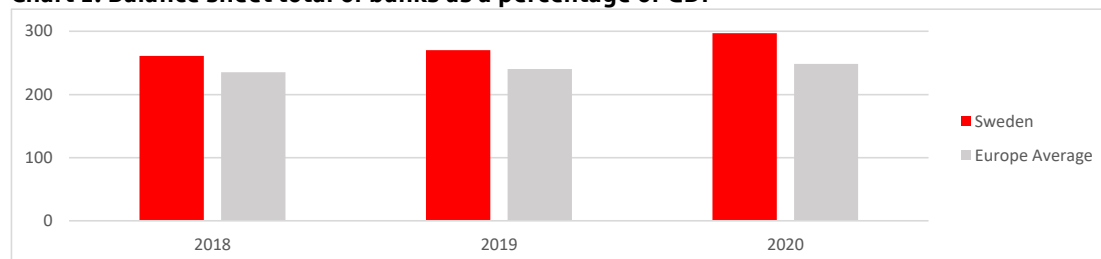
Similar to Norway, the high level of household debt and the continued rise in property prices continue to pose a major risk to the Swedish financial market. Household debt to GDP reached a new high of 216% in 2020. The growth rate for ¹new real estate loans increased by 0.5% year-on-year to 6%.

¹ Status 09/2020 Swedish Bankers Association

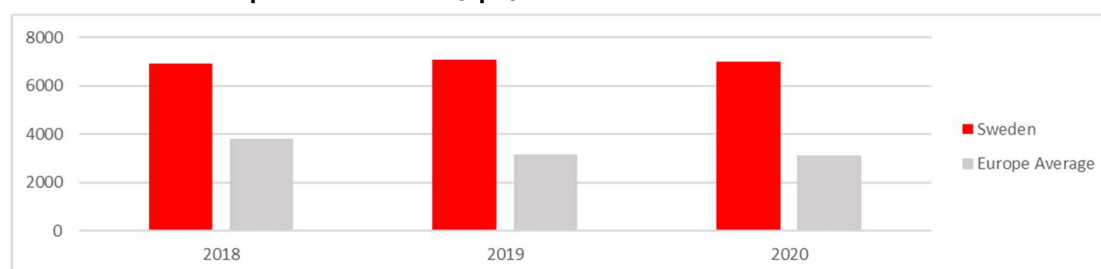
Table 1: The largest Swedish banks by balance sheet total

Group	2020	2019	2018	2017
Nordea Bank	552	555	551	582
Svenska Handelsbanken	312	292	292	282
Skandinaviska Enskilda Banken	303	272	252	260
Swedbank	258	229	220	225

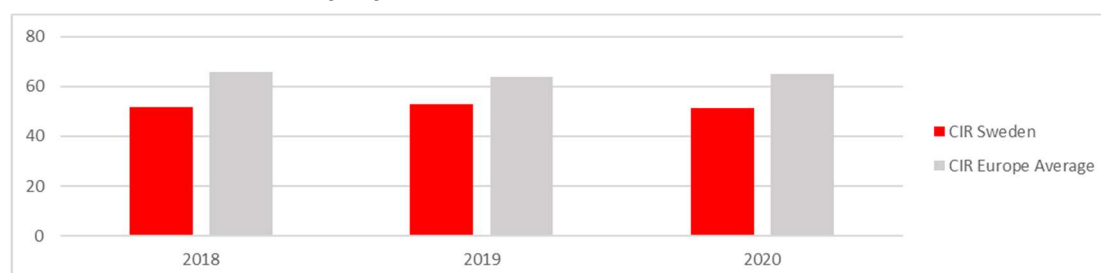
Source: Financial report of the respective group ² 2020, in billion euros

