

## Swedish niche lenders face regulatory changes in funding metrics

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Swedish niche financial institutions mainly derive their funding from retail deposits. A large slice of these deposits comes from deposit distribution platforms such as Sweden's Avanza, Europe's Raisin or Germany-based WeltSparen. On 30 Sep. 2024, the Swedish Financial Supervisory Authority (SFSA, in Swedish: *Finansinspektionen*) released a statement requiring financial institutions under its supervision to classify retail deposits from these and similar platforms like deposits from deposit brokers. We consider that this regulatory change could weaken some niche lenders' regulatory funding and liquidity metrics. Aside from reducing these institutions' leeway under regulatory requirements, the change does not affect our view of their funding and liquidity management. Despite the very high share of deposit guarantee coverage for retail deposits at niche banks, we continue to take a conservative view of the flightiness and price-sensitivity of these types of deposits compared with retail deposit funding from traditional banks.

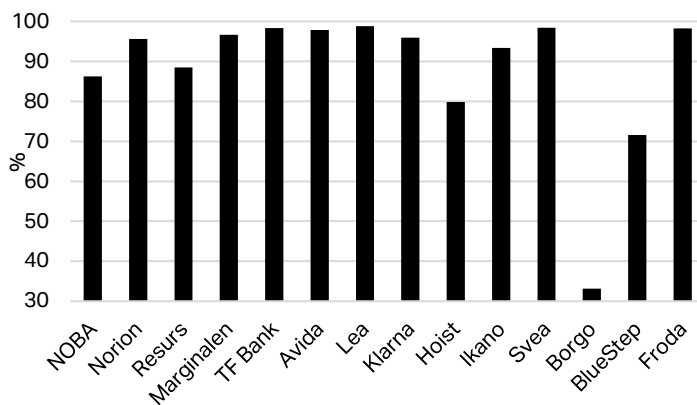
In this report, we present our view of these institutions' funding and liquidity management in accordance with our methodology (see Relevant Research (i)). We also set out our expectations on the impact of the changed regulatory guidelines on niche lenders. Nordic Credit Rating (NCR) rates three Nordic niche banks (see Figure 7 at the end of the report), but we have included Swedish-regulated financial institutions that we do not rate in our analysis. Our sample comprises a broad group of Swedish niche financial institutions with a high share of retail deposit financing and/or confirmed users of deposit distributors. Of the institutions in the sample, we believe that TF Bank is the only one to announce that its metrics are not affected by the regulator's decision.

Norion Bank has reported in its third-quarter 2024 results that its net stable funding ratio (NSFR) would have been 103% under the SFSA's new guidelines (vs. 141% under the still current guidelines), with a liquidity coverage ratio (LCR) of 204% (397%), if the regulatory change would had been implemented immediately. However, the new guideline does not become effective until the next reporting dates: 31 Oct. 2024 for the LCR and 31 Dec. 2024 for the NSFR. We understand that Norion Bank and its peers are making progress in reducing the impact on their funding and liquidity metrics in the run-up to the implementation of the regulatory change.

### FUNDING PROFILE OF NICHE BANKS

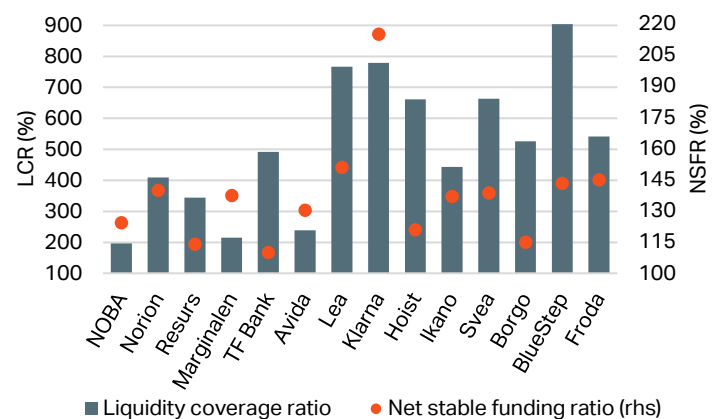
Excluding the covered bond issuers Borgo and BlueStep (which both use deposit distributor platforms), retail deposits account for about 94% of financing for the institutions in our sample. We view retail deposits at traditional banks as a highly stable funding source because the depositors are often customers that avail themselves of full-service banking.

Figure 1. Retail deposits as a share of funding sources, 30 Jun. 2024



Source: bank reports. Lea Bank is included due to its announced intent to move to Sweden.

Figure 2. Funding and liquidity metrics, 30 Jun. 2024



Source: bank reports.

