

Nordic niche consumer banks face regulatory headwinds

Nordic niche banks focusing on unsecured consumer lending have recently encountered headwinds from regulators and in the stock market.

"While political risk is a concern, we believe that from a credit perspective, default risk in the sector remains moderate since deposits and other interest-bearing debt are protected by strong capitalisation and profitability," said NCR credit analyst Geir Kristiansen, who authored the report.

Consumer lending across the Nordic region has been growing rapidly in recent years, boosted by a growing number of aggressive niche banks. This has led to negative media comments and a backlash in the form of new regulations, which have already succeeded in dampening such growth in Norway. This in turn, has spurred Norwegian consumer banks to enter other Nordic markets in search of new growth opportunities but at the risk of incurring higher credit losses, particularly before sufficient market data are accumulated. Three newly created debt registries will come into force in Norway from 1 Jul. 2019. These will probably curtail consumer lending growth in the short term and lead to increased competition for a reduced number of eligible borrowers, while at the same time reducing credit risk in the sector.

The negative media coverage in Norway is largely related to credit risk and provisioning levels at individual banks and the risk for equity holders rather than, arguably insignificant, systemic risk. However, some Norwegian commentators advocate reduced protection for unsecured creditors, akin to the Danish system.

"We believe that reduced creditor protection would increase risks for providers of unsecured consumer loans significantly, with material impacts on debt and equity investors," said Mr Kristiansen.

You can download the full research report on <https://nordiccreditrating.com/ratings-research/research>.

If you have any questions, please contact:

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About Us

Nordic Credit Rating AS is a credit rating agency headquartered in Oslo with a branch in Stockholm. The company provides credit ratings to companies and financial institutions in the Nordic region, and bases its analysis on local insights. Nordic Credit Rating is registered with the European Securities and Markets Authority (ESMA).

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