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Swedish AMCs: Securum and Retriva

Mallory Dreyer

Yale Program on Financial Stability Case Study
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Abstract

With the liberalization of the Swedish banking system in the 1980s, there was a rapid credit expansion, and real estate prices soared. When the Swedish economy began to weaken, real estate prices began to decline, and finance companies faced difficulties. Swedish banks were not insulated from financial pressures, and Nordbanken, a majority state-owned bank, declared large credit losses in 1990. The Swedish government’s response was initially ad hoc and targeted to specific banks, but in 1992, the government announced an open-ended guarantee of all bank liabilities. The crisis response also included a bank restructuring program and the establishment of targeted asset management companies (AMCs) to manage bad assets from two banks. In 1993, the government took over Securum, which had been established as an internal bad bank subsidiary of Nordbanken. Another government-owned entity, Retriva, took over bad assets from Gota Bank in 1994, and Securum and Retriva merged in 1996. In total, Securum and Retriva acquired SEK 112 billion (USD 871 million) in assets at a reduced book value of SEK 66 billion, reflecting substantial write-downs. The government funded Securum and Retriva with equity capital totaling SEK 28 billion and guaranteed loans totaling SEK 14 billion. Securum immediately focused on preserving asset value, with most debtor companies undergoing bankruptcy while Securum took over the underlying collateral. Real estate assets comprised the majority of Securum’s portfolio. To manage and dispose of assets, Securum and Retriva established specialized subsidiary units for real estate, industrial companies, and foreign holdings. When it closed in 1997, Securum had disposed of 98% of its portfolio of assets and utilized private sales and initial public offerings to dispose of property portfolios. Securum wound down earlier than anticipated, after five years of operations, and is considered to be an example of the successful use of an AMC to manage bad debt a successful example of an AMC.

Keywords: AMC, nonperforming loans, real estate, IPOs, Swedish banking crisis

1 This case study is part of the Yale Program on Financial Stability (YPFS) selection of New Bagehot Project modules considering broad-based asset management company programs.


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At a Glance

In the 1980s, deregulation of the Swedish financial markets led to a significant credit expansion (Securum AB 1997). The pre-liberalization period included government-imposed regulations on banks such as credit lending ceilings, interest rate limits, and requirements to invest a specified portion of capital in government and housing bonds. As a part of the deregulatory and liberalizations efforts, the government lifted the average interest rate cap for lending and eliminated lending ceilings (Drees and Pazarbas 1995). Banks and finance companies pursued riskier lending practices as they sought to increase their market share, leading to a credit boom (Securum AB 1997).

Total lending in Sweden increased by more than 100% from 1986 to 1989 (Cerruti and Neyens 2016). The increase in lending flowed to asset markets—including the commercial real estate (CRE), housing, and stock markets—which led to an increase in asset prices. The bubble burst in the early 1990s, and a number of factors led to a sharp increase in real interest rates. The Swedish krona was pegged to a basket of European currencies, and rate increases in Germany following reunification were transmitted to Sweden and Europe more broadly. Furthermore, the Swedish Riksbank raised interest rates in response to speculative attacks against the krona (Jonung, Kiander, and Vartia 2009). In addition to increasing interest rates, the 1990–1991 tax reform reduced the tax deductibility of mortgage borrowing. Borrowing fell alongside falling real estate prices.

Summary of Key Terms

| Purpose: “To streamline Nordbanken [and Gota Bank] and create conditions for recovery, in a commercial manner, of as much as possible of the bad credits, while also helping to stabilize the financial markets and the real estate market” (Securum AB 1997) |
| Launch Dates | Announced: Securum in 1992 and Retriva in 1993  
Operational: Securum in 1992 and Retriva in 1993 |
| Wind-Down Dates | Retriva merged with Securum in 1996, and Securum wound down in 1997 |
| Size and Type of NPL Problem | NPLs amounted to 15% of GDP  
Real estate and corporate loans |
| Program Size | Not specified at outset |
| Eligible Institutions | Only Nordbanken was eligible for Securum and Gota Bank for Retriva. The government took over the two banks, and they participated on a mandatory basis  
Open and closed |
| Usage | Loans, shares, and real estate of SEK 112 billion at face value transferred to Securum/Retriva for a purchase price of SEK 66 billion |
| Outcomes | Securum/Retriva disposed of 98% of assets by 1997 and returned capital amounting to SEK 18 billion to the government |
| Ownership Structure | Government-owned |
| Notable Features | Considered to be highly successful; set up specialized subsidiary units; disposed of properties through IPOs |
As early as 1990, finance companies had begun to show signs of weakness, as one finance company suspended payments in 1990, and the suspension led to heightened attention on finance companies with large exposures to real estate (Drees and Pazarbasıoglu 1995). This triggered the collapse of the commercial paper market in Sweden. Finance companies were a type of financial institution subject to less stringent regulations and considered to be part of the shadow banking sector (Cerruti and Neyens 2016). It was initially expected that the issues would remain isolated with finance companies rather than permeate the entire banking system because banks were subject to more stringent collateral requirements. However, banks had lent to finance companies and had invested in their securities (Drees and Pazarbasıoglu 1995).

