

Banks in Sweden

Facts about the Swedish banking market

Published in July 2007



Swedish Bankers' Association

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 sector canalizes in an efficient way the savings of the society to investments and consumption, like for example the households' need to smoothen out consumption through the different phases of life and the companies' demand of financing investments.

The financial industry account for almost four per cent of the country's total output, defined as its Gross Domestic Product (GDP). Around 100,000 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 SEK 12,600 billions in 2006. The three largest categories of company on the Swedish financial market are banks, mortgage credit institutions and insurance companies. Mutual fund companies and the state administered AP Funds (general supplementary pension funds) are also important players on the market. Securities companies' total balance is small in relation to other financial companies, but they play an important role on their part of the financial market. At the end of 2006, banks accounted for 41 per cent of the total capital employed on the financial market.

Market changes

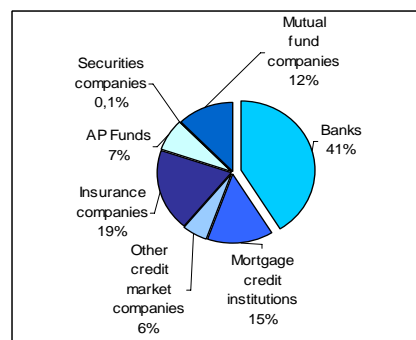
The financial sector is in fast expansion. Established companies have broadened the scope of

their business, and many new companies, both Swedish and foreign, 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 involved in the life insurance business and some insurance companies own their own banks.

Another change is that branch offices have become less important for bank customers daily services. Instead the customers tend to make normal bank services through their internet bank. Also the possibilities to perform bank services in different ways have increased, e.g. cash- and debit card payments, cash withdrawals in supermarkets and credit applications in chain stores. These new channels of distribution have enabled the development of new services in the same time as existing services has changed. The new technology has also paved the way for the establishment of new banks and thereby intensified competition on the banking market.

Swedes are investing increasingly in funds and insurance policies as they turn away from traditional bank and bond savings. Around 75 per cent of the population have some of their savings in funds or equities, which by international standards is a high proportion.

Players on the financial market, Dec 2006



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 2006 Sweden had a total of 126 banks. The number of joint stock banks has increased from 43 in year 2000 to 56 at the end of 2006. The increase in banks is mostly due to new establishments of foreign banks and transformation of savings banks to joint stock banks. Also from the mid nineties and until today several banks, which mainly use new technology for distribution of services, have been established.

Swedish commercial banks

Swedish commercial banks are divided in three categories and the largest comprises the “big four” banks: Swedbank, Svenska Handelsbanken, Nordea and SEB. These banks are important players on most segments of the financial market, and they e.g. account for slightly more than 75 per cent of the deposits from the public. 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 Swedbank as a shareholder. Most of the other commercial banks were formed during the mid nineties and until today. They are mainly focused on the retail banking market and distribute their products and services online or through telebanking and are often called niche banks. Three of the newest are Avanza, and HQ Bank.

Foreign banks

The first foreign bank was established in 1986, when foreign banks were first allowed to open subsidiaries. During a few years in connection with the financial crisis in the beginning of the

nineties the number of foreign banks declined. Foreign banks were permitted to open branches in 1990 and since then they has increased again. In the end of 2006 the number reached 29. 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 when it acquired Östgöta Enskilda Bank in 1997 and set up “provincial banks”.

Savings banks

There are numerous independent savings banks in Sweden. Generally, they are small and active on 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.

Co-operative banks

A co-operative bank is an economic association with the purpose of producing 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 relatively small co-operative banks in Sweden.

Number of banks in Sweden

Type of bank	2000 (Dec)	2006 (Dec)
Swedish commercial banks	22	27
- of which the “big four”	4	4
- of which former savings banks	9	12
- of which other Swedish commercial banks	9	11
Foreign banks	21	29
- of which subsidiaries	2	4
- of which branches	19	25
Savings banks	79	68
Co-operative banks	2	2
Total	124	126

Source: The Swedish Financial Supervisory Authority (Finansinspektionen)

Banks function

Deposits and lending

The core activity of a bank is to accept deposits and provide credit. At the end of 2007, bank deposits from the public (i.e. mainly households and non-financial enterprises) amounted to SEK 1,860 billions. The bulk of these deposits –38 per cent - come from Swedish households. Swedish companies account for 28 per cent of total deposits and foreign depositors for 22 per cent. During the last five years the share of total deposits to foreign public has increased somewhat while the share to corporate has decreased.