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

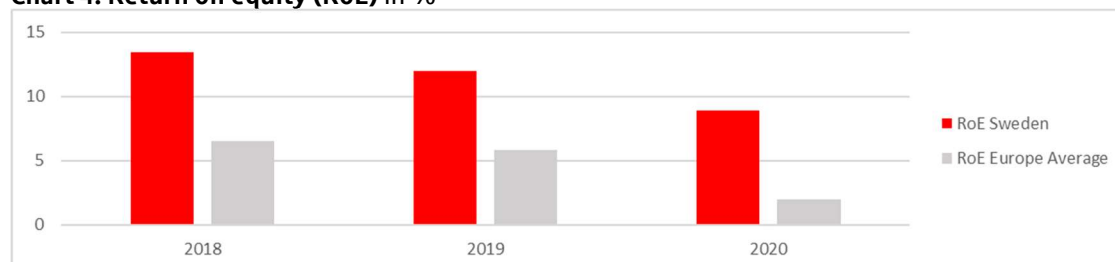
Source: European Central Bank 2021, own calculations

Chart 2: Inhabitants per branch office (EpG)

Source: European Central Bank, Eurostat 2021, own calculations

Chart 3: Cost-income ratio (CIR) in %

Source: European Central Bank, 2021

Chart 4: Return on equity (RoE) in %

Source: EBA Dashboard, 2020

² Nordea has been a Finnish bank since Oct. 2018, with high business volumes in Sweden, partly through its Swedish bank branches.

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 to poorer people. For a long time, there was a deposit ceiling to comply with this target group, which hindered the growth of the institutions. It was not until 1969 that the savings banks and their activities were put on an equal footing with those of commercial banks.

Respected citizens from the local community managed the savings banks, which were run in the form of foundations. 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 observed voluntarily.

The number of Swedish savings banks has fallen sharply over the years. In the peak year of 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 the registered office from the province to the capital Stockholm, which caused the locally operating savings banks to lose competitive advantages.

Table 2: Structural information on the Swedish savings banks

Quantity	<p>59 savings banks - of which 58 are members of the Association ³</p> <p>Of the 58 savings banks that are members of the association</p> <ul style="list-style-type: none">- 14 stock corporations- 44 private foundations <p>Of the 14 stock corporations</p> <ul style="list-style-type: none">- 9 stock corporations 100% owned by local savings bank foundations- 5 joint stock corporations with Swedbank participation (partly-owned banks) <p>There are therefore a total of 54 savings banks without Swedbank participation (independent savings banks).</p>
Legal form	<p>Originally private foundations. Since 1991, it has been possible to incorporate the banking business into joint stock corporations.</p>
Regional principle	<p>Yes, for foundations; it is adopted by savings banks on a voluntary basis</p>

In 2018,⁴ more than 3,300 employees, approx. 60% of them women, provided services to two 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; they are predominantly in the southern third and mainly in smaller 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 bank foundations and 22% by Swedbank. The remaining part of Sparbanken Öresund was taken over by Swedbank.

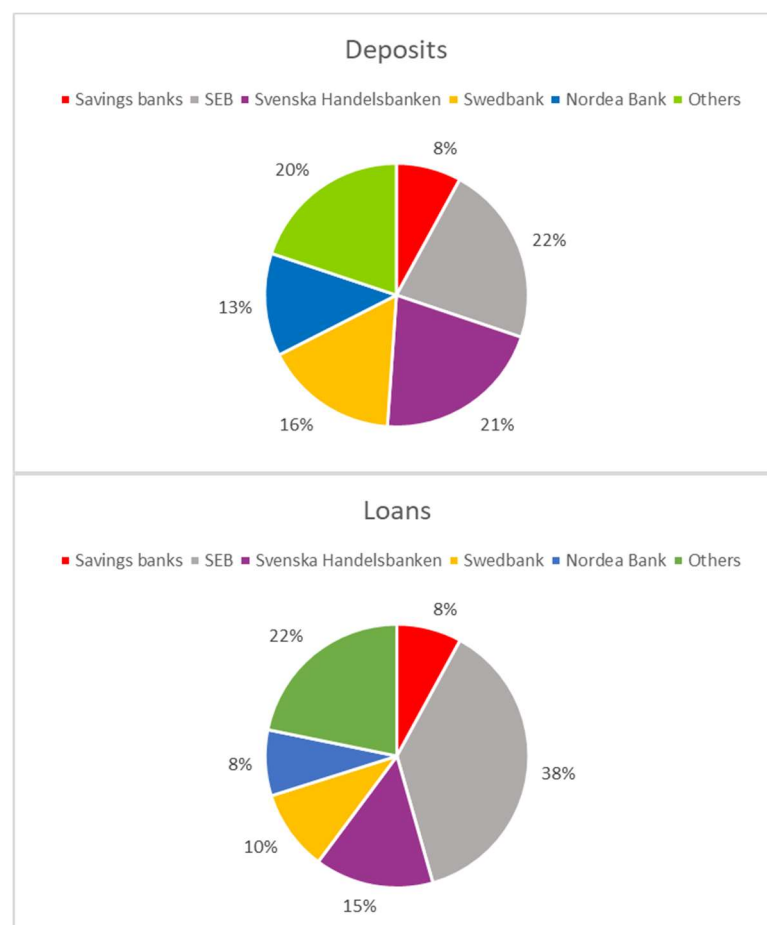
³ Sparbanken Syd is not a member of the Swedish Savings Banks Association.

