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Corporate Governance in the Swedish Banking Sector

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1. Introduction

The contemporary Swedish financial system combines features from the market-based Anglo-Saxon system and the bank-based Continental European system. The market-based part has developed strongly since the early 1990's and today Sweden has vigorous financial markets with high levels of market capitalization, turnover per capita, and liquidity. The financial development is among the highest in Europe and the level of progress is approaching the level of financial development in the UK and the US (Agnblad, Berglöf, Högfeldt, & Svancar, 2001). Like other continental European countries Sweden has a strong and developed banking market as well. The Swedish bank-system is characterized by a combination of two different forms: the Continental European system of control-oriented house bank and the Anglo-Saxon system characterized by an arm's length relation between lenders and creditors. Many Swedish corporations have one main bank that serves as house-bank and a side bank (Berglöf & Sjögren, 1998). Many of the large house-banks act both as creditors and as major shareholders in client firms via close-end investment funds.

The Swedish banking sector is highly concentrated; the four biggest banks (Skandinaviska Enskilda Banken (SEB), Svenska Handelsbanken (SHB), Swedbank and Nordea) control about 80 percent of the domestic market. The banks belong to larger financial groups consisting of actors such as mortgage institutions, investment banks, fund management companies, finance companies and insurance firms, i.e. they can be classified as universal banks. The Swedish credit market has for large parts of the 20th century been heavily regulated, and the development of financial groups was one way for the credit firms to circumvent laws and regulations (Larsson, 1993). SEB is the house bank of the Wallenberg sphere, the family controls via Investor[1] around 22 percent of the bank. SHB is the center of the SHB-sphere which consists of various corporations and investment funds (see Figure 1). The sphere controls about 24 percent of the bank. The level of government ownership in banks is by international comparison relatively low in Sweden (Table 1 in La Porta et al. 2002). The Swedish state owns circa 20 percent of Nordea directly and circa 5 percent indirectly via pensions and other funds. The other banks are mainly smaller savings banks that act on a regional market. There are also a number of smaller mortgage banks.

This chapter studies the corporate governance structure among Swedish banks. Who controls the Swedish banks and what characteristics does the Swedish banking sector have?

[1] Investor is an Investment company controlled by the Wallenberg sphere (see Figure 2).

Issues related to corporate governance such as ownership structure, board of directors and control-enhancing mechanisms will be studied. The Swedish banking law, how Swedish banks handled the financial crises and government measures to deal with the financial crisis is also analyzed.

Data on ownership structure in Swedish banks over the period 1985-2008 is used. The long-term perspective allows for the possibility to analyze the corporate governance structure over time and in different economic settings. Due to the high industry concentration the analysis is to a large extent focused on the development of the four largest banks. Two of the four major banks are part of larger business groups, so by examining the ownership structure of banks one also gets a better picture of the financial structure and the role of the house-bank within business groups.

The chapter adds to a scarce but emerging literature on corporate governance structures in the banking industry. Contemporary research (Caprio, Laeven, & Levine, 2007; La Porta et al., 2002; R. Morck & Nakamura, 1999; R Morck, Nakamura, & Shivdasani, 2000; Spong & Sullivan, 2007) show that corporate governance structures impacts the firm performance of the bank. Banks that have good governance structures are more likely to allocate capital more efficiently and also to exercise sound corporate governance in client firms. Improved efficiency in the banking industry decreases the cost of capital, increases capital accumulation and improves economic growth. Traditional corporate governance mechanisms are usually weakened in banks due to more *opaque structures* and *heavier governmental regulation* (Levine, 2004). Previous research shows, for example, that government control of banks in general is associated with worse bank performance (Megginson, Nash, Netter, & Poulsen, 2004), capital allocation (Wurgler, 2000), and lower economic growth (La Porta et al., 2002). But also that family control influences firm performance negatively (Caprio et al., 2007). Further, it is common that Continental European banks are major shareholders in client firms; that is they act both as a major creditor and shareholder, hence the bank can impose strong influence on client firms.

The rest of the paper is structured as follow: The Section 2 provides an overview of the historical development of the Swedish financial market with focus on the banking sector. Section 3 discusses the Swedish banking law and how Sweden handled the latest financial crises. The contemporary banking sector with special focus on corporate governance structure is presented in Section 4 and Section 5 discusses anti-crisis paradigms. Section 6 concludes the paper.

2. Background - Historical Description of the Swedish Banking Sector

The contemporary Swedish banking system was established at the beginning of the 19th century. During the first decades of the 19th century there was only one bank in Sweden – Riksbanken (the Swedish National Bank). The Riksbank acted as a government subsidized commercial bank during most of the century. The bank played an important role in the government's economic policy by granting subsidized loans to economic agents such as urban dealers and brokers, merchant houses, and to local and regional funds and foundations. The first savings bank was established in the 1820's in Gothenburg. Ten years later the first commercial bank was founded and in the 1840's mortgage institutions entered the Swedish financial market on a national level (Larsson, 1998).

The development of the Swedish credit market should be seen in the light of the industrial revolution which, in Sweden, started in mid 19th century and continued into the early 20th century. During the 1850's and 60's the Swedish banking system underwent some important structural (and modernizing) changes. In 1864 one of the most important banking laws was implemented, the law made it legal to establish joint-stock banks with limited liability. Joint-stock commercial banks have since then dominated the Swedish banking sector. The Swedish government was relatively passive in the early phases of the financial development; however, the banking industry developed its own structure inspired first by the *deposit* banking system in Great Britain and Scotland. Later on the German *universal* banking system served as a role model for the Swedish banks. The change towards becoming universal banks prolonged the banks' time horizon; they now started to accept deposits and lending for investments with longer maturity. The longer time perspective was important for industrial development, to establish firms and make investments as manufacturing firms needed loans with a longer time frame. The first law regarding commercial banks (regulation of establishments of the bank offices) was introduced in 1903 (Larsson, 1993, 1998).