In August 1990, Nordbanken—one of the largest Swedish banks that was majority state-owned—reported losses of SEK 1.7 billion, leading the Swedish Bank Inspection Board to audit the bank. The inspection determined that poor credit management had led to the significant losses; as a result, the board and CEO of Nordbanken resigned in 1990. The new management implemented a credit freeze to evaluate the severity of issues at Nordbanken and discovered that the bank had significant exposures to individual groups or companies; one such company, the Penser Group, represented 90% of Nordbanken’s equity capital. In response, the bank formed the so-called “Intensive Care” unit, which took on the worst of Nordbanken’s loan portfolio, thus beginning the separation of good and bad assets (Securum AB 1997).

Another finance company, Gamlestaden, reported negative equity of SEK 1.6 billion. Nobel Industrier, the main company of the Penser Group to which Nordbanken had a large exposure, had pledged to inject new capital if the solvency of Gamlestaden ever fell below 16%. This would have led to bankruptcy for Nobel Industrier, thus wiping out a significant amount of Nordbanken’s collateral in Penser. Because of this, Nordbanken injected SEK 2.3 billion in Gamlestaden and injected additional capital in Nobel Industrier (Securum AB 1997).

Problems within Nordbanken persisted, and in order to address the growing financial crisis, the Swedish government initially adopted an ad hoc approach targeting Nordbanken and Första Sparbanken, another struggling bank. A capital injection in 1991 for Nordbanken and a guaranteed loan to Första Sparbanken provided temporary relief, but conditions at both banks continued to deteriorate. A third bank—Gota Bank—showed signs of weakness beginning in May 1992, and the combination of bank problems and the currency crisis led the government to conclude that the crisis was reaching a systemic level in August 1992 (Drees and Pazarbasıoglu 1995).
Conditions at Nordbanken continued to deteriorate in 1992, and it was expected that the bank would not maintain a capital adequacy ratio (CAR) of 8% without an additional capital injection and the divestment of the Intensive Care unit, which had since been renamed “Securum.” In the spring of 1992, the government recapitalized Nordbanken with SEK 10 billion, and Securum received a capital injection of SEK 24 billion. By this time, the government had become the full owner of Nordbanken, and in the beginning of 1993, the government assumed full ownership of Securum, thus separating the bad bank from the good bank (Securum AB 1997).

Securum acquired 3,000 loans with a face value of SEK 67 billion (USD 521 million). As part of the pricing and transfer, Nordbanken wrote down the assets by SEK 17 billion, making the “purchase price” of the portfolio SEK 50 billion. The government provided SEK 24 billion in funding in the form of equity while Nordbanken provided SEK 27 billion in loans at favorable terms, of which the government guaranteed SEK 10 billion. Securum’s portfolio was limited to assets from Nordbanken. The portfolio consisted of mostly nonperforming loans with a minimum size of SEK 15 million, most of which were related to real estate (Securum AB 1997). Securum was fully government-owned, but it had an independent board and a managing director; the board had a single representative from the Ministry of Finance (MoF) (Klingebiel 2000; Securum AB 1997).

In addition to Nordbanken/Securum, another individual asset management company (AMC) was established to take over the bad assets from Gota Bank. The Gota Bank group consisted of three separate banks, and the holding company entered into bankruptcy in September 1992. The Bank Support Authority acquired Gota Bank’s bad debts and sold them to Retriva, the aforementioned individual AMC. Retriva’s portfolio consisted of SEK 42 billion in loans—an amount equal to nearly 50% of Gota Bank’s total lending—and SEK 3 billion in assets. Gota Bank had written down the assets prior to the transfers more aggressively than Securum, with SEK 26 billion in total asset write-downs. Retriva was financed using SEK 3.8 billion in equity (compared to the SEK 24 billion for Securum) from the government and SEK 3.5 billion in government-guaranteed loans (Securum AB 1997).

