

BANKING SECTOR IN POLAND – THE HISTORY AND PRESENT STATE

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ABSTRACT

The aim of this paper is to present the current state and the evolution of Polish banking sector. It is regarding the financial and economic condition, the impact of transformation, privatization and consolidation of banks, the challenges of joining European Union in 2004 and actual tendencies of change.

Keywords: *Bank, Consolidation, Foreign Capital*

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INTRODUCTION

Banking sector in Poland is based upon two-level system, consisting of a central bank (the National Bank of Poland, NBP) at one level, while at the second one - commercial and cooperative banks. The term "banking sector" is used, here and after, for all banks, excluding NBP and banks not conducting their operational activity (declaring bankruptcy or under liquidation). The sector changed a lot within the period of 1989-2007. The years of country transformation transmitted an evolution of the banking sector. There were implemented a lot of regulatory changes concerning functioning and security of banks. They were made accordingly to the requirements and economic situation of single banks and the whole market, as well as to international obligations of Poland due to joining OECD and European Union (EU).

In 2007 the macroeconomic situation in Poland brought good conditions for banking business: a rise in GDP, the growth in personal consumption and domestic demand, a strong rise in investments, the growth of production and low inflation. The high level of economic activity was accompanied by positive trends in the labor market (high, but gradually decreasing unemployment rate). Improvement in the financial condition of households together with the fast rise in house prices, contributed to the strong growth in housing loans. The macroeconomic situation was also reflected in the good financial

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condition of corporates, their high profitability and optimistic expectations towards future development. The interest rates of the central bank were very stable and in 2006 the key rate was lower (4,25%) than the ones in the United States (5,25%) and the UK (4,5%). The zloty exchange rate against US dollar, Euro or Swiss franc did not suffer major fluctuations during 2006 (the maximum day/day fluctuation was 2%-3%) (Summary evaluation of the financial situation of Polish banks, 2007). There were some more fluctuations in 2007, connected with a continuous appreciation of Polish zloty against US dollar, due to the influence of the credit market crisis in USA.

STRUCTURE OF THE BANKING SECTOR IN POLAND

The banking sector in Poland in 2007 consisted of 1 state-owned bank, 55 commercial banks, 585 cooperative banks and 9 branches of credit institutions conducting operational activities (Figure 1). Joining European Union by Poland resulted in the opportunity of providing banking cross-border operations. From 1 May 2004 until 30 April 2007, 164 notifications were submitted to the Commission for Banking Supervision (CBS) by relevant supervisory authorities of the European Economic Area (EEA) member countries informing about cross-border operations on the territory of Poland initiated by credit institutions. In 2004, there were sent 57 notifications, in 2005 – 46 from credit institutions and 1 from a financial institution¹, in 2006 - 36 and until 30 April 2007 - 25. At the same period of 2004-2007 CBS was notified in respect of starting cross-border operations in EEA member countries by 6 domestic banks². 16 notifications were informing about the decision of starting-up in Poland a branch of a credit institution and 1 notification of establishing a branch on the territory of EEA (Daimler Chrysler Bank Polska SA in Greece).

The ownership structure, measured as a share in authorized capital, revealed only 11 banks under control of the Polish capital, of which only 4 commercial banks were under the control of the State Treasury (Figure 2). PKO BP SA and Bank Gospodarstwa Krajowego (BGK) were under direct control and such banks as Bank Pocztowy SA and Bank Ochrony Środowiska SA under indirect control. The only bank, which was hundred-percent owned by the State Treasury, was BGK and it is not planned for sale to other investors as its operational activity will concentrate on assignments arranged by the government. There were 7

¹ The majority of notifications were sent from Great Britain - 39, Germany - 29 and Austria - 22. The notification from a financial institution was sent by Intesa Mediofactoring. See: Meeting of Commission for Banking Supervision on 10 January 2007 and 16 May 2007, www.nbp.pl, 18.05.2007.

² These notifications were sent by NORD/LB Bank Polska Norddeutsche Landesbank SA, WestLB Bank Polska SA, Bank Millennium SA, ING Bank Śląski SA, Dexia Kommunalkredit Bank Polska SA and PKO Bank Polski SA.

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commercial banks with Polish majority interests and 44 banks with foreign capital's majority interests.