The development of the Swedish bank system during the 20th century has taken place in three larger waves. The first phase comprises the period 1910-1939. This period shaped the modern financial system and the regulations of the credit markets pushed the financial system into becoming bank-based. It was also during this period that the larger financial networks developed and consolidated its role on the Swedish financial market. The commercial banks served as centre of the networks which consisted of various financial institutions. Larsson, (1993) summarizes the main reasons behind the financial networks in three groups, i) there was a need for each company to increase its market share, ii) vertical and horizontal integration on the financial market enabled involvement in large-scale investments, hence the network served as a form of risk sharing, and iii) the creation of networks was also a way to circumvent contemporary regulations of the credit market and enabled commercial banks to participate in activities that were otherwise illegal. The latter reason, to circumvent credit and banking laws, became increasingly important during the second phase (1940-1980). After the Second World War the Swedish financial policy changed, the government now integrated regulations of the financial system into general financial and monetary policies. The financial markets were heavily regulated during this period and limited by government policies. The third phase started in the mid-1980's with the deregulation of financial markets. (Larsson, 1993)

In Sweden as in many other OECD-countries, the deregulation of the credit market took place in two phases. In the first phase, the monetary policy was deregulated. In 1983 the demand on Swedish banks to buy the national debt (liquidity ratio) was removed and the government control of issuing rights was loosened and then abolished in 1985. Two years later, in 1985, the last parts of the credit law were removed: for example, the lending ceiling for banks and the regulations of lending by the finance companies. The control of the interest rate and investment obligations were also abolished. In the second phase, competition on the financial markets was made available. In 1989 Swedish actors were allowed to invest in foreign shares and bonds, and it also became possible for foreigners to lend and make such investments. Until 1993 all transactions with foreigners had to be handled through a Swedish bank. Thereafter it was not necessary for foreigners to involve Swedish banks in transactions in Sweden. Today, foreigners control around 36 percent of the Stockholm Stock Exchange. In 1994 Sweden became member of the European Economic Area (EEA) and a member of EU in 1995, at which time EU regulations were implemented in Sweden. One of the most important changes was that the Swedish regulations could no longer discriminate against foreigners; the EU regulations state that every investor should have the same accessibility to the capital market. The EU membership removed the last obstacles for foreign investors and the Swedish capital market is now open for everyone within the EU-area (Lybeck, 2000).

3. The Swedish Banking Laws and Regulations

The Swedish financial intermediaries are regulated both by the Swedish law and by international regulations such as EU laws. [2] The focus of this section is on the Swedish laws and regulations as well as on Supervisory Authorities on related to the banking market.

The *Banking and Financing Business Act* is the fundamental law regulating banking and financing activities in Sweden. The law covers all forms of banks, limited liability banks, saving banks and co-operative banks, describes what constitutes a bank, and provides a framework for operation of banking and credit activities. The law also specifies supervisory authorities for the banking sector. The act includes particular provisions on association for limited liability banks whereas savings and co-operative banks are regulated by separate acts.

The definition of a banking business is "*a business in two parts: it must be able both to mediate payments via general payment systems and to accept deposits that are available to the depositor within 30 days' of notice at most*" (The Swedish Financial Market, 2009, p.94). The definition of a financing company is *business operations intended to accept funds from the public and also to provide credit or credit guarantees* (The Swedish Financial Market, 2009, page 94). In order to conduct banking and finance businesses, a company needs to have a license from the Financial Supervisory Authority. There are, however, some exceptions to the requirement: for example financing firms that do not accept funds from the public do not have to apply for a license to operate as a financial intermediary however it should register as a finance institution and they are subject to other types of legislation such as the laws regarding money laundering and financial crimes.

The *Deposit Business Act* specifies the conditions for other limited companies, economic associations, security companies and credit institutions that wish to accept deposits from the public. According to the act, these *deposit companies* can, after being registered by the Financial Supervisory Authority, deposit a maximum of 50 000 SEK per consumer. The deposit companies are subject to inspection by the Financial Supervisory Authorities once a year. This act came into force in 2004 and has made it possible for all types of companies to

[2] Section 3 is based on "Central laws and forms of incorporation in the financial sector", The Swedish Financial Market 2009, Swedish Central Bank.

operate on the banking market; which has in turn, strengthened competition among the savings costumers.

There are also a number of laws regulating the insurance business that have bearing for the banking sector. For example, *The Insurance Business Act* and the *Insurance Contract Act* regulate the framework for insurance companies and they specify the relation between insurance companies and policyholders. The Insurance Business Act regulates the establishment of insurance companies. One of the practical implications of the law is that a single company may not provide both life-assurance and non-life assurance insurances. The act further regulates the financial information that the insurance company needs to reveal to the public. The relationship between the insurer and the policy holder is specified in the Insurance Contract Act.

In November 2007 new EU directives regarding the security markets was implemented. *The Security Market Act* unifies the operations of securities companies and the security markets within Europe and aims to further increase the European competition on the security markets and to strengthen the protection for security investors. Moreover, there are also a number of laws that regulate securities companies and security trading such as *Capital Adequacy and Large Exposures Act*, *the Financial Instrument Trading* and *the Market Abuse (Financial Instruments Trading) Penal Act*.

The Swedish law, via *Basel II*, regulates capital and risk management. The Basel II law came into force in year 2007 and aims to balancing the ratio of capital base and the level of risk that the bank takes, as well as to ensure that the companies have a satisfactory risk management system and adequate internal control system. There are a number of other laws that apply to the financial sector such as *Consumer Credit Act*, which regulates how credit services can be marketed to the public, and the *Deposit Guarantee Act*, which guarantees clients get their deposits back (see Section 5 for further discussion).

4. The Contemporary Swedish Banking Sector

The financial system consists of a number of different financial intermediaries that roughly can be divided into three groups given their main activities, i) credit institutions including banks and credit market institutions, ii) investors such as pension funds, insurance companies and fund management companies, and iii) security companies including actors such as brokers and market-makers. The largest groups of companies on the Swedish financial market, in terms of total assets, are banks, mortgage institutions, and insurances companies, security companies and fund management companies are still relatively small in terms of total assets. These companies play an important role in capital allocation (see Table 1). Private equity companies are a relatively new intermediary on the Swedish financial market, but their role has increased considerably over the last years (Svenska Bankföreningen 2008).