Overall, SEK 112 billion in assets at face value were transferred to Securum/Retriva at a transfer price of SEK 66 billion. After further write-downs and devaluation, the assets had an estimated market value of SEK 53 billion (Securum AB 1997).

Both Securum and Retriva followed similar operational approaches to managing and disposing of assets and loans. Initially, the focus was on preventing further price deterioration. Securum could restructure loans or companies, but its most frequent loan management solution was to pursue bankruptcy, foreclose on the loan, and take over the underlying collateral (Securum AB 1997). Most of the loan portfolio was related to real estate, and after taking over the property collateral for the majority of its loan portfolio, Securum owned between 1% and 2% of commercial property in Sweden (Cerruti and Neyens 2016).

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3 According to OFX, the yearly average exchange rate in 1993 was SEK 1 = USD 0.12858.
Securum established subsidiary companies to manage specific types of assets: there were four regional property companies, a tourism and hotel subsidiary, an industrial focused company, and a subsidiary in London to manage foreign assets. These companies managed properties and assets and were responsible for divestment of their asset portfolios (Securum AB 1997).

Securum did not auction its portfolio of assets. Instead, it engaged in private negotiations with potential buyers and initiated individual or bulk sales of properties, some of which were organized as the sale of a property holding company. Securum also divested of property holding companies through initial public offerings (IPOs). Though IPOs accounted for less than 50% of total asset disposals, there were four cases of domestic IPOs and one IPO in London (Cerruti and Neyens 2016).

In 1996, Securum acquired Retriva for SEK 3.8 billion, returning to the government its capital. Securum acquired the remaining assets in Retriva’s portfolio, which totaled SEK 11 billion (Securum AB 1997). Prior to its acquisition, Retriva had followed a similar operational approach as Securum.

Securum was initially expected to operate over a timeframe of 10 to 15 years (Securum AB 1997). In 1995, Securum’s management proposed winding down the company by the end of 1997, and Parliament formally dissolved Securum in June 1997. Securum’s disposal activities reflect the accelerated timeline: it divested 25% of its real estate portfolio in 1997 and 60% of the portfolio in 1997. Over the course of its lifetime, Securum disposed of 98% of its assets. The remaining assets, worth SEK 2 billion, were transferred to Vasakronan and Venantius, two state-owned holding companies (Cerruti and Neyens 2016). Securum and Retriva had been capitalized with SEK 28 billion, but at the time of closure, Securum returned approximately SEK 14 billion to the state (Securum AB 1997).

**Summary Evaluation**

Securum is considered by many to be a successful example of an asset management company. It was able to dispose of 98% of its assets much more quickly than expected—although the average recovery rate was just 27% based on the overall purchase price of SEK 66 billion and a recovered value of SEK 18 billion (Securum AB 1997). However, its relative success may not be easily replicable (Cerruti and Neyens 2016). Some of its success may be attributed to its design, but Securum’s management and other scholars have noted that Sweden’s economic recovery and general business climate contributed to Securum’s success (Cerruti and Neyens 2016; Klingebiel 2000; Securum AB 1997). More broadly, the strong global economy in the 1990s led to a strong Swedish economy, making “it difficult to disentangle keen Swedish policy choices from macroeconomic ‘luck’” when considering the Swedish crisis response (Ergungor and Cherny 2009).

Some scholars cite a number of factors beyond the broader macroeconomic conditions as contributing to Securum’s success at quickly restructuring and disposing of its bad assets.

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4 Securum acquired Retriva for SEK 3.8 billion, returning the capital to the government. When Securum closed, it returned SEK 14 billion in capital to the government, bringing the total recovered value to SEK 18 billion.
Securum’s portfolio comprised primarily large commercial real estate assets; restructuring and managing these assets was less politically sensitive than doing so for other types of assets, and Securum may have had a comparative advantage in managing the larger, complex cases (Klingebiel 2000). Other factors attributed to Securum’s success include its professional management, political independence, skilled staff, sufficient funding, an adequate bankruptcy regime, IT management systems, and transparency (Ergungor 2007).