Bank lending levelled out during 2002 and 2003, but started to increase again the last three years. However, lending from mortgage institutions and other credit market institutions have continued to increase during the whole period. Lending from mortgage institutions have increased with between 5 and 10 per cent annually during the last five years. Lending from banks reached SEK 2,044 billions by the end of 2006. Forty-one per cent of this lending to the public goes to the Swedish business sector, while households and foreign borrowers account for 20 per cent and 33 per cent respectively. As for the banks deposits it is above all lending to foreign public which has increased the last five years.

Interest rates

The interest rates banks set for their deposits and credits are largely dependent on the rates prevailing on the money market. Other factors that influence interest rates include the creditworthiness of the borrower, the risk, competition among credit institutions, and competition for different types of saving and borrowing. The average rate of interest paid and charged by the banks has been declining steadily since the beginning of the 1990s, but has started to

increase slightly in 2006. The interest spread – the gap between the average interest rate received on credits and that paid on deposits – has continued to narrow during the same period and also during 2006.

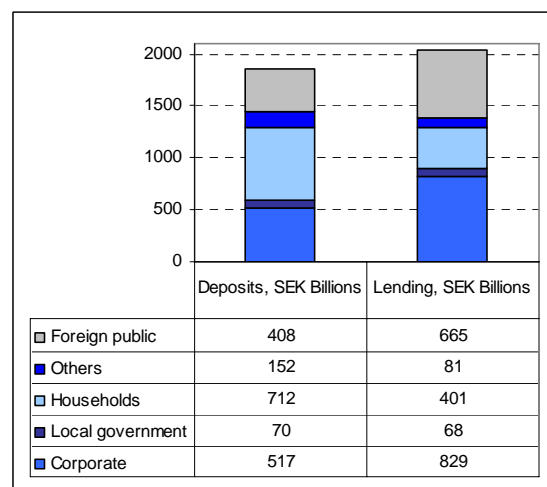
Mediation of payments

Beside of taking deposits and give lending another important function of a bank is to provide a means of payment. The Swedish payment system is represented by among other things the bank giro, commonly owned by the banks. The Swedish payment system is technically rather advanced, and has a reputation for efficiency. This means that payments are transacted quickly, securely and at low cost. These systems for payments, but also securities transactions, belong to the financial infrastructure. The financial infrastructure is an important part of the total Swedish infrastructure.

Risk diversification

A third important function for the banks 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 from and lending to the public, December 2006



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 with over 30 000 employees. The group includes leading banks in Sweden, Finland, Denmark and Norway. Over 70 per cent of Nordea's lending to the public comes from outside Sweden. Nordea's Swedish business includes one of Sweden's largest finance companies and major players in fund management and mortgage credits. Nordea also owns the giro payment system Plusgirot.

SEB is the name of the financial group that has been formed around Skandinaviska Enskilda Banken. SEB has developed substantial international activities and has a substantial part of its business in Germany. 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.

Svenska Handelsbanken (SHB) has more than 450 branches in Sweden. From the 1990s the bank has also expanded in the Nordic region via acquisition and by opening branch offices. Stadshypotek, Handelsbankens' wholly owned mortgage credit institution, belongs to the largest players on the Swedish mortgage

credit market. Handelsbanken also has extensive operations in the fund management, finance company and life insurance sectors, where the in 2004 acquired SPP Life Insurance is included.

Swedbank has an extensive network of over 470 bank branches in Sweden, and is working closely with Sweden's independent savings banks and partly owned banks among the savings banks movement. Swedbank also has a strong position in the Baltic region through its subsidiary bank Hansapank. The group includes Swedbank Robur, Sweden's largest fund management company, and Swedbank Hypotek, which is one of the largest mortgage finance institutions in the country.

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 and has banking operations in all the Nordic countries. Danske Bank is after Nordea the biggest financial group in Scandinavia. Skandia is market leader in life insurance and also has a strong position in fund investments. Skandia and SkandiaBanken are owned by the South African insurance company Old Mutual.