Table 1: Financial Intermediaries on the Swedish Financial Market 2007

Financial Intermediary	Share of total assets (%)
Banks	44
Insurance companies	19
Mortgage Institute	13
Fund management companies	12
AP-funds	7
Securities companies	0.2
Other credit companies	5

Source: Svenska Bankföreningen, 2008

The Swedish financial sector is facing large structural changes; established firms have expanded their field of activities while at the same time new firms, both domestic and foreign, have entered the market. One important structural change is the weakening of the border between banks and insurance companies. Today, most of the larger banks act on the insurance market and offer life assurances, and many of the larger insurance companies have established their own banks (see Table 2). Another important change has been the increase in the number of smaller operators in the banking market. The change has come about in two waves. The first wave occurred after the banking crisis in 1991, when many security trading firms became commercial banks. The second wave took place in 2004, when a new banking law removed the monopoly for banks to guarantee deposits; a larger number of firms were allowed to act as a credit institute and to handle deposits. This made it possible for other firms to undertake banking services. These banks operate on the market for private persons, and their services, to a large extent, are carried out over the telephone and via the internet. Moreover, the technological developments over recent years have lessened the importance of bank offices and have strengthened the competition on the banking market (Alsén, 2008); (Svensk Bankförening, 2008).

Another important change, is the considerable increase in the number of foreign banks[3] (branch offices and subsidiaries) operating on the Swedish market. In 2008, there were in total 33 foreign banks operating in Sweden. Foreign banks are mostly specialized on the commercial and bond markets, with the exception of *Den Danske Bank* (see Table 2). The banking market is still however highly domestic (Alsén, 2008); (Swedish Financial Markets 2009).

4.1 Banking groups

The Swedish banking market is dominated by four large banking groups which, in addition to traditional banking and credit services, also act as investors and security companies (Table 2). Hence, when studying the Swedish banking market it is not enough to concentrate on for example lending activities by the bank; one also has to take into account the lending that takes place in the mortgage institutions and finance companies. The organizational structure differs among the banking group. For example, Nordea has organized their specialized divisions into separate companies (legal entities) whereas other banking groups such as SEB and SHB provide some of the specialized divisions internally and other services in separate companies. Skandia is the only banking group that has insurance operations as their main activity, the company has over the years developed a banking division and is today one of the bigger actors on the market. Table 2 also includes *Den Danske Bank* which is a Danish bank that provides banking services across Sweden via provincial banks. Even though *Den Danske Bank* is relatively small compared to the other banking groups it is a major player on the Swedish banking market.

[3] In 1986 foreign banks were allowed to establish subsidiaries in Sweden, since then the number of foreign have increased substantially.

Table 2: The Six Big Swedish Banking Groups

Parent company	Bank	Mortgage Institution	Fund Management Companies	Investment Bank	Life Assurance	Finance Company
Nordea AB	Nordea Bank AB	Nordea Hypotek AB	Nordea Fonder AB	Nordea Investment Management AB	Nordea Liv and Pension AB	Nordea Finans AB
Svenska Handelsbanken AB (SHB)	SHB AB	Stadshypotek Ab	Handelsbanken Fonder AB	Handelsbanken Markets, an integrated business division, not a separate legal entity.	Handelsbanken Liv AB	Handelsbanken finans AB
Skandinaviska Enskilda Banken AB (SEB)	SEB AB	Provided by bank	SEB Fonder AB	Enskilda Securities AB	SEB Trygg Liv AB	Provided by bank
Swedbank AB	Swedbank AB	Swedbank Hypotek AB	Swedbank Robur Fonder AB/ Swedbank Robur Kapitalförvaltning	Swedbank Markets, an integrated business division, not a separate legal entity.	Swedbank Försäkring AB	Swedbank Finans AB
Den Danske Bank A/S	Danske Bank i Sverige[a]	Realkredit Danmark[b]	Danske Capital[b]	Provided by bank	Danica[b]	Provided by bank
Skandia Ab	Skandia Banken AB	Provided by bank	Skandia Fonder AB	Skandia Link Multifond AB	Livförsäkringsaktiebolaget Skandia	--

Notes:
a)Den Danske Bank owns bank offices in Sweden via Östgöta Enskilda Bank
b) Common specialized entities
Source: "*The Swedish Financial Markets 2009*", (Table 8, page 68), Sveriges Riksbank

The Swedish banking sector is highly concentrated. The average rate of concentration is around 60 percent (that is, the combined market share by the five largest banks) within EU-countries. The five largest banks in Sweden control above 90 percent of the market. Only Belgium and Finland have a comparably rate of concentration. The picture changes slightly when comparing the three largest banks, Lithuania (80 percent), the Netherlands (85 percent), and Finland (95 percent); all have a higher rate of concentration compared to Sweden (slightly less than 80 percent). Germany has the lowest level of concentration, the five largest banks control (only) 35 percent of the market (Alsén, 2008; Danthine, Giavazzi, Vives, & von Thadden, 1999).

The four largest banks in Sweden, however, account for around 80 percent of the total assets in the industry, in terms of number of offices, number of employees, public lending, deposits, and share of balance sheet totals (Table 3). Nordea is the largest bank with respect to size of balance sheet. The Bank also has the highest share of loans abroad; around 80 percent of its total loans to the public are abroad, while the other banks by comparison, have a much lower share of the total amount lent abroad.

Table 3: Descriptive Statistics – Sweden's largest banks

Bank	Balance Sheet total	Loans to public	of which to public in Sweden	of which to public abroad	Share of loans abroad (%)
SEB	2511	1297	623	673	51.9
SHB	2159	1481	972	509	52.4
Swedbank	1812	1287	953	335	35.2
Nordea	5185	2899	629	2270	78.3
Sum	**11667**	**6964**	**3177**	**3787**	

Notes: Values refer to December 2008
Source: The Swedish Financial Markets 2009, (Table 9, page 70), Sveriges Riksbank.