Securum was politically insulated. It was owned by the government but managed by independent professionals (Cerruti and Neyens 2016). Though there was political criticism of Securum’s bonus and remuneration policies, the “politicians safeguarded Securum’s independence and the company’s management was able to act independently on most issues” (Bergström, Englund, and Thorell 2003). Sweden also had an efficient and effective bankruptcy and foreclosure regime that enabled Securum to operate quickly. No special powers or extraordinary legal authority were deemed necessary, allowing Securum to begin operating immediately, as the agency did not have to wait on additional legislation or political processes to grant it special powers (Cerruti and Neyens 2016).

Cerruti and Neyens (2016) also cite Securum’s status as an ordinary company as contributing to its success. It was not subject to the same regulations as a bank would have been, allowing it to operate in a profit-maximizing manner. Securum did not have a social mission, and its mandate was limited to recovering Nordbanken and Gota Bank assets.

Despite being considered “highly successful” there was criticism that Securum was “trigger-happy” in using bankruptcy and foreclosure as a resolution method (Cerruti and Neyens 2016; Ergungor 2007). Though analysis points to the fact that a relatively high proportion of Securum’s debtors were declared bankrupt compared to other companies in a similar financial situation, Bergström, Englund, and Thorell (2003) note that Securum was consistent in its strategy of dealing with debtors: those with low profitability, unpaid interest, and other characteristics filed for bankruptcy.

Englund (2015) and Ergungor (2007) have noted that perhaps Securum could have achieved higher total returns by operating over an additional two or three years. Though Securum’s management and other scholars seem to agree that its early wind-down was a success, Englund (2015) notes that Securum could have sold its portfolio at higher prices if it had waited an additional few years. Ergungor (2007) notes that the “main weakness of such criticism is that the market may never recover if a large inventory of assets is sitting on the sidelines, ready to be dumped onto buyers when prices go up,” while Englund (2015) acknowledges that “expecting such fine tuning of the process would be unrealistic.”
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*Sources: Bloomberg; World Bank Global Financial Development Database; World Bank Deposit Insurance Dataset; Cerruti and Neyens 2016; Porta, Lopez-De-Silanes, and Shleifer 2002; theglobaleconomy.com.*
Key Design Decisions

1. **Part of a Package:** In addition to Securum and Retriva, the Swedish government’s response to the banking crisis included a broad guarantee of bank liabilities, recapitalizations, and bank restructurings.

In response to the financial difficulties facing two systemically important Swedish banks, the government initially adopted an ad hoc approach: a capital injection for Nordbanken and preferential lending with a guarantee for Första Sparbanken. The government, as Nordbanken’s majority shareholder, subscribed to SEK 4.2 billion of Nordbanken’s SEK 5.2 billion new equity issue. Financial difficulties continued to surface in Swedish banks as Gota Bank would fail to meet its capital requirements. The government assumed the liabilities of Gota Bank, but the holding company was declared bankrupt. The government nationalized the bank and provided a loan guarantee of SEK 10 billion (Drees and Pazarbasioglu 1995).

In the fall of 1992, the Ministry of Finance outlined a plan to address the currency and banking crises (Cerruti and Neyens 2016). A key component of this was a blanket guarantee of bank deposits and liabilities. Through the blanket guarantee, the government committed to ensuring that the banks would be able to meet credit commitments in a timely manner (Jonung, Kiander, and Vartia 2009). The act also created the Bank Support Authority (Bankstödsnämnden), which could provide assistance to banks and financial institutions using four methods:

1. Issuing guarantees to cover future credit losses and lost returns on assets,
2. Granting loans or loan guarantees,
3. Providing guarantees on the issuance of new shares, and
4. Granting other types of capital contributions (Jonung, Kiander, and Vartia 2009; Securum AB 1997).

In practice, the government’s crisis support varied across banks. Handelsbanken and SEB, the largest private commercial banks, were recapitalized by shareholders and established internal bad bank subsidiaries. Government support to these banks was limited to the benefit of the blanket guarantee. Similarly, Föreningsbanken, a cooperative bank, benefited only from the blanket guarantee. Första Sparbanken merged with 10 smaller banks to form the Savings Bank Sverige, which benefited from both the guarantee and interest rate subsidies from the government. For Gota Bank and Nordbanken, the government utilized multiple tools, including the transfer of bad assets to individual AMCs (Cerruti and Neyens 2016).