However, the dynamic differs a bit for niche lenders, which primarily offer only savings accounts and may or may not have other banking relationships with customers. Leveraging the ease of online transfers, niche institutions are competing more aggressively for retail deposits by offering significantly higher interest rates than traditional banks. In the four years to 30 Jun. 2024, our sample institutions' share of total household deposits in the Swedish banking system increased to 18.7% from 10.6%. Part of this rise stems from growth in these institution's foreign deposits, through platforms such as Raisin or WeltSparen. In the Swedish banking system, the share of customer deposits from countries in the European Monetary Union rose by 37% in the same period, to 7.8% of total deposits.

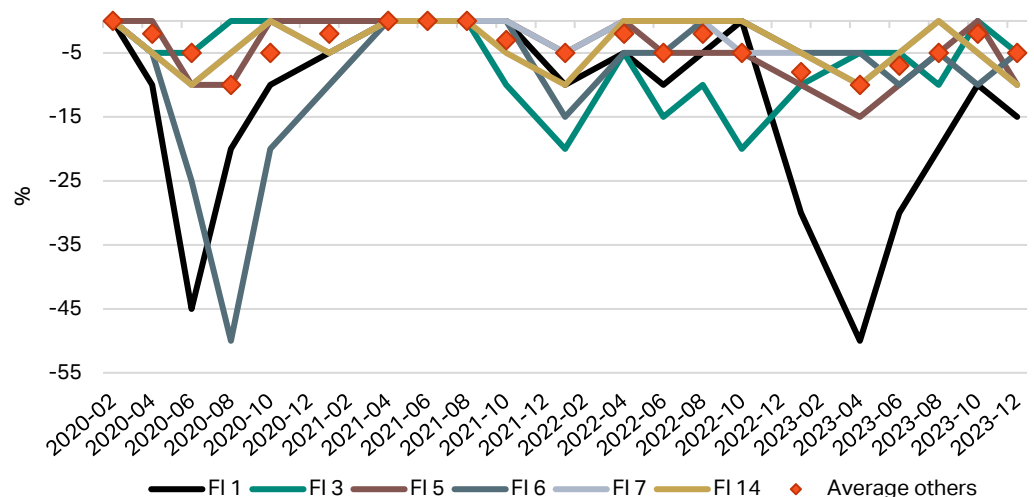
Within the EU, the deposit guarantee scheme in the financial institution's home country is responsible for guaranteeing deposits. Given niche banks' focus on retail deposits, as opposed to that of traditional banks with higher shares of corporate and private banking deposits, the proportion of deposits that is covered by the deposit guarantee scheme is generally around 90% or higher. Consequently, these banks are in theory well-protected against the risk of a bank run. However, in the U.S. banking crisis in March 2023, when three banks failed following bank runs and market turmoil, niche banks faced very rapid withdrawals when news was adverse.

We believe there is a significant difference in concentration and complexity between the corporate and institutional depositors in the U.S. cases and the households that place their savings in our sample financial institutions. Nonetheless, we believe that retail depositors in our sample institutions are more likely to make quick withdrawals on adverse news than retail depositors in traditional banks. Consequently, our view on the stability of an institution's deposit funding considers our overall assessment of the institution, including its reputational risk.

**IS THERE SAFETY IN NUMBERS?**

In its statement, the SFSA included an analysis of monthly changes in distributor-sourced retail deposits for the 16 institutions included in its report, showing significant month-to-month volatility for several institutions. However, when isolating the institutions that appear to have the largest movements and comparing them with the average of the remaining institutions, we note that only a few institutions account for most of the volatility. It is also unclear whether the changes followed strategic decisions by specific banks, associated with repricing, or were in response to other factors besides customer flight.