The banking groups also have considerable activities abroad; almost 50 percent of the major banks' pre-tax profit comes from operations on non-Swedish markets. Over the last decade the larger banks have geographically broaden their markets and have establishments mainly in the other Nordic countries, as well as in Germany and in the Baltic States. The increased internationalization of the banks' operations also shifts the risk of the Swedish banks, a phenomenon which has been very prominent in last year's financial crisis. For example, parts of the financial distress in the Swedish banks were caused by the severe recession in the Baltic States. When the global financial crisis hit the Baltic States in 2008, the countries already suffered from a two-digit rate of inflation and a decreasing demand for credit. The recession started already in 2007 when a real estate bubble burst due to tightened financing conditions and was worsened by increasing rates of inflation. The financial situation in the Baltic States affected the Swedish banks as well and has had severe implications for the performance of the Swedish banks.

4.2 Models of Corporate Governance in Banks of Sweden

The Swedish corporate governance model is characterized by concentrated ownership, strong controlling owners and family ownership. The controlling owners have - with the help of control-enhancing mechanisms, such as multiple class-shares[4], cross-holdings, and pyramiding - been able to exercise strong control in both young entrepreneurial firms and large multinational firms. [5] The ownership concentration is, from an international perspective, high. For example, Bjuggren et al. (2007) report that the largest owner controls on average 37 percent of the outstanding voting rights and 25 percent of the cash-flow rights. Högfeldt,

[4] Dual class-shares are the most commonly used control-enhancing mechanism. Over 60 percent of the firms listed on the Stockholm stock exchange belong to a family/private ownership sphere (Agnblad et al., 2001)
[5] See Agnblad, et al. (2001) for further discussion about control enhancing mechanisms applied by Swedish firms.

(2005), argues that the persistence of concentrated ownership and family control is due to Social democratic policies over the last 70 years. The main object for the Social democrats has been to unite labor and capital; "*political support and legitimacy of heavy entrenched private ownership is traded-off against the implicit guarantee that the largest listed firms do not migrate and that they continue to invest*" (Högfeldt, (2005), p. 53).

This section presents the corporate governance structure in the four largest banks. [6] The deregulation of the credit market in the 1980's and 1990's changed the institutional framework for the banking sector (see Section 2). In order to take this into account, the analysis covers the period from the mid 1980's until today, but focus especially on the last years.

SHB / Handelsbanken

The SHB was established as a local bank in Stockholm in 1871 by a number of businessmen and companies. The Banks was first named "Stockholms Handelsbank". In 1871 the bank became listed on the Stockholm Stock Exchange and soon thereafter the bank started to expand not only within Stockholm but to other cities across Sweden. It soon emerged as one of the leading banks in Sweden; the expansion took place via mergers and acquisitions with other provincial and local banks. The deflation crisis in Sweden during the 1920's put a severe strain on the bank, resulting in major write-offs due to expansive lending policies in previous years. The great depression in the 1930's caused financial problems for many of the banks client firms, and to prevent the firms from defaulting on their loans, SHB took over large shareholdings in many industrial firms. In 1943/44 a holding company (Industrivärden) was established to which the shareholdings were subsequently transferred. In 1945 Industrivärden was listed on the Stockholm Stock Exchange (OMX Stockholm) and in 2007 it was the 19th largest company in terms of market value on the OMX Stockholm. Today, the SHB-sphere controls 34 percent of the outstanding votes and 24.7 percent of the cash-flow rights of Industrivärden (see Figure 1).

[6] The historical description of the four banks is based each bank's annual report and information on the banks' home-page.