2. **Legal Authority:** Legal authority for bank restructuring, recapitalization, and assistance was granted by the Swedish Parliament and implemented by the Bank Supervisory Authority. Parliament approved the proposal for Nordbanken’s
restructuring and created the Bank Supervisory Authority to provide bank support.

Nordbanken's bad assets were separated from the good assets and placed in Securum, while the bad assets from Gota Bank were separated and placed into Retriva. Initially, Nordbanken established an internal “Intensive Care” unit—which later became Securum—without government support. However, in 1992, the government realized that Nordbanken would not be able to maintain an 8% CAR. It decided to recapitalize the bank and create a separate bad bank subsidiary owned by the government (Securum AB 1997).

The Swedish Parliament approved the restructuring of Nordbanken. In March and April of 1992, the government worked to draft and finalize a bill under which the government would purchase the remaining shares in Nordbanken. The plan also included a SEK 10 billion capital injection for Nordbanken and capital injections for Securum (Securum AB 1997). This plan was approved in June 1992 (Jonung, Kiander, and Vartia 2009). At the beginning of 1993, Securum officially separated from Nordbanken to become a fully government-owned company (Securum AB 1997).

As a part of the December 1992 parliamentary action, the government created the Bank Support Authority. The Bank Support Authority could provide support to banks through guarantees, share purchases, or other means, and the authority intervened in Gota Bank after the parent holding company filed for bankruptcy. Gota Bank's bad assets were carved out and placed in an internal bad bank subsidiary, Gota Bank Special Commitments, which began operating in January 1993. The Bank Supervisory Authority then sold the problem loans to Retriva in December 1993 (Securum AB 1997).

3. **Special Powers: Securum and Retriva did not have any extraordinary powers or authority, but they were exempt from an existing regulation which required that assets be liquidated in three years.**

Securum and Retriva operated under the Companies Act and did not receive special legal authority. It appears that the Swedish government determined that special powers were “unnecessary given the existence of adequate bankruptcy and foreclosure legislation” (Cerrutti and Neyens 2016).

Even though it was deemed unnecessary to give Securum and Retriva extraordinary powers, they were exempted from the existing requirement that assets be liquidated in three years. Other Swedish banks during the crisis were also exempt from this collateral liquidation requirement, as policymakers were concerned about creating downward pressure on asset prices if banks and AMCs flooded the market with problem assets during a short timeframe (Ergungor 2007).

Securum and Retriva were established as finance companies, meaning that they did not have bank charters, which was considered “too restrictive” for the agencies to fulfill their objectives and mandates (Cerrutti and Neyens 2016).

4. **Mandate: Securum and Retriva were given the mandate to take over, manage, and**
dispose of problem assets and loans from Nordbanken and Gota Bank while minimizing the total cost to the taxpayer.

Securum and Retriva were established with the specific purposes of acquiring, managing, and disposing of bad loans and assets from Nordbanken and Gota Bank, respectively. These activities were intended to stabilize the financial and real estate markets and allow the good components of the banks to continue operations. Securum was also given an explicit mission to recover “as much as possible of the acquired commitments, in order to minimize the State’s and thereby also the taxpayers’ cost” (Securum AB 1997).

5. Ownership Structure: Securum and Retriva were initially established as internal subsidiaries of their banks, and later became fully government-owned finance companies; Securum acquired Retriva in 1996.

In 1990, Nordbanken created an internal bad bank subsidiary to allow the bank to focus on daily operating activities while the “Intensive Care” unit subsidiary could focus on credit management of poor quality loans. At the beginning of 1993, Securum was officially separated from Nordbanken and became a fully government-owned finance company (Securum AB 1997).

Because Gota Bank’s ongoing financial troubles led the government to take over the bank, Gota Bank’s bad loans were moved to a bad bank subsidiary, which was acquired by Retriva. In 1996, Securum acquired Retriva, thus merging the operations and portfolios of the two AMCs (Securum AB 1997).

6. Governance/Administration: Securum and Retriva had managing directors and boards, and both Securum and Retriva established a number of subsidiary companies to manage specific operations related to loan management, asset management, and disposal.