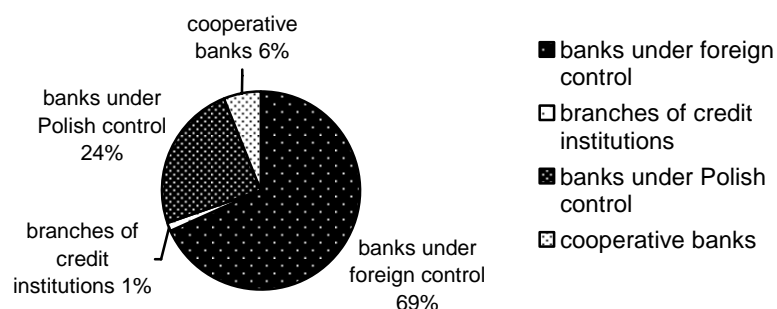


Figure 1: The Structure of Banking Sector in Poland, 2006

Source: Summary evaluation of the financial situation of Polish banks, NBP, Warsaw, February 2007.

Foreign capital in domestic banks in Poland comes from 19 countries. The countries of biggest foreign investors, concerning the share of foreign capital controlled banks in the assets of the banking sector, were: Italy³, Germany⁴, The Netherlands⁵, the USA⁶, Ireland⁷, Belgium⁸ and Portugal. Figure 3 shows the share of foreign capital in the banking sector by country of investment. It also allows estimating the concentration of investment in the sector. For example, Italian capital, having an adequately low share in Polish banking sector (4,11%), plays a big role due to a dominant position in one of three biggest banks in Poland, that was Bank Polska Kasa Opieki SA (Pekao SA). German investors, as well as American and Belgian ones, possess big shares in many banks, however, were positioned further concerning the contribution in assets.

³ UniCredito Italiano was being a main investor in joined Pekao SA and Bank BPH SA, whereas Banca Commerciale Italiana has 5% shares of BRE Bank.

⁴ Bayerische Hypo-und Vereinsbank, Commerzbank AG in BRE Bank, Deutsche Bank (DB24), Dresdner Bank (shares in Amerbank), Deutsche Bank AG.

⁵ ING Bank, ABN Amro, Rabobank.

⁶ CitiGroup (controlling Citibank Handlowy SA), AIG Consumer Finance Group or General Electric Corporation.

⁷ Allied Irish Bank in BZ WBK SA.

⁸ Belgian KBC in Kredyt Bank SA.

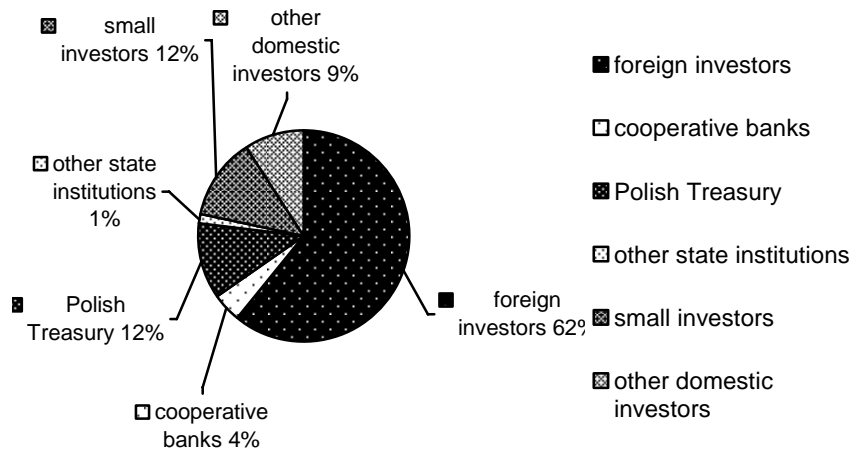


Figure 2: The Ownership Structure of Banks in Poland, 2006

Source: Summary evaluation of the financial situation of Polish banks, NBP, Warsaw, February 2007.