The "big four" banking groups, 2006

	Employees		Operating profit	Total Balance
	Total	Of which Sweden	SEK Billions	SEK Billions
Nordea ¹	30 159	8 038	35,3	3 136
SEB	20 689	9 215	16,6	1 934
Handelsbanken	10 163	7 829	17,2	1 790
Swedbank	18 623	9 340	14,3	1 353

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

Banks in Sweden

Universal banks

Banks represented on the major part of the financial market and offer all kind of financial services are categorised as universal banks. Among the Swedish universal banks, we find the “big four” banks – Nordea, Swedbank, Svenska Handelsbanken and SEB. Together they have a strong position on the Swedish market, for both deposits and credit. Their combined share of the deposits market is 76 per cent, and for the credit market, 65 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 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, Swedbank and Svenska Handelsbanken have the most branch offices, with 477 and 457 respectively. 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. Most of the services offered by banks’ branch offices are also offered through their internet channels, e.g. a range of teller services. Branch offices have therefore to a large extent shifted focus to providing advisory services and selling the banks’ products and services.

Other banks

The past ten years, internet- and other banks and the branches of foreign banks as a group have gained market shares in Sweden. Banks, such as SkandiaBanken, Länsförsäkringar Bank and Ikano Banken opened telephone banks and internet banks in the mid 1990s and ICA Banken in 2001. Although they have

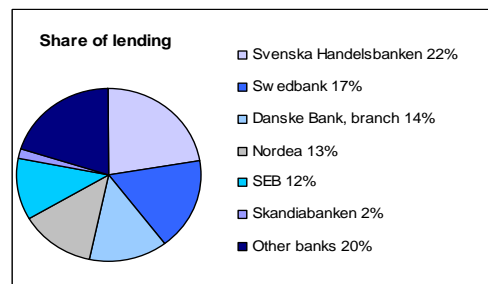
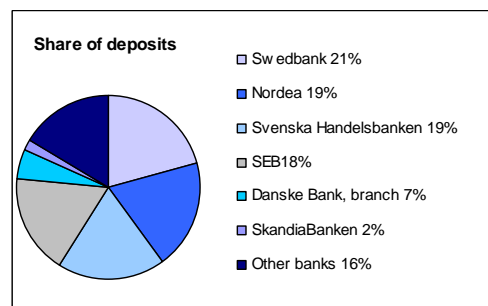
gradually expanded their range of services, they are still focused on the retail banking. Some of the newest banks started as securities firms and are concentrated on trading and asset management, e.g. Avanza Bank, Carnegie Bank, EFG Bank and Nordnet Bank.

The presence of foreign banks in Sweden has strengthened, mainly due to the expansion of Danske Bank, with some sixty branch offices. 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. The savings banks have a market share of 7 per cent in the country, but an individual savings bank’s share of its local market can be much higher. In the end of 2006, the savings banks had 217 branch offices, representing more than 10 per cent of the 1,900 branch offices in Sweden.

Deposits from and lending to the public in Sweden¹, December 2005



Source: Statistics Sweden (SCB)

¹ Deposits and lending from the mother banks in the financial groups. Lending from Danske Bank and Skandia-banken also includes mortgage lending.

Mortgage credit institutions

Mortgage loans

In Sweden specialist credit market companies, mortgage credit institutions, usually provide mortgage loans. Total volume of outstanding loans of these institutions amounted to almost SEK 1,700 billions at the end of 2006. Lending by mortgage institutions to Swedish households exceed the volume of bank lending to households. The mortgage credit institutions provide credit primarily for residential property, but also for commercial and office buildings and municipalities. Almost 72 per cent of the mortgage institutions total lending consists of loans secured on residential property.

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 normally up to 70-80 percent of its value. Additional credit is 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

Swedbank and Handelsbanken own the two largest mortgage credit institutions, Swedbank Hypotek and Stadshypotek, respectively. Nordea and SEB are also important players on the market through their mortgage credit subsidiaries. The fifth 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. Länsförsäkringar Hypotek also offers mortgages. Banks such as Danske Bank, Skandia-Banken and Kaupthing Bank also provide mortgage loans. The smaller mortgage institu-

tions are important players on the market as they can have relatively large market shares on new mortgage lending.