Securum and Retriva were fully owned by the government, but “the state did not assume the role of an active owner,” which created a separation between the ownership and control of the AMCs (Cerruti and Neyens 2016). Securum had a managing director and a board composed of primarily real estate professionals, though a single Ministry of Finance official was on the board (Cerruti and Neyens 2016; Klingebiel 2000). The MoF appointed Securum’s board, and the board appointed the senior management (Klingebiel 2000). This organizational and management structure was designed to preclude politicians from placing political pressure on Securum’s operations (Cerruti and Neyens 2016).

The Swedish Bank Support Authority monitored Securum and Retriva’s operations. Securum also had a Market Committee of representatives from different businesses that monitored the soundness of Securum’s restructuring and management plans. Furthermore, Securum’s board established an Irregularity Committee to examine cases of fraud (Klingebiel 2000).

Securum established subsidiary companies and units to manage specific components of its operations. Securum Treasury was established to manage financial flows, loan procurement, and currency. Securum Finans was responsible for credit management and processing
problem loans. Each case was analyzed and prepared by a project team, reviewed by a regional team, and approved by the central credit committee, which included representatives from Securum’s board. After taking over a loan’s collateral, Securum transferred the asset from Securum Finans to a different subsidiary company for management and disposal; these subsidiary companies were intended to manage the assets and improve divestment opportunities (Securum AB 1997).

Securum established four regional real estate management subsidiaries, a subsidiary to manage hotel and tourism-related assets, and a holding company for assets related to industry. Because some of Securum’s portfolio was located outside Sweden, it established offices in London to manage disposal of foreign assets. The subsidiary asset company board was required to approve asset acquisitions. For coordination of domestic real estate management and activities, Securum established a special real estate committee (Securum AB 1997).

Similar to Securum, Retriva established subsidiary companies: a finance company to manage the loans upon the acquisition from Gota Bank, a real estate company to manage properties in Sweden, and an asset management company. Unlike Securum, foreign holdings did not constitute as significant a portion of Retriva’s portfolio, so it did not establish a separate subsidiary to manage foreign properties (Securum AB 1997).

Securum’s management was appointed in the fall of 1992, and it began to work on staffing the organization for loan and asset management. Securum recruited employees from Nordbanken but worked to ensure that individuals would not be involved in the liquidation of loans that they were involved in originating (Securum AB 1997).

7. **Size:** It does not appear that the government set a predefined size for Securum/Retriva.

In creating the AMCs for Nordbanken and Gota Bank, it does not appear that the government established a size limit. When Securum was established, it took over problem loans and assets with a total face value of SEK 67 billion, and Retriva took over a total of SEK 42 billion at face value (Securum AB 1997).

8. **Funding Source:** The Swedish government provided capital and guaranteed loans to Securum and Retriva; Nordbanken also provided financing to Securum.

Securum purchased SEK 50 billion in assets from Nordbanken. The Swedish government provided SEK 24 billion, and Nordbanken provided SEK 27 billion to fund the AMC. Funding from the government was in the form of equity while Nordbanken lent “advantageous credits” to Securum. The government guaranteed SEK 10 billion of the loan from Nordbanken (Securum AB 1997).

Gota Bank was taken over by the government and its bad loans were separated into an internal subsidiary. These loans were then purchased by Retriva, which was financed with SEK 3.8 billion in equity from the government and SEK 3.5 billion in government-guaranteed...
loans (Securum AB 1997). It is not clear from Securum’s final report how the remaining SEK 8.7 billion in Retriva’s portfolio was financed.

Because additional write-downs were expected on Securum’s portfolio and because sales were not expected to begin for several months, the government capitalized Securum with SEK 24 billion in equity to cover the additional write-downs (Securum AB 1997). Furthermore, the substantial capital from the government was designed to prevent Securum from going back to the Swedish government to request additional funding, thus providing Securum with additional political insulation, especially in the scenario that it needed to operate over the long term (Cerruti and Neyens 2016).

Unlike Nordbanken, Gota Bank had significantly written down the value of the loan portfolio prior to transfer to the AMC. Therefore, it was not expected that Retriva would have to record significant write-downs on the portfolio and its equity capital was smaller than that of Securum (Securum AB 1997).