There were both universal and specialized banks among those controlled by foreign capital. The examples of specialized banks were car banks and mortgage banks. There were many car banks (auto banks) in Poland, usually established as special purpose vehicle by automotive holdings (Volkswagen Bank Polska SA, DaimlerChrysler Bank Polska SA, Fiat Bank Polska SA, Toyota Bank Polska SA, Bank of Tokyo-Mitsubishi Polska SA, FCE Bank Polska SA, RCI Bank Polska SA, and GMAC Bank Polska SA). They gradually displaced universal banks from the market of car loans, offering not only complex transactions of financing the purchase, insurance and equipment for cars, but also started to provide their clients with consumer banking. Since 2001 Volkswagen Bank Polska, within the offer called Volkswagen Bank direct, has proposed internet accounts and deposit services for corporate and private clients.

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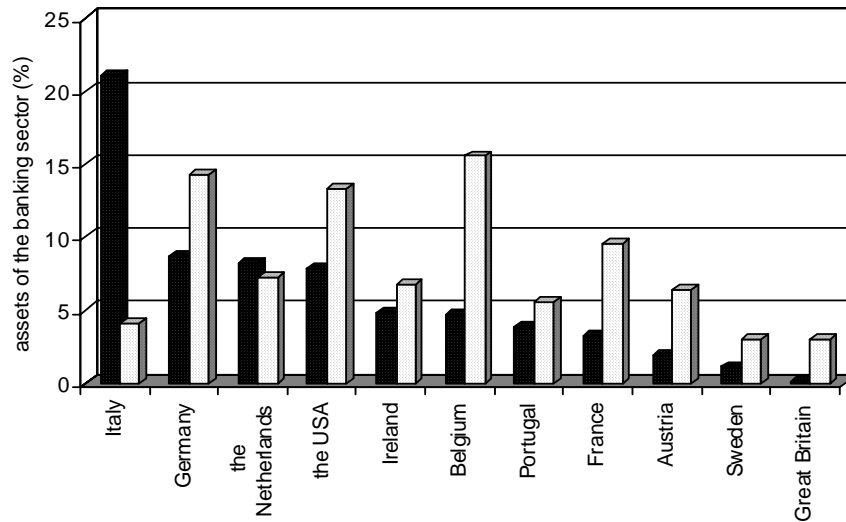


Figure 3: The Share of Banks with Majority of Foreign Capital in the Banking Sector by Country of a Dominant Investor, 2006

Source: Summary evaluation of the financial situation of Polish banks, NBP Warsaw, February 2007,

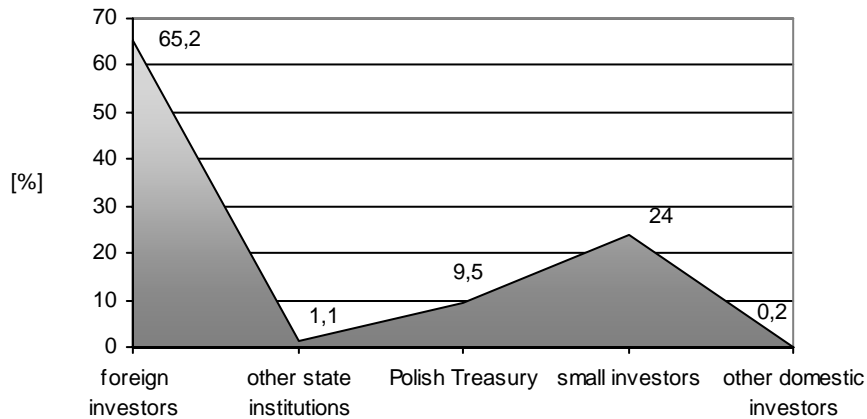


Figure 4: The Ownership Structure of Listed Banks in Poland, 2006

Source: Summary evaluation of the financial situation of Polish banks, NBP, Warsaw, February 2007.

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Mortgage banks, operating in Poland in 2007, were: BPH Bank Hipoteczny SA controlled by HVB Group, BRE Bank Hipoteczny SA controlled by Atlas Vermögensverwaltungs GmbH (Atlas) dependent in 100% on Commerzbank AG and Śląski Bank Hipoteczny SA.

In 1992 the first banks were listed at Warsaw Stock Exchange: BRE Bank SA and Bank Inicjatyw Gospodarczych. In 2007 this classification covered 14 domestic banks: PKO Bank Polski SA, Bank Handlowy w Warszawie SA, ING Bank Śląski SA, Bank BPH SA, Bank Zachodni WBK SA, BRE Bank SA, Bank Millennium SA, Pekao SA, Kredyt Bank SA, Getin Bank SA, Bank Ochrony Środowiska SA, Fortis Bank Polska SA, Nordea Bank Polska SA and DZ Bank Polska SA. There was also listed 1 Austrian institution.