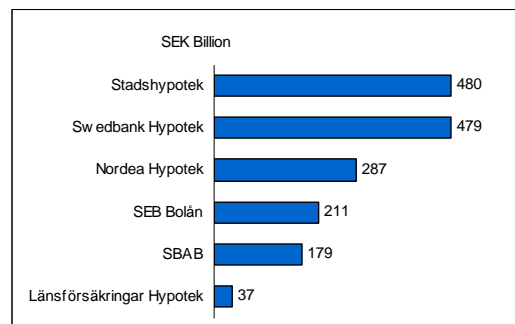
Other companies

In the last years some financial companies have started to offer mortgage products, which differ from traditional loans from mortgage institutions. One example is companies offering mortgages to borrowers who do not fulfil the requirements in mortgage institutions. Another example is companies specialised in offering retired persons, with low mortgages on their houses, to release capital from their homes with amortization- and interest-free credits with the home as security. The credit and interests are repaid from the value of the home when it is sold, or if the borrower dies. Similar products are also offered by banks.

Forms of funding

The credits provided by mortgage credit institutions are largely financed by the issue of bonds and commercial papers. The bank-owned institutions also finance their lending by raising loans from their parent banks. From the 1st of July 2004 it is legally possible for Swedish mortgage credit institutions to issue covered bonds. During 2006 mortgage institutions started to issue, but also convert existing mortgage bond into, covered bonds.

Swedish mortgage institutions: Lending to the public, December 2006



Source: Swedish Bankers' Association

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 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. 2006	
Svensk Exportkredit	230
Kommuninvest i Sverige	99
Handelsbanken Finans	52
Landshypotek	42
SEB Finans	37
Nordea Finans Sverige	36
Swedbank Jordbrukskredit	33
Swedbank Finans	26
Volvo Finans	24
GE Capital Solutions	9
Total ten largest	590
Total “other credit market companies”	691

Source: Sveriges Riksbank

There are around 55 finance companies in Sweden, with aggregate credit and leasing outstanding of almost SEK 264 billions at the

end of 2006. 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 1st of July 2004 it is legally possible for the finance companies to give deposits.

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. They are financed by issuing bonds and certificates.

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 to the agricultural and forest industry.

Household Savings

Household financial assets

The financial assets of Swedish households have increased by more than 190 per cent since the early 1990s and in December 2006 amounted to almost SEK 2,900 billions. The increase has been particularly high in insurance, fund and equity savings. Due to the negative development in the stock market in the first years after 2000, the value of the households financial assets in shares and mutual funds sank during this period. Also new savings in shares and mutual funds sank. However, the value has recovered since.

Bank deposits

Bank deposits have been comparably stable until year 2000, but have increased thereafter due to among other things a few years of stock market turbulence. Bank deposits have continued to increase after the stock market recovery from 2003, with between SEK 20 to 50 billions yearly and with SEK 94 billions in 2006. However, in relation to total household financial assets, bank deposits have declined from over 43 per cent in 1990 to 25 per cent in 2006.

Fund saving

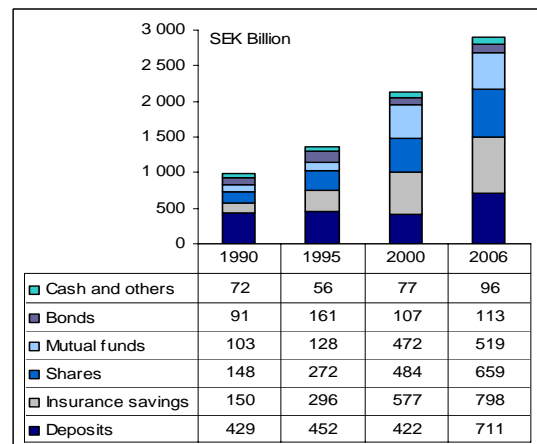
An important factor behind the rapid growth of fund saving is the stock market boom that was particularly strong during the second half of the 1990s, but also the last years positive development on the stock market. In the early 1980s, many Swedes had already begun to invest some of their savings in mutual funds, partly in response to the tax breaks available on certain types of such saving. Today 77 per cent of the Swedish population have some of their private savings invested in mutual funds (excluding the Premium Pension). The new pension system has given an additional boost to fund savings, since a percentage of an indi-

vidual's pension premiums are invested in mutual funds.

Insurance saving

Insurance and pension saving has also risen since the early 1990s. This is explained by the increase in value of the assets in which insurance companies invest, but also by net savings. The most common form of insurance savings is traditional life insurance. In the 1990s a new insurance savings product was introduced, unit-linked life insurance. That is a form of insurance whereby investments are placed in mutual funds of the investor's choice. Another form of pension saving, but without the insurance factor, is IPS (Individual Pension Saving), whereby the investor can invest in equities, mutual funds, bonds or bank accounts.