9. **Eligible Institutions: Securum and Retriva were established specifically to manage the bad assets of individual financial institutions that the government had taken over: Securum for Nordbanken and Retriva for Gota Bank.**

Other Swedish banks and finance companies benefited from different types of governmental assistance, but Securum and Retriva were each established to acquire and manage problem loans from individual financial institutions (Cerruti and Neyens 2016). Participation was mandatory as both banks were government-owned at the time of the asset transfers. Nordbanken first created an internal bad bank subsidiary. The government then acquired the bad bank as part of its restructuring and assistance to the bank. After Gota Bank’s parent company declared bankruptcy, the Swedish government took over the bank and moved problem assets into an internal subsidiary unit; these assets were then transferred to Retriva (Securum AB 1997).

10. **Eligible Assets: Securum acquired bad assets from Nordbanken with a minimum value of SEK 15 million, and in practice, most of the assets were nonperforming loans related to real estate; from Gota Bank, Retriva took problem loans with a minimum size of SEK 5 million.**

Securum’s asset transfer process was highly dependent on Nordbanken, as the bank was responsible for selecting the assets to be transferred. External consultants and an auditing firm assisted with the valuation of assets and collateral (Cerruti and Neyens 2016). The minimum asset size eligible for transfer to Securum was SEK 15 million (Securum AB 1997). However, assets could be transferred even if they were below the size threshold as long as they were related to the main loan that was transferred to Securum; this was intended to facilitate asset management and disposal. Securum’s portfolio consisted primarily of loans, which accounted for more than 90% of the portfolio while shares and real estate comprised the remainder of its portfolio at the time of transfer (Securum AB 1997). Overall, Securum acquired more than 3,000 loans to 1,274 companies, and approximately 80% of its portfolio
was related to real estate (Cerruti and Neyens 2016; Securum AB 1997). Approximately 10% of Securum’s portfolio was related to real estate assets abroad (Securum AB 1997).

Retriva’s portfolio originated in Gota Bank, which transferred the assets to an internal bad bank subsidiary, Gota Bank Special Commitments, after Gota Bank’s holding company declared bankruptcy in 1992. The Bank Support Authority then acquired the portfolio and sold the assets to Retriva in 1993. The loan portfolio was limited to loans with a value of SEK 5 million or more. At the time of transfer to Retriva, the 3,700 loans were grouped into 1,200 commitments because of shared collateral or ownership. Retriva’s portfolio accounted for nearly half of Gota Bank’s total lending (Securum AB 1997).

Securum and Retriva acquired a cumulative SEK 102 billion in loans at face value, SEK 3 billion in properties, and SEK 7 billion in shares (most of which were in Nobel Industrier), for a total portfolio of assets of SEK 112 billion (Securum AB 1997).

11. Acquisition – Mechanics: The transfers of assets from Nordbanken to Securum and from Gota Bank to Retriva were facilitated by the Swedish government.

Securum and Retriva were components of the broader restructuring of the Swedish banking system. The government had fully taken over Nordbanken, then its loans and the associated reserves were transferred to the government. In September 1992, Gota Bank, which had become insolvent, was acquired by Nordbanken (Englund 2015). Because Securum and Retriva were part of the government’s restructuring of two government-owned banks, the actual mechanics of the transfer are not clear. Cerruti and Neyens (2016) do not consider Securum and Retriva to have purchased assets and note that it did not purchase assets in exchange for any consideration.

12. Acquisition – Pricing: The purchase prices for the portfolios from Nordbanken and Gota Bank were based on their diminished book values after substantial write-downs for expected loan losses.

Securum’s portfolio, which had a face value of SEK 67 billion, was acquired for SEK 50 billion as Nordbanken wrote down SEK 17 billion on the portfolio prior to the transfer. According to Securum’s final report, it was expected that additional write-downs would be necessary, and these write-downs were to be covered by government’s SEK 24 billion capitalization of Securum (Securum AB 1997).

Compared to the assets Nordbanken transferred to Securum, the assets transferred from Gota Bank to Retriva had already been more substantially written down by Gota Bank. The total portfolio of SEK 45 billion in initial book value had been written down to SEK 16 billion prior to transfer. The government did not expect that future write-downs would be required on the portfolio, leading it to capitalize Retriva with just SEK 3.8 billion (Securum AB 1997).

Securum and Retriva’s combined portfolio at face value before write-downs totaled SEK 102 billion in loans at face value, SEK 3 billion in properties, and SEK 7 billion in shares (Securum AB 1997).
13. Management and Disposal (1): In many cases, Securum managed its portfolio of assets by initiating bankruptcy, foreclosing on underlying collateral, and then transferring those assets to a specialized subsidiary AMC for disposal and management.