The ownership structure of these banks consists of foreign investors as dominant (65,2% in December 2006, see Figure 4), however, the share of foreign capital was not noticeably higher than in the banking sector as a whole.

Five banks among all listed at the stock exchange were incorporated into the main stock exchange index WIG20. These banks were: PKO Bank Polski SA, Bank BPH SA, BZ WBK SA, BRE Bank SA and Pekao SA. The capitalization of listed banks was calculated at the level of 42,45% of WIG20 (Warsaw Stock Exchange, 2007).

EVOLUTION OF THE BANKING SECTOR IN POLAND

Before 1989, a system of monobank was functioning influenced by central-planned economy. NBP played a role of both a central and a commercial bank. The characteristics of system of monobank were lack of: supervisory regulations, an international settlements system, operational and telecommunication structure. There was no market competition; therefore it was hard to achieve a professional customer banking service or innovative products. The deposit and credit margins and interest rates were administratively quoted at low level, what resulted in a huge demand for credits with no interest in savings in local currency. People were interested only in savings in US dollar accounts (Jaworski, 2002a). In 1982 there were established initial changes in the Banking Act, owing to which new commercial banks might have been removed from Ministry of Finance structure. In 1987 there were established Bank Rozwoju Eksportu SA (one of most innovative banks in Poland still in 2007), Łódzki Bank Rozwoju and Bank Powszechna Kasa Oszczędności⁹, being a saving bank for individual clients. In 1989 there was also reactivated Bank Gospodarstwa Krajowego, which started to

⁹ Bank Powszechna Kasa Oszczędności was established in 1919. From 1987, after separating from NBP, acted as a state-owned bank.

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supply government operations¹⁰. Before 1989, the operations of commercial banks, were being done also by three state-owned banks, which were Bank Handlowy w Warszawie SA, specializing in foreign trade operations¹¹, Pekao SA - specializing in currency operations¹² and Bank Gospodarki Żywnościowej (BGŻ SA), operating in an agriculture sector with dependent cooperative banks¹³.

The milestones for the development of two-level banking system were connected with the implementation of the Banking Act and the National Bank of Poland Act. The first amendment of these official law acts was made on 31st January 1989. The central bank started to play the role of a bank of banks. It also gave up operating for state-owned enterprises. It took responsibility for monetary policy, currency value and price stability, security of deposits and performance of commercial banks. The new commercial banks might have been licenced thanks to private capital within the banking sector (Pietrzak, 2003; Jaworski, 2002).

On 1st February 1989 nine commercial universal banks were separated from existing branches of NBP. They acquired about existing 400 branches from NBP with their operational activity in deposits and loans at a regional scale: in Warsaw and other big cities¹⁴. The headquarters were placed in the cities of the greatest economic activity, what was the factor of high potential of growth both for the banks and regional development (Summary evaluation, 2006). In 1993 there was established the last, tenth bank created on the base of NBP, Polski Bank Inwestycyjny. The privatization of these banks proceeded at two levels. The banks were primarily state-owned, equipped with the capital inherited from NBP. In 1991 they were commercialized upon the Commercial Law and afterwards in 1993-1999 the shares of banks were continually offered in public. The aim of privatization was to ensure higher effectiveness of banks by alteration of ownership structure and gathering new sources of capital by them. Privatization of big state-owned banks, being separated from NBP structure, was a factor forwarding the process of sector development (Pietrzak, 2003; Jaworski, 2002).

The primary strategy of privatization was based on offering 30% shares to foreign strategic investors, 30% sold through an IPO, 30% still owned by the State Treasury and 10% proposed to bank workers on the

¹⁰ Established in 1924, however, providing very explicit activity in 1945-89. From 2006 it was the only state-owned bank in Poland.

¹¹ Bank Handlowy w Warszawie SA acted from 1870 and was the oldest bank in Poland.

¹² Bank Polska Kasa Opieki SA (Pekao SA) was established in 1929 and reactivated in 1954.

¹³ Cooperative banks were focused on the financial services for the inhabitants of small towns and villages or small private enterprises.

¹⁴ Gdańsk, Łódź, Poznań, Katowice, Wrocław, Kraków, Lublin and Szczecin.