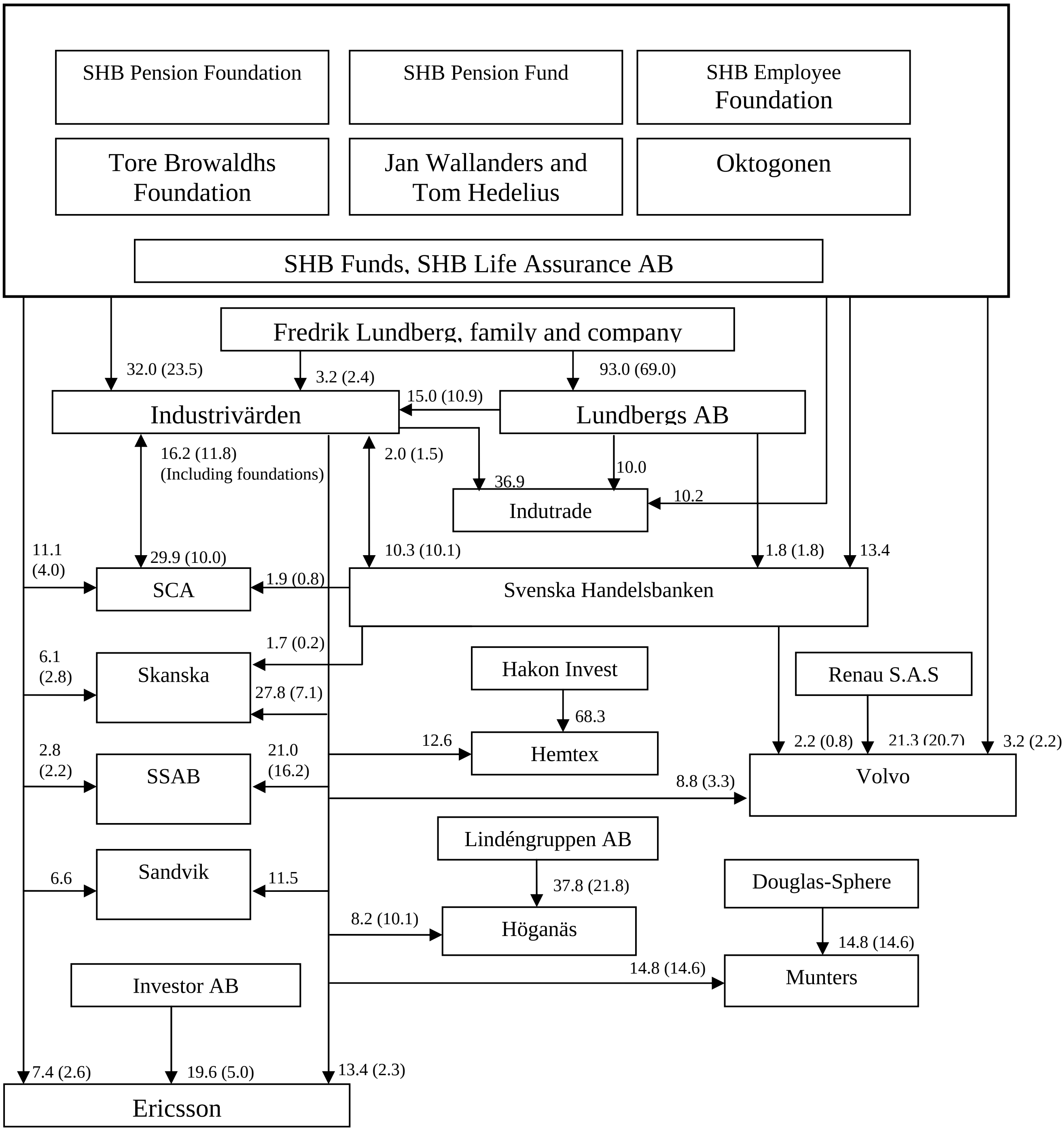

Figure 1: The SHB sphere

Note: The numbers represent vote percentage, within brackets capital percentages
Source: Based on Fristedt-Sundqvist, 2008, Owners and Power in Sweden's Listed Companies, page. 49, SIS Ownership Data Corporation, author's translation.

Figure 1 also displays that the SHB-spheres controls, via Industrivärden and the Bank, a number of large listed Swedish firms such as SCA, Skanska, SSAB, Sandviken, and Ericsson.

Table 4 presents the ownership structure of SHB. The SHB-sphere has since the mid 1980's been the largest owner of SHB; its share of voting rights and control rights has increased substantially over the last two decades. In 1985 the SHB-sphere controlled about 10 percent of the Bank, and 20 years later this control has increased to around 20 percent of the Bank. Another interesting feature is the increase in foreign ownership. In 1995 foreign investors controlled almost 20 percent of the Bank; the corresponding share in the year 2008 amounted to 30.9 percent. The share of foreign ownership corresponds roughly to the value of total foreign ownership in Sweden.[7] SHB applies vote differentiated shares. The dual-share structure was introduced in 1989 and is still applied by the owners of the Bank. The excess votes of the SHB sphere are however, very low (0.3 percentage units).

Table 4: SHB - Ownership structure

Year	Largest owner	Capital (%)	Votes (%)	2nd largest owner / group of owners	Capital (%)	Votes (%)	Dual Class Shares
1985	SHB sphere	9.4	9.4	SPP	5.3	5.3	No
1990	SHB sphere	11.7	12.4	Swedbank sphere	8.5	9.8	Yes
1995	SHB sphere	15.9	18.1	Foreign Investors	17.8	19.6	Yes
2000	SHB sphere	16.6	18.1	Foreign Investors	26.9	28.1	Yes
2005	SHB sphere	20.7	22.0	Foreign Investors	20.3	21.3	Yes
2008	SHB sphere	22.9	23.2	Foreign Investors	30.9	31.2	Yes

Source: SIS Ownership Data Corporation, (1985-2008)

SEB

In 1856, André Oscar Wallenberg established the Stockholm Enskilda Bank; it was the first privately-owned bank in Sweden. The Wallenberg family still controls the bank via its investment company Investor AB (See Figure 2 and Table 4). Since its opening the Bank has focused on credit and financing of industrial companies and to simplify the conveyance of payments. For example, in the later parts of the 19th century, the Bank was involved in developing the basic infrastructure of Sweden; it invested large amounts in the shipping industry and in the extension of the Swedish railroad system.

[7] Statistics Sweden report that in 2007 foreign investors controlled 38 percent of the market value of firms listed on the OMX Stockholm

In 1972 the Bank merged with the Skandinaviska Banken resulting in the founding of the Skandinaviska Enskilda Banken (SEB). In the following years the Bank made some important strategic decisions, for example in 1974 it entered the investment management business by acquiring the company Aktiv Placering AB, and soon after (1976) SEB went international and started new branches in Germany, Luxemburg. In 1979 it established SEB (South Asia) Limited in Singapore.

Figure 2 presents the Wallenberg-sphere and how the different entities are related. The Bank has since its foundation, in the late 19th century8, served as a “house-bank” in the Wallenberg sphere. The family controls the Bank via Investor AB and private foundation(s). There has always been a strong connection between the client firms and the Bank. Today, the Wallenberg-sphere controls via its investment company Investor AB, 20.4 percent of the voting rights in SEB. The investment firm also controls a number of different industrial companies such as Ericsson, Atlas Copco, Scania, and Husqvarna (Figure 2).

[8] See for example Sjögren (2006) for a description of some industrial companies in the Wallenberg-sphere and the role that SEB has played during the 20th century.