⁴ No update of the figures in 2020

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

Savings banks	2020
Sparbanken Nord	2,647
Sörmlands Sparbank	1,735
Sparbanken i Karlshamn	1,245
Orusts Sparbank	1,208
Westra Wermlands Sparbank	1,158
Falkenbergs Sparbank	1,155
Sparbanken Syd	1,150
Roslagens Sparbank	1,127
Sparbanken i Enköping	1,086
Sparbanken Västra Mälardalen	1,052

Source: Svenska Bankföreningen, Bank and Finance Statistics, 2020, in EUR million

Chart 5: Market share in deposits and loans of Swedish savings banks in 2020

Source: Svenska Bankföreningen, Bank and Finance Statistics, 2020, own calculations

Central institution: Swedbank AG

In 1992, the Association of Swedish Savings Banks, the Central Savings Bank and the banking operations of 11 large regional and county savings banks merged to form *Sparbanken Sverige AB*. The 11 savings bank foundations that contributed their banking business to Sparbanken Sverige AB became its shareholders. The merger was forced by the banking crisis of the early 1990s, which had hit the expanding savings bank sector particularly hard. Also in 1992, more than 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 today.

Swedbank and the savings banks are mutually connected. For example, Swedbank has stakes 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 possible because the savings banks, which were originally private foundations, have had the option of outsourcing their banking business to a joint stock company since 1991.

On the other hand, the savings banks together with the savings bank foundations hold a total of 14.5% of the shares in Swedbank and thus have a long-term and strategic stake in Swedbank. In order to coordinate the exercising 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 banks 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. 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 that have concluded 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 different parts of the savings bank sector due to its nationwide presence. In 2014, Swedbank bought Sparbanken Öresund. Part of the transaction was the sale of eight branches of Sparbanken Öresund to Sparbanken Skanje. In Sweden, Swedbank has approximately four 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 82 branches, 3.2 million retail customers and more than 300,000 corporate customers. In 2016, Swedbank took over Danske Bank's retail business in Lithuania and Latvia. The purchase included the acquisition of approximately 127,000 retail customers and a loan portfolio of around EUR 0.5 billion.

Table 5: Structural information on Swedbank AB Group

	2020
Shareholders	
Savings banks	11%
Savings banks foundations	3.5%
Offices	241
Employees	17.213
Balance sheet total in bn€	258
Equity in bn€	15.4
ROE	8.9%
CIR	54%
Market Shares in Sweden	
Deposits (private)	19%
Deposits (corporate)	16%
Lending (private)	21%
Lending (coporate)	16%

Source: Swedbank 2020 Annual Report

The association: Sparbankernas Riksförbund



The Swedish Savings Banks Association comprises all the Swedish savings banks, with the exception of Sparbanken Syd.

Members	58 Savings banks
Purpose	Representation of the interests of the savings banks and savings bank foundations
Tasks	<ul style="list-style-type: none">• Protection and promotion of the common interests of the members vis-à-vis authorities and organisations• Representation in legal matters and acting as negotiator on important issues• Negotiating partner vis-à-vis Swedbank for members who have opted for cooperation• 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 Institute of Savings Banks (WSBI) and the European Savings Banks Association (ESBG).

Imprint

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