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privileged conditions. In 1993-1994 that strategy of privatization led to the new "image" of Wielkopolski Bank Kredytowy SA (28,5% shares were bought by EBRD) and Bank Śląski SA, whose strategic investor was ING Bank NV. Although, the presence of the State Treasury capital was accompanied by some complications in gaining strategic investors due to uncertainty against building their independent strategies. Therefore, some changes were approached in the attitude to the quantity of share packets. The bigger, governing shares might be sold to foreign investors. In 1997 Citibank bought shares of Bank Handlowy w Warszawie SA. In 1998 Bayerische Hypo- und Vereinsbank became the strategic investor (with 36,72% shares) in Bank Przemysłowo - Handlowy w Krakowie SA and Bank Austria Creditanstalt gained 33,3% shares of Powszechny Bank Kredytowy SA. In 1999, 80% shares of Bank Zachodni we Wrocławiu SA was bought by AIB European Investment Limited (Ireland). At the second stage of privatization 52,09% shares of Pekao SA was bought by Italian-German consortium of UniCredito Italiano and Allianz AG.

In 1991-1992 in the effect of liberal licensing policy of central bank there were established many new credit institutions, especially domestic ones. The Banking Act of 31 January 1989 created the possibility of establishing the state banks, commercial joint banks and cooperative ones. The license criteria were not highly sophisticated and included: financial business plan, a minimum of founding capital, an adequate space for providing banking services and indicating people properly managing a bank. The initiative of creation the first commercial banks in Poland came from such entities as public administration, municipal government or other organizations. Therefore there were also established the banks connected with protection of environment, expansion of building trade or initiatives for society and economy and regional and sectional development (sugar and copper industry, energetics or shipyard business).

The quality changes of banking sector (implementation of new technologies, management systems, positioning of customers) might have been done owing to direct capital engagement of foreign strategic investors in conjunction with cooperation with foreign partners on the base of twinning agreements, the support from EU and international institutions. A good example may be the set of financial loans programmes of the World Bank. The essential one was also the Fund for Privatization of Polish Banks, established by some western countries. It was involved in supporting the privatization of banks separated from NBP and the buyout of restructurization bonds of the State Treasury (Pietrzak, 2003; Jaworski, 2002).

Many commercial banks established within the first years of market-oriented system in Poland fell down, collapsed or were acquired by other entities. In 1992 and 1993 banking sector in Poland suffered the problem of bad debts - the introduction of supervisory regulations determined 31% liabilities as lost ones. Therefore many actions were

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implemented providing the restructurization and consolidation of endangered banks. From 1992 the licensing criteria of NBP were more strict, leading to higher liquidity and security of financial flows. The founding capital of a bank must have come neither from debt, credit, undefined sources nor be debited. The restricting license policy in 1992-1994 associated the allowance for opening up the new banking brand with the transaction of buying the shares of domestic bank by an investor. It implicated the participation of foreign investors in restructurization of the banking sector. It might have been done by acquiring of a bank endangered by liquidity or supporting it by buying the bonds or shares of a bank or by long-term loans or technical support. There was the way of coming to the Polish market of Korean LG, Deutsche Bank AG or Bayerische Hypotheken und Wechsel Bank AG (Dąbrowska & Gruszczyński, 2005).

The next very important act for stability of Polish banking sector was connected with establishing the Banking Guarantee Fund in 1994, the institution responsible for safety of banking deposits. It guarantees deposits gathered by banks in Poland and helps in critical situation for their solvency.

From 1997, upon the Banking Act, founding capital of a bank had to be equal or higher than the equivalent in PLN of 5 mln EUR for commercial banks and 1 mln EUR for cooperative banks. In 1998 license policy was continuously more liberal due to preparations to forthcoming access to OECD and EU. The novel of Banking Act of 2001 adjusted Polish regulations to EU directives in the area of licensing and control of banking shares. The new regulations opened the market for the credit institutions from EU member countries, opening a branch or providing the banking services upon the single license rule. The single license rule was based upon the notification sent to the supervisory commission, announcing the will to take up operational activity, when the license was established in another home-country. The supervisory regulator may indicate the conditions to be obeyed by a credit institution. It may be used only for EU members. For non-EU institutions licensing procedures still exist.