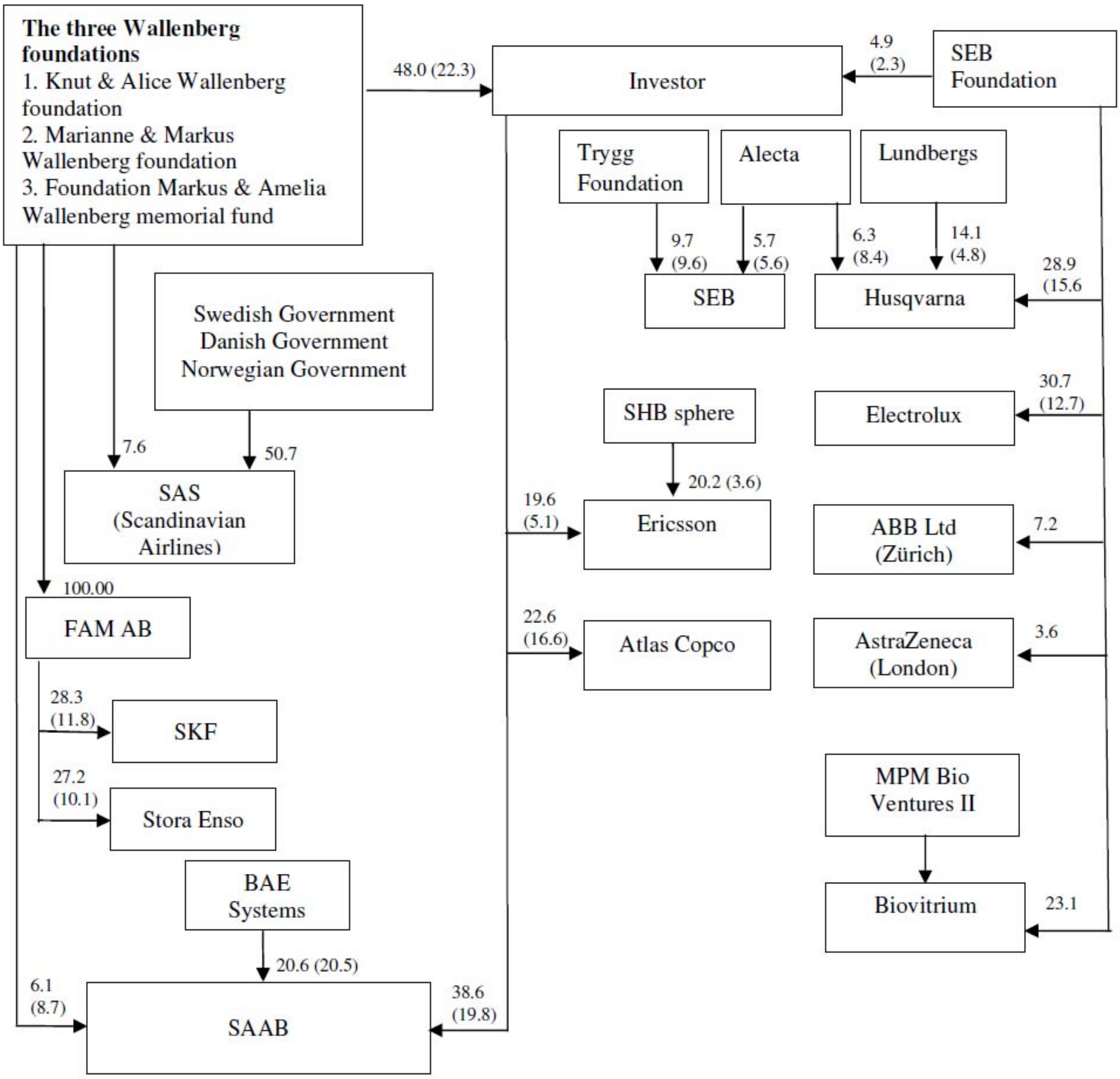

Figure 2: The Wallenberg-sphere

Note: The numbers represent vote percentage, within brackets capital percentages

Source: Based on Fristedt-Sundqvist, 2008, Owners and Power in Sweden's Listed Companies, page 56, SIS Ownership Data Corporation, author's translation

The level of ownership has changed over the years (Table 5), in 1985 the Wallenberg family was the largest owner of SEB; the sphere then controlled 9 percent of the voting and cash-flow rights. The Skanska-sphere[9] was the second largest owner with around 7 percent of the voting rights this year. The Wallenberg-sphere has since the mid 1980's tightened its control over the company and in 2008 the sphere controlled almost 22 percent of the Bank.

[9] The Skanska-sphere consisted of Custos, Protorp and Skanska. Both Custos AB and Protorp were investment firms listed on the Stockholm stock exchange, Skanska AB is a construction group that is still listed on the Stockholm Stock Exchange.

Since the early 1990's the share of foreign ownership has increased substantially with foreign investors controlling around 24 percent of the Bank.

Table 5: SEB- Ownership structure

Year	Largest owner	Capital (%)	Votes (%)	2nd largest owner /group of owners	Capital (%)	Votes (%)	Dual Class Shares
1985	Wallenberg sphere	9.0	9.0	Skanska sphere	6.6	6.6	No
1990	Wallenberg sphere	8.9	9.0	SEB sphere	8.3	8.4	Yes
1995	Wallenberg sphere	12.6	12.9	Foreign Investors	17.4	17.4	Yes
2000	Wallenberg sphere	20.5	21.2	Foreign Investors	17.8	18.3	Yes
2005	Wallenberg sphere	18.2	19.1	Foreign Investors	22.3	23.4	Yes
2008	Wallenberg sphere	21.6	21.3	Foreign Investors	23.6	24.1	Yes

Source: SIS Ownership Data Corporation, (1985-2008)

The use of control-enhancing mechanisms is relatively low in the Swedish banking sector compared to how dual class shares are used in other companies. Even though SEB introduced dual class-shares in 1990, the level of excess votes (voting rights minus cash flow rights for the largest owner) is comparatively low. In 2008, the excess vote for the Wallenberg-sphere was only 0.3 percentage units; previous studies, for example Bjuggren et al. (2007) report an average of about 10 percentage units excess votes among listed industrial firms in Sweden.

Nordea

Nordea is the youngest financial group on the Swedish financial market. The group was established in 2001 by a merger of four Nordic banks Merita Bank, Nordbanken, Unibank, and Christiania Bank og Kreditkasse from Finland, Sweden Denmark and Norway respectively. One can, however, trace the Bank's history to almost 250 years ago; the first branch office was established by *Sparekassen Kjöbenhavn og Omegn* in Copenhagen, Denmark. The Swedish part of the Bank stems from *Postgirot* (a postal giro bank) that was established in 1925 and PK-banken. PK-banken was established in 1974 by the Government as an alternatively to the private banks. The Bank was renamed to Nordbanken after a merger with Nordbanken in 1990 and became in 2001 Nordea. Nordbanken was listed on the OMX Stockholm for many years up until the 1990's. Nordbanken suffered severely from the banking crisis in the early 1990's and the Bank was delisted from the OMX Stockholm for a couple of years. In this period the Bank was restructured. Also, during this period the Swedish Government sold large parts of its ownership stake (35 percent of its shares in the Bank).

