Swedish Credit Union as Deposit Taking Institution for Members

Sweden has a long history of innovative and alternative financial institutions. One of these is a unique type of credit union. Such a Swedish credit union with a 1000 member limit is fully capable of taking in deposits and comes without any type of capital requirements. This entity is registered in the form of an ekonomisk forening as it is known in Swedish which means economic association. Financial services can only be offered to members and such financial services are normally restricted to the accepting of deposits and the making of loans to its members. In other words it would typically be expected to operate as a traditional savings and loan institution with the capitalization originating through member "contributions". However, it is feasible that such an entity could also issue guarantees (c.d's for example) as well as other financial instruments.

The Economic Association is exempted from the bank license requirement if these "financial services are offered to a group of entrepreneurs with a common financial interest". The common financial interest is established by making the entrepreneur a member of the association. The name of the entity cannot include the word "bank", but names including "Credit Union", "Savings" or "Savings & Loan", "Sparkassa" etc. are all allowed. Members can be of any nationality, but if requested the names of all members may be reportable to the finansinspektionen (Swedish finance and banking authority). In practice this would only be required if the activities of the credit union had been brought to their attention as potentially violating Swedish banking laws. However, even in that situation, only names with no other identifying information (such as passport id) are required. Directors (minimum 3) can also be of any nationality, although at least 50% of the board of directors must be technically residents of the European Union (although in practice an EU mailing address would suffice since there are no residency checks or tests made by the Swedish registration authority).

A Swedish Credit Union can take deposits and make loans to its members, and is exempted from license requirement if it has a maximum of 1000 members at any time. You can register the CU with 3 directors who also act as founding members, and start marketing your services and accept members after it has been registered. You do not have to name your members or even report to any government authority when you accept new members. Only the board of directors are registered with the company registrar. This is the most attractive deposit taking entity available today.

Based on our collective experience in forming and operating such entities, we have found that one of the best applications for this credit union is for the offering of financial services to a pre-existing client/membership base. This avoids the whole problem attendant to soliciting for members via a website (and being constrained by the very narrow definition of what can be offered as a result), since the whole principal that the Swedish law on economic associations is founded is that it presumes members will share certain pre-existing common economic interests that tie them together in some way.

Main Advantages:
" This entity is registered in Sweden, a full European Union member and a highly respected jurisdiction.
" There is no annual license fee to pay, since the entity is exempted from license requirement.
" There are no qualification or paid up capital requirements since capital is derived from member contributions.

Main Disadvantages:
" High tax levels. Sweden is obviously not a tax haven, and the association would have to pay 30% tax on any reported profit. One way around this is to use this entity together with a Panamanian licensed payment processing company, in order to accumulate profits in Panama rather than in Sweden. This company can also offer payment services like e-currency and credit/debit card services to the credit union members.

A Credit Union, also known as Savings & Loan association or "sparkassa" in Swedish, is exempted from supervision and license requirements as long as it is properly formed and registered and comply with the membership limit of maximum 1000 members at all times. The exemption from license requirement is included in chapter 2, section 7 of the Swedish law (2004:297) regulating banking and financial activities.

Swedish Credit Unions is deposit taking institution and may serve its own members with financial services, money management, prepaid card, it may apply to become a SWIFT corporate participant, may issue guarantees, loans and provide members with deposit and savings accounts. Certain compliances with financial and accounting principles and laws is expected from each such institution, while there is no need for the license for those deposit taking Swedish Credit Unions (swedishekonomisk förening) that are serving its own members' needs which cannot be more than 1000 individuals.

The Purpose of a Swedish Credit Union

The purpose of a Swedish Credit Union is to promote its members' economic interests through economic activity in which the members participate:

1. as consumers or other users;
2. as suppliers;
3. by contributing labor;
4. by using the services provided by the Swedish Credit Union; or
5. in another similar way.

Swedish Credit Union Formation

To form the Swedish Credit Union it is required to have minimum of 3 members, physical persons or entities. The enterprise is represented by Board of Directors' Managing Director. Swedish Credit Union pays tax in Sweden and can have employees.

The corporate tax in Sweden is 30%. The taxes can be greatly reduced of course if the Swedish Credit Union is owned by foreign persons or companies. Basically most of profits can be accumulated in other country where the foreigner owner (company) is located. To lower taxes, you can let other financial offshore company to handle transaction clearing, customer service, Internet banking management in order to lower any more tax liabilities.

The Swedish Credit Union is exempted from the licensing and supervision requirements as long as it comply with the membership limit of not more than 1000 members and provides financial services to own members. It is of course possible to have any number of members.

Swedish Credit Union is allowed to have a split financial year, with such advantages which this can bring.

Responsibility of Members of Swedish Credit Union

Every member of Swedish Credit Union is usually obliged to pay a certain contributed capital and, normally, to pay an annual membership fee which is decided by the general meeting of members. There is, however, no demand for a minimum starting capital similar to a share capital.

Apart from the amount contributed, the members of an Swedish Credit Union **are not personally responsible for the debts and other obligations of the business enterprise**.
Swedish Credit Unions must keep accounts and shall draw up annual reports. These are to be keep available to the public, but only in the case of large Swedish Credit Union do they have to be filed with company registry, unless especially instructed to do so.

Contrary to what many people believe, a Swedish Credit Union cannot be terminated voluntary dissolution to remove it from the public register. This can only be done by a merger, bankruptcy proceedings or liquidation.

Obligations of Swedish Credit Union

A Swedish Credit Union is to be registered at Swedish company registry after the Swedish Credit Union has been established by means of the members resolution. When members decide to establish Swedish Credit Union, there is 6 months time period to fulfill the registration. In this way, it is similar to a limited company, but there are certain differences.

An approved or authorized public accountant is not compulsory if the Swedish Credit Union is a small one. It is sufficie