CONSOLIDATION IN THE BANKING SECTOR

The motives for mergers and acquisitions in the banking sector have both the endogenic and egzogenic character. The egzogenic ones include: transformation of economy, creating of a new market, opening the economy to foreign competition and access to OECD, WTO and EU. Endogenic motives cover the stage of financial system development and realization of banks' expansion plans. It was connected with the competitiveness of the market and the level of financial structure of domestic banks. The size of a bank may be the key factor, facing up to the implementation of new technologies, building up the new distribution

channels for information and banking products, that were necessary to catch up the market position in retail and corporate banking. In the early nineties, the mechanism of consolidation was based on acquiring of a not well performing institution. After 2000 it was mostly the effect of earlier privatization of domestic banks and the mergers of their strategic investors.

A number of banks declines worldwide attributable to the prospects of scale opportunities and effective management in a wider scheme. Bigger organizations may be serving possibly a higher number of customers thanks to the appliance of modern operational systems, which may be financed only by a sufficiently strong entity.

The decline in general number of banks in Poland in 1997-2006 was mainly the result of consolidation, initiated both by Polish banks, strengthening their market position, and by merging upon the inventiveness of foreign investors (Gołajewska & Józefowska, 2001).

From 1999 foreign banks may open their branches in Poland. The dominant position of strategic investors implies the influence of the EU single market on the Polish banking sector (Janicka, 2001). It incorporates the strategies of transnational holdings and the effects of mergers and acquisitions among foreign strategic investors. The example may be the merger of banks BPH SA and PBK SA in 2002 as the result of a merger of their strategic shareholders HypoVereinsbank and Bank Austria Creditanstalt into HVB Group. Furthermore, the same kind of a transaction was consolidation of BPH SA and Pekao SA implicated by the merger of their main shareholders: HVB Group and UniCredito Italiano.

Many transactions resulted from ownership of banks by one strategic investor, like in the case of Wielkopolski Bank Kredytowy SA and Bank Zachodni SA (both were maintained by Allied Irish Bank European Investments Ltd). In 2004 GE Capital Bank and GE Bank Mieszkaniowy merged into one: GE Money Bank.

The next category of transaction was the merger of a domestic bank and a branch of a foreign bank operating in Poland, like in 2001 ING Bank Śląski and ING N.V. in Warsaw or Bank Handlowy and Citibank Polska SA. The transactions of consolidation were also proceeded between the banks operating within one capital group, as BIG Bank Gdański and BIG Bank in 2001 (Pawłowska, 2003).

Mergers and acquisitions were indisputably related with concentration and domination issues. The level of concentration was usually measured by CR5, CR10 and CR15, which means *Concentration Ratio* as a factor of contribution of 5, 10 and 15 biggest banks in the banking sector, regarding their assets, loans and deposits. In 2005, CR5 for biggest commercial banks in Polish banking sector was calculated at the level of 48,6% assets, 55,8% deposits and 45% credits.

In Poland these ratios were slowly, but consistently declining in 2001-2005. The reason was fast development of small and medium retail banks, lowering the rates, wider availability of currency loans and credits

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and rising volume of households' demand for mortgage and consumer credits. The credit boom was observed in nearly all of Central and Eastern Europe (CEE) countries. However, Polish banking sector had experienced one of the highest growths in foreign currency credits – the majority of mortgage long term credits were taken in Swiss francs. The high growth in foreign currency credits was observed in the Baltic States as well (Latvia, Lithuania and Estonia), where majority of the credits were denominated in Euro, or in Romania and Bulgaria (Deuenwald, Gueorgiuev & Schaechter, 2005; Boissay, Calvo-Gonzales & Kozluk, 2006).

To sum up, privatization and consolidation processes resulted in a dominative position of banks controlled by strategic banking investors. The consequences were as well: a rise in efficiency, the growth of banks' capital strength, the effectiveness of functioning, expansion of new banking services, catching up the expectations of customers (occasionally even *tailor made*). It also provided a growing value of banks in Polish economy and stability of a banking sector.