Nordea's history has been characterized by a large number of mergers between smaller banks. Today, it is one of the largest banks in the Nordic countries. The government is still the largest owner of the bank, controlling almost 20 percent of the cash-flow rights (Table 6). Even prior to Nordbanken's merger with the other Nordic banks, the Bank had a large share of foreign shareholders; 14 percent in 1996. The corresponding value in 2000 is about 50 percent and 56 percent in 2008.

Table 6: Nordea (Nordbanken until 2001) –Ownership Structure

Year	Largest owner	Capital (%)	Votes (%)	2nd largest owner /group of owners	Capital (%)	Votes (%)	Dual Class Shares
1986	Skanska sphere	11.9	11.9	Wall sphere	6.1	6.1	No
1991	State-sphere	74.4	74.4	Penser sphere	13.5	13.5	No
1996	Swedish state	65.5	65.5	Foreign investors	13.8	13.8	No
2000	Swedish state	25.9	25.9	Foreign investors	50.6	50.6	No
2005	Swedish state	18.5	19.5	Foreign investors	50.6	53.3	No
2008	Swedish state	19.9	19.9	Foreign investors	55.9	55.9	No

Source: SIS Ownership Data Corporation, (1986-2008)

Swedbank

The first private Swedish savings bank was established in Gothenburg in the 1820's. This type of bank soon became popular and in 1928 there were 498 private savings banks in Sweden. From the beginning Swedbank was a saving bank for the farming industry. In the late 19th and early 20th century there was an ever-increasing demand for credit in the agricultural sector, which enhanced the development of the Bank. The savings banks operated as single entities.

In 1992 many of the private savings (around 350) banks were reorganized into one single joint-stock company, Föreningsbankerna. Five years later Föreningsbanken and Sparbanken merged and Föreningssparbanken, which would later become Swedbank was established. Table 7 presents the development of the ownership structure of Swedbank/Föreningssparbanken. The Föreningssparbanks-sphere has, since the early 1990's, been the controlling owner of the Bank. The share of foreign ownership has, like in the other banks, increased considerably since the laws were changed in the 1990's. Today, foreign investors control approximately 27 percent of the Bank.

Table 7: Swedbank/Föreningssparbanken- Ownership Structure

Year	Largest owner	Capital (%)	Votes (%)	2nd largest owner /group of owners	Capital (%)	Votes (%)	Dual Class Shares
1989	FB-sphere	31.5	52.4	Sv. Föreningsbankers förbund	22.6	32.3	Yes
1994	Producent kooperationen	22.4	22.4	Foreign investors	9.8	9.8	No
2000	FB-sphere	28.0	28.0	Foreign investors	29.3	29.3	No
2005	FB-sphere	20.3	20.3	Foreign investors	16.7	16.7	No
2008	FB-sphere	32.8	32.8	Foreign investors	27.1	27.1	No

Notes: FB-sphere denotes föreningssparbankernas sphere.
Source: SIS Ownership Data Corporation, (1989-2008)

Table 8 presents the structure of the Board of Directors in the Sweden's largest banks. The board size, i.e. the number of board directors, is relatively large compared to the average number of directors in listed industrial firms in Sweden. According to a recent study by Linck et al., (2008) boards of directors are usually smaller and more dependent in young and high growth firms whereas mature firms more often have larger and more dependent boards. [10]

For example, Eklund, et al. (2009) reports that the average number of board members in Swedish listed firms is approximately 7- 8. Nordea, which is the largest bank, has 14 directors, SHB 13 directors, SEB 12, and Swedbank has 10 directors. Table 8 further shows large differences with respect to gender diversity. Swedbank has the highest share of female directors (60 percent of the directors are female) whereas SEB has the lowest share of female directors (17 percent). Previous research, (Eklund et al., 2009), shows that the share of female directors has increased over the years, and the average share of female directors in their sample lies at 14 percent in 2005. The share has increased further since then. Interesting to note is that SEB is one of few listed Swedish firms that has a female CEO, only seven other listed companies in Sweden has a female CEO. The last column in Table 4 states that whether the CEO is also a member of the board. According to the Swedish code of corporate governance, only one member of the board can be part of the senior management of the firm. In 2005, around half the sample firms in the study by Eklund et al. (2009) had their CEO on the board; compared to year 2000 when almost 90 percent of the CEOs were on the board of directors.

[10] Dependent boards are usually defined as having many directors closely related to the management of the firm.

Table 8: Board of directors (2008)

Bank	Board Size	Gender Diversity (%)	Share foreign directors (%)	CEO member of the board
Nordea Bank	14	21.43	50.00	No
SEB	12	16.67	33.33	Yes
SHB	13	30.77	23,08	Yes
Swedbank	10	60.00	20.00	No

Notes: Board size denotes the number of board of directors and gender diversity measures the share of female directors.
Source: SIS Ownership Data Corporation, (1986-2008)

5. Corporate governance in Swedish Banks: anti-crisis paradigms

As a response to the financial crisis the Swedish government has enforced a number of new laws.[11] The first one is the Government Support to Credit Institution Act; that aims to enforce *a more predictable process for the management of problems in financial institutions in crisis situations* (The Swedish Financial Market 2009, page. 95). The act allows the state to interfere in the management of the credit institution in times of financial crisis especially if there is a risk that the credit institution can create instability in the financial system. There are a number of ways in which the government can intervene in the company. It can, for example, provide capital injections into the credit institution to save it from running short on credits. The government can also as a last resort, take over the company through mandatory redemption of the credit institution’s shares.