Household financial assets.



Source: The Swedish Financial Supervisory Authority, (Finansinspektionen)

Life insurance companies

All of Sweden's major commercial banks have their own life insurance companies. The largest bank-owned insurance company is SEB Trygg Liv, which together with Skandia, has the largest market share for life insurance and unit-linked life insurance. Other leading companies are AMF Pension, Länsförsäkringar, Folksam, Swedbank Försäkring, SPP and Nordea Liv.

Household loans

Household lenders

Mortgage institutions are the largest provider of loans to the Swedish households. In the end of 2006 around 70 per cent of the loans to households were provided by mortgage institutions. Mortgage institutions require security in homes or property, e.g. one family houses, tenant owned apartments or multi family house.

The second largest lender to households is banks and 23 per cent of household loans came from banks at the end of 2005. Besides in mortgage institutions households also borrow with home or property as security in banks, e.g. second mortgages. Banks also offers loans with other kinds of security, e.g. bonds and guarantees. It is also common for banks to give blank credits to households.

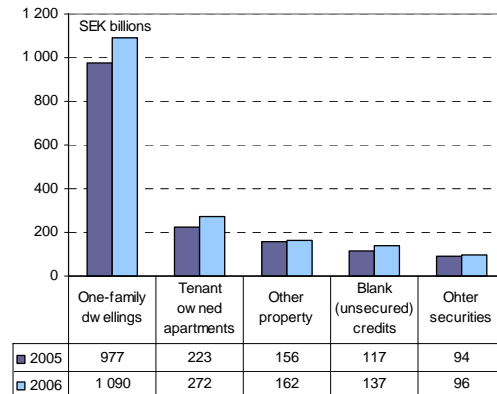
Finance companies and other credit market institutions make up 7 per cent of loans to households. Finance companies give loans to cars, boats, white goods, etc and the object of the loan is the security. However, more than 35 per cent of the finance companies' lending is blank lending. Among other credit institutions you find companies which are specialised in lending to farming and forestry.

Household mortgages

Households borrow above all to finance housing, which is also the security (see figure). In the end of 2006 one family homes and tenant-owned apartments were used as security for 78 per cent of the household loans. Normally mortgage institutions only offers first mortgage, i.e. a loan pledged up to around 80 per cent of the market value of

the property. The second mortgage, i.e. a loan pledged above the first mortgage up to around 90-100 per cent of the market value, is normally only offered by banks. At the end of 2006 the households' mortgages amounted to SEK 1,362 billions.

Household lending¹ by security



Källa: SCB

¹ Excluding non-profit institutions serving households, e.g. unions, religious communities and other non-profit organisations.

Other securities and blank credits

The households also have loans secured in property which are not homes, e.g. farming- and forest properties. These loans make up 9 per cent of the households' total loans. Loans without security, blank credits, constitute almost 8 per cent of the households' total loans. Blank credits are an important product for finance companies, but it is the banks which are the biggest lenders of blank credits to households.

Other securities make up 5 per cent of the households' loans. Other securities consist of among others securities (e.g. bonds) but also of different kinds of guarantees. Guarantor of a loan could be a private person, the state or the municipality.

Mutual fund companies

Fund saving

Savings in mutual funds has been increasing steadily until year 2000, when over 20 per cent of the Swedes' financial assets were made up of mutual funds. Since then the share of mutual funds in the households financial assets have stabilised around 20 per cent and in the end of 2006 amounted to 18 per cent. Around 77 per cent of all Swedes privately owned units in mutual funds. 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.

The total assets of Swedish mutual funds rose from SEK 120 billions in 1990 to over SEK 900 billions by the end of 2000. Since then, the total assets of mutual funds sank due to the fall in the stock market and in the end of 2002 amounted to SEK 700 billions. Thereafter the stockmarket recovered and now the total assets of mutual funds exceed the former peak in year 2000. By the end of 2006 the total assets of mutual funds amounted to around SEK 1,500 billions.

Since the turbulence of the stock markets in the beginning of 2000 the interest in bond and treasury bill based funds has increased. However, as share of total assets of mutual funds, they have diminished slightly the last year. In the end of 2006 some 57 percent of the mutual fund assets were equity funds, 22 percent were interest funds, 16 percent mixed funds, and 5 percent hedge funds.