FOREIGN CAPITAL IN THE BANKING SECTOR

Polish banking sector, like all CEE countries, excluding Slovenia, was highly equipped with foreign capital. Primarily, the terms of foreign capital flow to the banking sector were sufficiently moderate to attract many investors. In 1992 NBP decided to restrict them. The way of entry by strategic investors was possible only as in the course of the buoyancy of the bigger amount of shares. From 1989, two main motives of foreign capital entrance to Polish banking sector were: the lack of sufficient domestic capital and the necessity of providing banking settlement services for the enterprises with foreign capital ownership, expanding their operations in Poland in nineties. The banks with foreign capital supplied the banking services to the enterprises from their home countries, the biggest Polish companies operating in international business, foreigners living in Poland and rich individuals. The market potential of banking services enhanced foreign financial institutions to expansion in Poland (Pac, 2003). The requirements for Polish and foreign banks were equalized by the Banking Act of 1997, through limiting the benefits from holding the capital in foreign currency. The milestone year 1999 brought the annulment of formal restrictions towards launch of foreign branches and banks due to formal obligations within participation in OECD. The foreign investors were treated as the domestic ones. Figure 5 shows that both the value of foreign direct investments in the banking sector and the number of banks with foreign capital were systematically increasing in 1993-2005.

After joining EU in 2004, Poland incorporated the regulations ensuring free will of providing financial services on the own territory to any credit institution, acting upon the license given by supervisory

regulators of UE member states (the rule of *single passport*). Such an institution was obliged to announce its decision to the supervisory commission in its own country, which transmits the notification to intended country. The regulations maintain the opportunity of defining the terms to be obeyed by an investing financial or credit institution in the country of intention.

In 2005 foreign capital was established at the level of 61,4% founding capital in the banking sector (Summary evaluation ..., 2006).

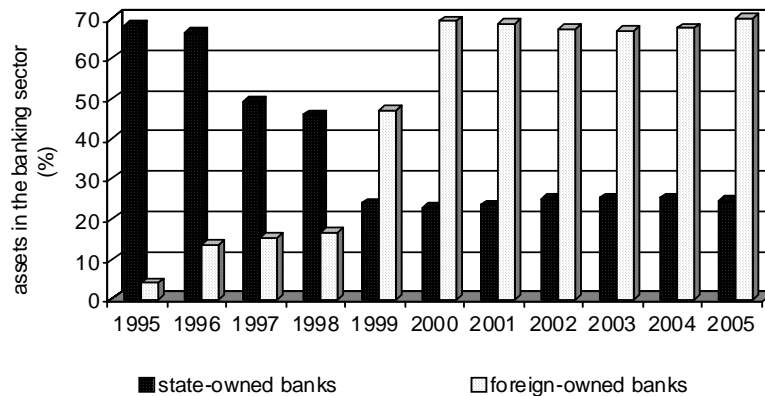


Figure 5: The Market Share of Foreign and State-Owned Banks in Poland (% of Assets, 1995-2005)

Source: Rozwój systemu finansowego w Polsce w latach 2002-2003 (2004, December). J. Osiński, P. Wyczański, D. Tymoczko, A. Grał, (Edit.). NBP, Warsaw, and Summary evaluation of the financial situation of Polish banks (2006, September). NBP, Warsaw.

The engagement of stable financial institutions of high rating improves the image of Polish banks and Poland as a country of investment. The presence of foreign capital implies the higher investors' notes, leading to the further growth of foreign direct investments.

The presence of foreign banks improved the terms of competition in the banking sector. It had helped, in conjunction with monetary policy, to subordinate the interest rates spreads and margins of the banks. Competition in the banking sector may be promoted by the active presence of foreign investors and should be supported with supervisory and transparency of institutions and operations (Dąbrowska & Gruszczyński, 2002; Kondrat & Koczan, 2002).

The opponents against foreign capital domination in the banking sector indicate the identity failure of domestic financial sector, discrimination of credit applications of domestic enterprises by foreign-

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owned banks, supporting export from home countries, price transferring, better attitude towards rich than standard clients and worsening of competitiveness of Polish owned banks (Jaworski, 2002b). In nearly all countries of transformation, there were undoubtedly very few chances to grow without strengthening their banking system by foreign capital.

TENDENCIES OF CHANGES IN POLISH BANKING SECTOR

Banking in Poland reflects the trends from international financial markets, with a special attitude to internal EU market. Monetary integration and liberalization of capital flows resulted in lowering the spreads between deposit and credit margins. The spread in Poland was observed at the level of ca. 3%. Banking products and services prices were continuously coming to the comparable level. Banks were seeking the new opportunities in different areas of financial market.