These preventative measures aim to lower the risks for both depositors and lenders to banks and other credit institutions. Table 9 summarizes important governmental measures in the wake of the current financial crisis.

[11] Section 5 is based on the ”Central Laws and Forms of Incorporation in the Financial Sector”, The Swedish Financial Market 2009, Swedish Central Bank and the Finansinspektionen, report 2009-09-30 “Effekterna av de statliga stabilitetsåtgärderna” and information from The Swedish National Debt Office (www.riksgälden.se).

Table 9: Governmental measures in consequence of the financial crisis

Date	Measure
2008	
September 18th	The Swedish government (The National Debt Office) supports the liquidity of the largest banks for the first time. Over the year the National Debt Office acts on several occasions to facilitate the liquidity problems in Swedish banks.
October 6th	The deposit insurance is extended to cover more accounts and a larger amount of the deposits (500 000 SEK).
October 9th	Together with a number of other central banks, the Swedish Central Bank lowers the repo rate with 0.5 percentage units to 4.25 (The rate becomes effective as of October 15th).
October 13th	The Swedish government announces that there will be a stability pact for Swedish banks. The stability pact is presented a week later (October 20th) and is formally decided upon October 29th).
2009	
February 3rd	A “capital infusion program” is presented by the Swedish government.
April 2nd	The Guarantee Scheme for Swedish banks is extended until October 31st 2009. The scheme was extended a second time and is now extended to April 30th 2010.
July 30th	The capital infusion program is extended up to and including February 17th 2010.

Source: Based on Finansinspektionen, report 2009-09-30 “*Effekterna av de statliga stabilitetsåtgärderna*” and information from The Swedish National Debt Office (www.riksgälden.se)

Stabilization Fund

As a response to the financial crisis the government established a fund that will finance future governmental activities taken to stabilize the financial system. The aim of the program is to accumulate resources over time and to have funds corresponding to 2.5 percent of GDP within 15 years. As a first contribution the government has through a special appropriation contributed with 15 billion SEK to such a fund which will also include the deposit insurance fund. The remaining financing should come from annual fees paid by the Swedish banks and other credit institutions as well as from charges for bank guarantees and other returns on measures taken by the government in order to sustain a long-term healthy financial system. The government has the ability to support credit institutions facing a server situation and also to intervene and take precautionary actions if there is a risk for instability in the system.

Bank Guarantee Program

The government has further also implemented a program for borrowing with a government guarantee; the program aims to stabilize the confidence in the financial sector. The bank guarantee program was implemented in 2008 and aims to support new borrowing by banks and credit intuitions. The program is based on the *State Aid to Credit Instituions Act* (2008:814), and *the State Guarantees to Banks, etc. Ordinance,* (2008:819) and *the Swedish National Debt Office's Regulations* 2008:1 and 2008:2. A credit institution can according to this program apply for a guarantee by the state in new borrowing. The guarantee is part of a temporary program and implies that the State acts as a creditor and takes on the loan if the bank cannot repay it. The act has, however, been extended two times during the last year and is now valid until April 30th 2010.

Deposit Insurance Scheme

This insurance scheme make sure that almost all deposits until 500 000 SEK (or 50 000 euro) are guaranteed by the Government. This extension of the previous deposit insurance scheme does not only extend the amount of deposits that are guaranteed it also extends the coverage of the bank accounts.

Liquidity Supporting Actions

Since the financial crisis commenced in September 2008 there has been an ongoing risk for liquidity shortages. To prevent this from happening, the Swedish Central bank and the National Debt Office have, over the last year, supported Swedish credit institutions with various forms of liquidity providing actions. For example the Central Bank lowered the repo rate on several occasions. In October 2008 the repo rate was 4.25 and in July 2009 the repo rate was 0.25 percent. At the same time, the Central Bank has supplied a number of loans with fixed interest rates and a maturity of 12 months.

Capital Infusion Program

The capital injection program was implemented in the spring of 2009. The program has been used by a number of Swedish credit institutions in order to avoid credit constraints; and the demand for further capital injections has declined substantially during the last months (October 2009). The program which amounts to SEK 50 billion, aims to support financially strong banks and to support Swedish households and firms to obtain loans during the ongoing financial crisis.

In order to expand its lending a bank can apply to the National Debt Office for a capital infusion. The Debt Office can supply hybrid capital or share capital which extends the bank's capital base and hence its lending abilities. The capital infusion program is associated with some formal rules regarding the compensation of the bank's the senior executives. Also, the increase of the bank's capital base caused by such a capital infusion cannot be higher than 2 percent of the bank's adequacy ratio (CAR) i.e. the ratio of the bank's capital to its risks.

All the above governmental measures aim to increase the long-run stability in the financial system. The establishment of the stabilization fund also highlights the importance for the banks to take responsibility for their own development. There imposed regulations and programs have, however, not only resulted in positive consequences for the financial system but the measures have lowered risks taken by the banks, the discipline imposed by market forces are thus weakened. Banks that are efficiently managed and those banks engaging in low risk projects are, however, not rewarded for this by lower costs of financing.

6. Concluding Remarks

The last two decades has seen radical changes for the organized Swedish credit market and its institutions. During the period after the Second World War up until the 1980's the Swedish credit market was heavily regulated. In the mid-1980's and early 1990's, however, the credit market experienced a relatively rapid deregulation and during the succeeding years the financial markets, its institutions and business areas developed and the financial system became more market oriented. The analysis shows that the Swedish banking sector is highly concentrated, with four banking groups controlling over 80 percent of the market. The corporate governance structure in the larger banks is also concentrated. Two of the banks (SEB and SHB) are part of larger ownership spheres whereas the state owns the largest share in Nordea and Swedbank is owned by other private savings bank in Sweden. The analysis shows further that the banks have relatively large boards of directors. The gender diversity varies considerably between the banks; SEB has the lowest share of female directors whereas Swedbank has the highest share. The share of foreign ownership as well as the share of foreign directors has increased considerably over the last years and the share of foreign ownership is between 25-30 percent with the exception of Nordea which is 50 percent owned by foreigners.

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