**Figure 3. Estimated deposit outflows based on SFSA's analysis, Feb. 2020 – Dec. 2023**

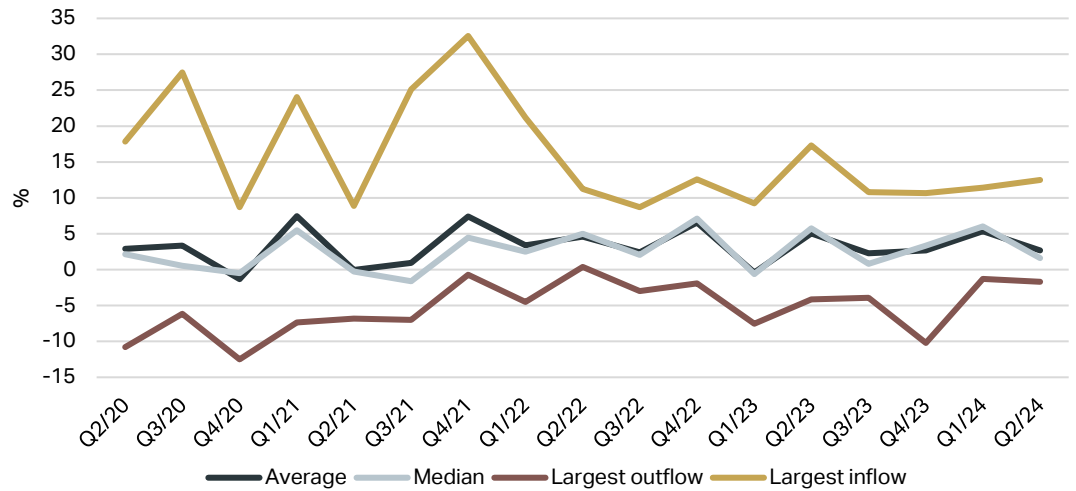


Source: SFSA, NCR calculations. FI-financial institution.

We round out the SFSA data on deposit outflows, where the institutions are not identified (see Figure 3), with total deposit flows for the institutions in our sample (see Figure 4). Resembling the patterns in the SFSA's data, we note that there are a few institutions that are overrepresented with the largest in- and outflows in a given period. We also observe that due to the price sensitivity among these

depositors, these institutions are to some extent able to control flows by adjusting their pricing compared with competitors.

Figure 4. Quarterly retail deposit changes in our sample, Q2 2020 – Q2 2024



Source: bank reports, NCR calculations. Excluding Ikano, Svea, BlueStep, Froda, and Borgo,

**REGULATORY IMPLICATION**

The SFSA statement requires institutions to treat deposit distribution platforms as deposit brokers, which actively manage their clients' deposits and can steer large volumes between banks. While we see key differences between the two platforms, the SFSA's change leads to lower value for these deposits in the regulatory calculations of the LCR and NSFR at Swedish financial institutions. In practice, the new guideline changes the haircut for these deposits in LCR calculations to 20%, compared with the average in the SFSA's study of 10%, and reduces the stable funding factor for NSFR calculations to 50%, instead of the typical 95% or 90%. We believe that the new guideline will reduce the NSFR and LCR for some financial institutions with sizeable shares of distributor-sourced deposits, depending on their current treatment and their shares of fixed-term deposits. The new weights and factors are effective from the next reporting dates: 31 Oct. 2024 for LCR and 31 Dec. 2024 for NSFR.

Figure 5. Weights and factors for LCR and NSFR ratio calculations

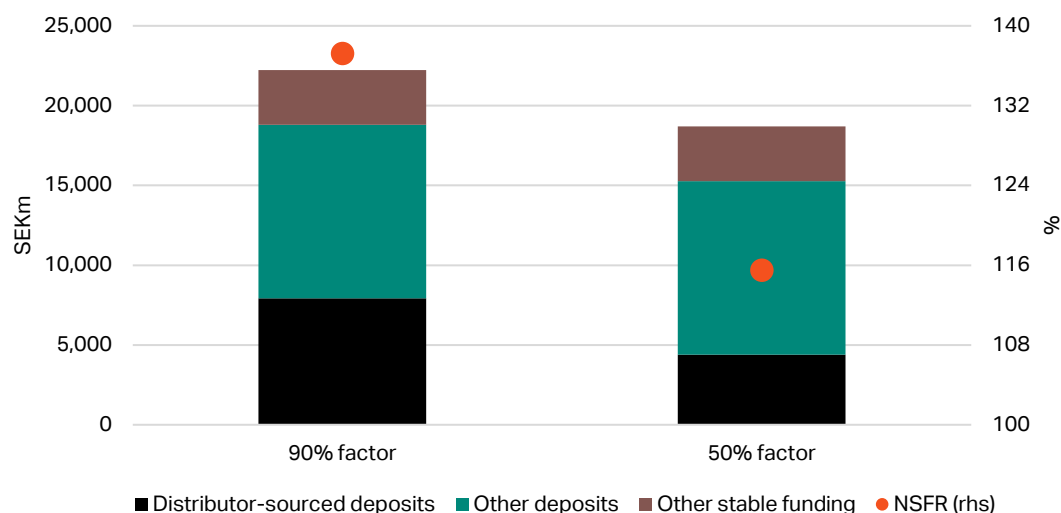
(%)	LCR	NSFR
Weight/factor options	5, 10, 20, 100	100, 95, 90, 50, 0
SFSA's new guidelines	20	50

Source: SFSA. LCR weight: stressed outflow percentage. NSFR factor: share that can be treated as stable (for >12 months).