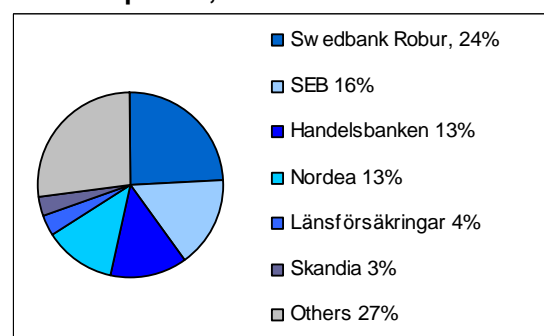
Fund managers

The number and variety of mutual funds has increased in pace with the growing interest of

investors. There are more than 70 fund management companies on the Swedish market, which together with foreign fund management companies offer investments in around 2,600 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 illustration, in 2005 the big four banks managed about 70 per cent of the total assets under management, while their share of new fund investments was around 53 per cent.

The largest players on the Swedish fund market are Swedbank Robur, Nordea Fonder, SEB Fonder, and Handelsbanken Fonder. All of these fund companies market an extensive 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, particularly large international ones.

Mutual fund companies in Sweden. Share of total assets managed by Swedish mutual fund companies, December 2006



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.

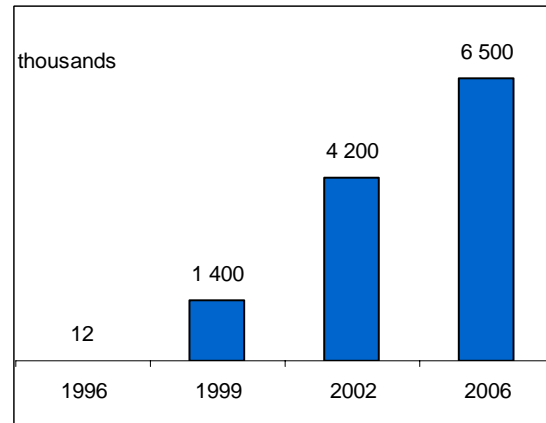
By comparison with banks in most other countries, Swedish banks have a high proportion of internet customers. In Europe Sweden has one of the highest proportions of the population using bank services through the internet. The share of Swedes paying their bill through internet has increased from 9 per cent in 1999 to 59 per cent in 2007. 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 70 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 2006, Sweden's banks had more than 6,5 million internet customers out of a total

population of 9 million – although it must be remembered that some of these customers use more than one bank.

No. of private 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. As an example, the use of different kinds of cards has increased from 55 million transactions in the beginning of the 1990s to more than 1,060 million transactions in 2005. 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. The share of Swedes older than 15 years, who pay their bills through an internet bank, has increased from 9 per cent in 1999 to 59 per cent in 2007. During the same period the use of paper based payments, such as giro forms, has diminished from almost 79 per cent in 1999 to less than 32 per cent in 2007. In international comparison of the share of electronic payments to the total of non-cash payments, Sweden has a high share together with the other Nordic countries.

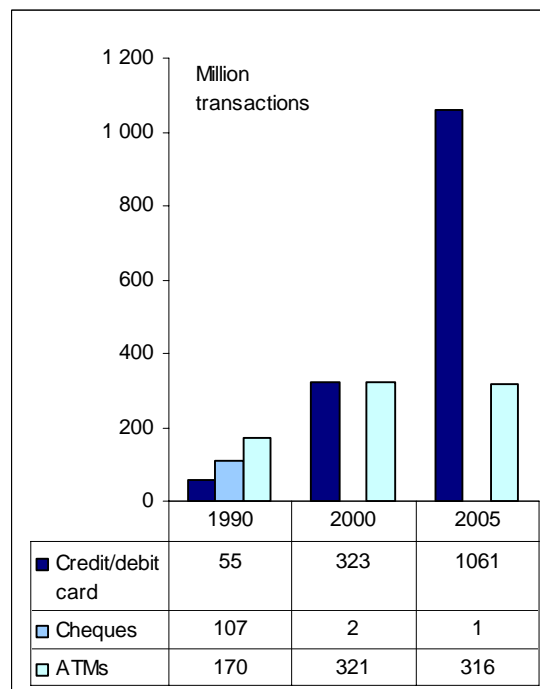
Giro systems

There are two different giro systems in Sweden. The Bank giro is owned jointly by the banks, while Nordea owns the Plus giro (since 2001). Both these competing systems are technically advanced and provide quick, secure payment facilities. The giro systems can handle a number of different transactions, like giro payments by paper forms or by internet, bank transfers and bank deposits.

