

Bulletin:

Finland's Savings Banks Group Needs To Reshape Operations And Strengthen Unity After Second Member's Likely Exit

June 28, 2022

FRANKFURT (S&P Global Ratings) June 28, 2022--S&P Global Ratings said today that the announcement by a member savings bank to exit Finland's mutual banking amalgamation, Savings Banks Group, puts additional pressure on Savings Banks Group's management and its steering capacity to improve the cohesiveness within the group.

Liedon Savings Bank recently announced that it was negotiating with Oma Savings Bank PLC to merge its business operations into OmaSp. The aim is to conclude the transaction by the end of November 2022. This comes after a similar move by Eurajoen Savings Banks concluded in 2021.

The departure of Liedon Savings Bank would, in our view, have important consequences for the Savings Banks Group, because Liedon Savings Bank accounts for about 12% of the group's customer base and 10% of customer loans covering the region around Turku in southwestern Finland. Losing the customer franchise in this economically important growth area could hurt the group's regionally focused customer franchise, a factor we consider supports Savings Banks Group's market position.

Our negative outlook on the group, represented by the rated entity Central Bank of Savings Bank Finland PLC (A-/Negative/A-2), continues to reflect the risk of weakening group cohesiveness and some local member banks' loose integration in the group's strategy and risk management.

We believe the ongoing negotiations could increase the risk that more member banks could find the benefits of operating as part of the group lacking. Although the savings bank model has a long tradition in Finland, Savings Banks Group, created in 2015, is fairly young. Combining the independence of member banks with increasingly centralized steering, product, and service development has been challenging in the current organizational setup. That said, we consider the group's joint liability between members--also binding for a period of five years for the member banks that leave--as a key element of Savings Banks Group's creditworthiness.

We will continue to monitor the outcome of the ongoing negotiations between Liedon Savings Bank and Oma Savings Bank. But more importantly we expect the management of Savings Banks Group to establish a tangible action plan to reshape its operations and strengthen the group's unity, operational efficiency, and risk capabilities.

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Related Research

- Oma Savings Bank PLC 'BBB+/A-2' Ratings Affirmed On Contemplated Acquisition Of Liedon Savings Bank; Outlook Stable, June 28, 2022
- Banking Industry Country Risk Assessment: Finland, June 1, 2022
- Ratings On Nine Finnish Financial Institutions Affirmed Under Revised Criteria; Outlooks Unchanged, Feb. 4, 2022
- Central Bank of Savings Banks Finland, March 9, 2021

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