Securum’s first priority during its first six months of operations was to determine if it should manage a loan as a credit commitment or if it should foreclose upon the underlying collateral. The decision to foreclose on property collateral also involved the debtors filing for bankruptcy. Securum prioritized this determination at the beginning of its operations to prevent further deterioration in its portfolio value. Beyond taking over the underlying collateral, Securum could implement a repayment plan for the borrower, sometimes with concessions, or determine a reconstruction plan for the borrower (Securum AB 1997). Bankruptcy was the solution for 70% of Securum’s clients, and Securum took over the collateral securities as this was often the only “economically viable option” (Englund 2015; Securum AB 1997).

After converting loans into other types of assets, Securum transferred the assets from Securum Finans, the subsidiary unit responsible for credit management, to one of its subsidiary asset management companies. Internally, Securum recorded the transfer of assets at the estimated market value, and the difference between the loan value and the market value of the collateral was recorded as a loss under Securum Finans (Securum AB 1997).

Securum held between 1% and 2% of the total commercial real estate in Sweden after liquidating most of its loan portfolio (Englund 2015). In order to manage its large real estate portfolio, Securum transferred domestic real estate assets to one of its four regional real estate companies. Other subsidiary asset management companies included a company for the hotel and tourism industry, a holding company for industrial companies, and a foreign branch in the UK and other countries to manage the foreign real estate holdings (Securum AB 1997).

These asset management companies sought to restructure and improve divestment opportunities for the assets. Through “structural deals,” Securum worked to package the assets into companies that were “better, larger, and stronger” and sell shares in these companies. For example, one regional real estate company, which rented and managed its portfolio of real estate properties, was listed on the Stockholm Stock Exchange in 1994 (Securum AB 1997). Overall, Securum used the method of selling whole property companies through IPOs in four transactions in Sweden and one transaction in London. This method was “attractive” as it avoided further negative pressure on prices and provided “substantial returns to Securum,” but it accounted for less than half of the assets disposed of by Securum (Cerruti and Neyens 2016).

Beyond IPOs of property holding companies, Securum sold individual properties and packages of properties (Cerruti and Neyens 2016; Englund 2015). Securum did not sell properties by auctions, as its preferred method of sale involved direct negotiations with potential buyers (Cerruti and Neyens 2016).
Retriva was organized similarly to Securum prior to the merger, as it also had subsidiary companies for specific and disposal purposes. However, because it had a smaller portion of foreign assets, it did not establish a separate subsidiary to manage foreign loans (Securum AB 1997).

14. Management and Disposal (2): To better align employee incentives with the goals of Securum—specifically, maximum recovery and expedited operations—the management implemented a bonus and severance pay incentive structure.

From the onset, it appears that Securum’s management was concerned about the mismatch between employee incentives and organizational incentives related to disposal and recovery (Securum AB 1997). In general, an AMC’s goal to maximize loan recovery and wind down as quickly as possible does not align with an employee’s long-term career goals or concerns about permanent job stability. Because of this, Securum’s management introduced the idea of an incentive program where bonuses were related to performance (Englund 2015).

In practice, the employee incentive scheme was controversial and politically charged (Englund 2015). Although Securum’s board first discussed an incentive program in November 1992, it did not commit to an incentive structure until the spring of 1994 (Bergström, Englund, and Thorell 2003). The program was limited to Securum Finans, which had already liquidated a large portion of the loan portfolio (Bergström, Englund, and Thorell 2003). Beyond a bonus structure, Securum also adopted “generous severance packages to attract high quality people” (Klingebiel 2000).

15. Timeframe: Initially, Securum was expected to operate over a 10- to 15-year timeframe, but Securum was wound down after operating for five years.

When Securum began operating as a separate government-owned AMC, it was expected to operate over the course of up to 15 years (Securum AB 1997). In 1995, Securum’s management proposed that the AMC be wound down by the middle of 1997, and Parliament formally dissolved Securum in June 1997 (Cerruti and Neyens 2016). In Securum’s final report, its management attributed the “dramatic decrease in interest levels and a generally improved business climate in Sweden and abroad” as the primary reason for Securum’s earlier end date (Securum AB 1997).

References and Key Program Documents

Summary of Program


A summary of the financial crisis in Sweden and the effectiveness of Securum in fulfilling its mandate.


Reports/Assessments


*A research paper documenting trends in government ownership of banks.*