The ATM network

The Swedish ATM network is also highly developed, with about 2,800 ATMs nationwide, 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, 2000 and 2005



Source: Sveriges Riksbank

Supervision of the Swedish banks

Supervision of the Swedish banks

The main functions of the financial system are to accept deposits and provide credit, mediate payments and to diversify risks. It is of great importance that the function and reputation of the system is maintained and therefore the society has found it necessary to create laws which regulate the institutions that constitute the financial system. Among these institutions the banks play an important role and there are a number of laws and regulations that regulate their activities. Finansinspektionen (the Swedish Financial Supervisory Authority) and The Riksbank (the Swedish central bank) have the main responsibility to supervise that these laws and regulations are obeyed, and to maintain financial stability. Finansinspektionen has a direct responsibility to supervise the individual institutions on the financial market. The Riksbank has an overall responsibility to promote a stable function of the financial system. The task of promoting stability in the financial system is shared between the two authorities.

Finansinspektionen

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

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 which unlike laws are optional, but ought to be followed by financial institutions to be considered carrying on sound activities. Finansinspek-

tionen is the authority which issues permits and licenses for different activities on the financial markets, e.g. bank license.

To monitor compliance with laws, regulations and general guidelines Finansinspektionen supervises the financial institutions. The supervision is performed in different ways, e.g. on-site inspections of financial institutions or by requiring different information which Finansinspektionen wants to control and analyse. Finansinspektionen can also appoint their own accountants in institutions supervised by them. The authority also carries out regular analysis of the institutions risks and financial performances.

The Riksbank

The Riksbank is an authority with an independent role under the jurisdiction of the Swedish parliament. The main task of the Riksbank is to maintain price stability. The task of price stability the Riksbank interpret as keeping inflation low and stable.

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. The payment system includes among other things the whole infrastructure for payments and securities transactions. The Riksbank promotes the financial stability by regularly monitor and analyse risks and threats to the stability of the financial system. In this purpose the Riksbank besides the payment system also analyses the four major banking groups, the banks borrowers and the macro-economic development. The findings of the Riksbank are communicated e.g. through regular publications, articles and speeches.

Banking Laws

Banking and Financing Business Act

The act on Banking and Financing Business is the fundamental act regarding the business of banks and financing companies. The act contains rules concerning among other things requirements to get a license 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 Adequacy Act

The Act on Capital Adequacy and Large Exposures has rules that aim to secure that banks and credit market companies have enough capital to meet the risks in the business. There are capital requirements on credit risks, market risks and operational risk. The Act states how to calculate capital requirements depending on type of assets, commitments and investments of the financial institutions. The Act also contains limits of the level of exposures that a financial institution may have with a customer or a group of customers with connections to each other.

Consumer Credit Act

The Act state what the credit institutions shall observe when granting loans to consumers. The Act regulates the information about interest rate that should be given and on how a credit agreement should be made. It also states the conditions for changing the interest rate to the disadvantage of the customer and for repaying a loan prematurely. The act also covers the responsibilities at loss of a credit card.

The Covered Bond Act

Banks and credit market institutions can issue covered bonds according to a certain act, pro-

vided the bonds have preferential rights on the assets of the issuing institution and that these assets meet certain criteria.

The Act on Payment Transfers

In this act it is stated what kind of information should be given to the customer in connection with a payment transfer within the EEA, for example the fees and the time it will take to perform the payment transfer act.

The Act on Deposit Guarantee Scheme

The act guarantees every customer an amount up to SEK 250 000 for deposits in banks. The guarantee covers losses in connection with a bankruptcy of a bank.

The Act on Money Laundering

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

Other acts

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

Most of the Swedish banks are universal banks, which mean that – besides loans – securities trading, asset management and corporate finance, constitute large parts of their business. In these different areas, there is further legislation. An important act among these is the new act on the market for financial instruments, which will be in force from first of November 2007. The act regulates how investment firms shall organise and run its business. The Markets in Financial Instruments Directive (MiFID) is implemented in Sweden by this act.