In the pre-accession period to EU Polish banking sector was a part of Polish economy the best prepared to accession legally and formally, due to the high level of foreign capital (also from EU), the international standard of operations and offering financial products at the quality and price rank similar to offered by EU banks.

The membership in EU and single market competition necessitated capital strengthening of Polish banking entities, owing to which they were modern and their investors were the institutions of a high international reputation. The harmonization of law imposed the implementation of many compulsory regulations connected with a single financial market. The competitive position of banks was decreasing due to progressive diversification of savings among classic deposits, stock exchange investments or investments funds deposits. From nineties depositary and credit functions of banks have been gradually attained by non-banking entities like investment funds, insurance institutions, pension funds or other participants of a financial market. This experience, following the tendencies of disintermediation, changes the role of banks as intermediaries.

Bank activities extend to the new areas, especially those typical for investment banking (like investment advisory, mergers and acquisitions, public and private organization of offering the securities, cash management) or implicated by strategic alliances. Gaining ownership control over big financial institutions contributed to a rise in securities shareholds (bonds, etc.) in assets of the banking sector.

The factors of a high impact on the banking sectors functioning are: increased competition implying consolidation processes, forming capital groups, joining banking and non-banking activities and handling innovative technologies. Internet banking operations were supplied by still new banks, likewise smaller and medium and cooperative ones.

As a result of consolidation, new capital groups and financial conglomerates were appearing. It conveyed synergies and potential

growth to entitled members of these groups, throughout the diversification of activities and risk, the implementation of innovations and new distribution channels. Consolidation was also related to necessity of restructurization and internal (within a group) or external outsourcing of some operational functions.

Many banks were involved in strategic alliances with insurance companies (bancassurance), providing the common distribution channels for products and services. The alliances were strengthened by capital relations between credit and insuring institutions. In Poland the examples were Nationale Nederlanden and Bank Śląski SA, Allianz and Bank Pekao SA, Warta and Kredyt Bank, Hestia and Bank BPH SA. The majority of common services included offering additional insurance to credit cards, mortgage credits or current accounts. The basic reason for the fast development of bancassurance was the trend of disintermediation, based on structural, unfavorable for banks, changes in savings. The development of insurance sector seems to be faster in the future. Therefore, banks were willing to ally with international insurance institutions. Banks were seeking the opportunities for increasing clients' loyalty, while insurers – proficient distribution channels for their products. Banks' advantage was their reputation and well-organized system of branches. The insurers offered effective sales skills and the systems of insurance agents operating for one financial conglomerate. For that reason, bancassurance was presumed as a very prospective one.

Forming banking capital group and financial conglomerates enhanced interpenetration of various areas of financial products and services. It improved the stability of domestic financial system due to diversification of systemic risk and creating the synergies of scope (Solarz, 2004). The financial groups with foreign capital may facilitate monitoring of risk if taking into account the important role of International Financial Reporting Standards (IFRS). The potential problem of specialization among the supervisory institutions played a great role for the market of financial conglomerates. Since 2006 in Poland there has been a unified supervisory organ for financial institutions, the Committee for Financial Supervision, which was responsible for security, insurance and investment markets.

The implementation of new technologies deeply influenced banks' development through the cost reduction on gathering, transmission and processing data. The contact bank-customer changed into impersonal forms of contact. Internet banking, phone banking, cash dispensers, home banking replaced direct contact with a traditional branch of a bank. Technology and management changes implicated staff transfer from front-offices to marketing or consultancy departments and a decline in banking sector staffing until 2003-2004. Resulting from above, banks were gaining the decline in operational costs and the great improvement of efficiency. From 2004 it was observed the slight growth of

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employment due to the growing demand for household and corporate loans and the implementation of New Basel Capital Accord.

The most important banks for CEE region were: UniCredit Group-HypoVereinsbank, Bank Austria Creditanstalt, Deutsche Bank, Commerzbank, KBC, ABN Amro, ING Bank and Citigroup. They had the greatest influence on the shape and size of local banking sectors, influencing the decisions of smaller foreign investors (Buszko, 2003). The structural and quality changes, which had place in Polish banking sector, were reflecting the tendencies from EU. Banks operating in Poland, excluding global players will do it principally at a local or regional scale.

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