We focus our analysis on the NSFR, given that the LCR can be corrected more quickly by increasing excess liquidity. While 95% of traditional sight retail deposits are considered available stable funding, we believe that it has been common for institutions to use a more conservative 90% factor for distributor-sourced sight retail deposits. For distributor-sourced corporate term deposits, such as those via Norway-based Fixrate, institutions are already using the 50% factor applied to non-financial corporate deposits with fixed terms under 12 months. Fixed-term deposits exceeding 12 months remain as 100% stable funding in the NSFR measure.

The new guideline could have a severe impact on an institution's NSFR by reducing the value of available stable funding. To illustrate this, we demonstrate the effect on the NSFR for an example financial institution with a median 137% NSFR for niche lenders in our sample on 30 Jun. 2024 (see Figure 6). We assume that the bank has an average share of distributor-sourced deposits of 44% (from SFSA's analysis), all with a fixed term under 12 months. In our example, the reduction in available stable funding weakens the NSFR to 116% from 137%, a major change for the slow-moving ratio. It is important to note that this estimated impact excludes any potential steps by the bank to improve its NSFR ratio. The impact on our example institution's NSFR is smaller than that reported by Norion Bank. The bank reported an NSFR of 141% under the SFSA's current guideline while indicating that an immediate implication of the regulator's change would have reduced the ratio to 103%.

Figure 6. Example of the impact on the NSFR



Source: NCR. Assuming 44% distributor-sourced deposits, 90% weight for other deposits, and 90% of stable funding from deposits.

To our knowledge, the only institution in our sample that has announced it is already compliant with the new guidelines is TF Bank, which reported in the first quarter of 2023 a change in "the calculation method for deposits via deposit intermediaries." Without details on the composition of TF Bank's deposit mix, nor on steps that it might have taken to improve stable funding during the quarter, we estimate that the changes in stable funding factors reduced the NSFR by 10-15 bps given the reported 121% in the first quarter of 2023, a 17bp decline from 138% a quarter earlier.

Most financial institutions in our sample do not publish their share of distributor-sourced deposits in public reports. The extent of the impact of the new regulation on a specific institution is consequently difficult to assess. In addition, while our analysis is based on financial reports for the second quarter of 2024, the institutions have until the end of the year to adapt to the regulatory changes. We expect that many of the institutions affected will take action to strengthen their NSFRs. We believe that niche banks are actively working to improve their regulatory measures by extending deposit maturities, increasing deposit volumes, shifting deposits from distributor-sourced to own channels, and increasing capital market financing. In the long run, we also expect these institutions to consider reducing their stable funding needs on the asset side, including changing the product mix, trimming non-performing exposures, or focusing more on short-term lending.

### NCR-RATED SWEDISH NICHE BANKS

The following table summarises NCR's ratings on Swedish niche banks as of 18 Oct. 2024.

Figure 7. NCR ratings on Swedish niche banks.

	Resurs Bank	Norion Bank	NOBA Bank Group
Long-term issuer rating	BBB	BBB-	BBB
Outlook	Negative	Negative	Stable
<b>Subfactors:</b>			
Operating environment (20%)	bbb-	bbb-	bbb-
Risk appetite (50%)	bbb	bb+	bbb
- funding and liquidity (15%)	bbb	bbb-	bbb
Market position (15%)	bb+	bb	bbb-
Performance indicators (15%)	bbb+	bbb+	bbb+
Ownership adjustment	0	0	0

See NCR's [company rating reports](#) for details.

## RELEVANT RESEARCH

- (i) [Financial Institutions Rating Methodology](#), 14 Feb. 2024
- (ii) [Nordic consumer banks' earnings continue to offset elevated provisions](#), 10 Sep. 2024
- (iii) [Webinar: Norwegian niche banks eye capital relief in Sweden \(Q2 2024\)](#), 10 Sep. 2024
- (iv) [NCR Comments: Resurs Bank 'BBB' rating and outlook unchanged following acquisition offer](#), 26 Jun. 2024
- (v) [Credit loss uncertainty rises for Nordic consumer banks](#), 11 Jun. 2024

## RECENT RATING ACTIONS

- (i) [NOBA Bank Group AB \(publ\) 'BBB' long-term issuer rating affirmed: Outlook stable](#), 22 Apr. 2024
- (ii) [Norion Bank AB outlook revised to negative: 'BBB-' long-term issue rating affirmed](#), 20 Mar. 2024
- (iii) [Resurs Bank AB 'BBB' long-term issuer rating affirmed: Outlook negative](#), 20 Mar. 2024

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