

# THE POSITION AND ROLE OF BANKS IN MARKET ECONOMY (POLISH EXPERIENCE IN THE ASPECT OF ADJUSTMENT TO EU REQUIREMENTS)

*Jacek M. Ruszkowski, prof. dr hab. n. e., Silesian School of Economics and Languages in Katowice (Poland)*

## **Banking system structure in Poland**

Close look into banks establishment history let us divide it to two stages, in the first featured the banks presence only while in the second stage banks were operating within the banking system.

The banks existed already in Ancient Greece, however initially they look quite different and characterized in substantially different way. Until XIX century the banks were in fact banking-commercial enterprises, which combine typical banking activity (deposits accepting, granting credits, accounts settlements) together with commercial and speculating activity. Banks activity was controlled by economy law standards, as the bank law was not present at that time. Authorities put into practice numerous regulations concerning finance, i.e. limits for interest on loans, and were compulsory for merchants, entrepreneurs served by the bank [4].

No real banking system one may consider unless there will be three system elements: banks, bank audit and banking law. Banking system covers all banking institutions, bank operating rules as well as standards for mutual correlation and relation to environment. Banking system elements represent specific properties and specific correlation are involved between those elements [8].

Banks establishment was not possible unless the money was present in the universal circulation. Money development – transition from weighed to coin money along with mint stamp that confirmed weight and fineness, especially introduction to the universal money circulation paper money impose the necessity for banks as the mediate institutions and to make the money credible. Demand for banks rose with the appearance of not involving cash money [15]. Due to generations development, market mechanisms needs and demands differentiation, during the years, the banks have undergone changes and development process to become multifunctional organizations in the economy.

Established banking systems have been transformed to adopt to economy development and internal changes. Contemporary banking systems of developed countries are matured and operate based on equal rules. There are the following elements in the contemporary banking systems:

- **bank of issue**, privileged to issue money as the legal instrument of payment on the territory of particular country, the privilege brings advantages but imposes certain duties, and can be granted to any bank operating in the country provided the bank guarantees proper meeting an obligation concerned (normally national state owned bank);
- **central national bank**, which main goal is to perform the monetary policy of the country; the policy understood as the task to country money strengthening and

economy processes control, sometimes described as the task to keep stable standard of prices or fighting the inflation (central bank performs this issue involving various monetary instruments policy that influence finance and economy processes);

- **bank audit institution**, which main task is to provide security for accumulated pecuniary resources and to control banks operation acc. to legal rules; the goal is achieved by monitoring banks activity, financial security and financial standing of the banks;
- **commercial banks**, operating independently based on legal basis and settlements of certain subjects, driven with their own interest but comply to existing rules and legal provisions [17].

Contemporary market economy is featured by significant diversification of institutional elements creating the banking system, resulted the fact that portion of those institutions specializes and limits itself to specific operations. However there is a group of institutions that widens their field of activity and perform new banking operations which leads to forming universal banks. The above process have been observed during last decades in Western Europe, resulted in well developed national banking system those countries. Similar processes are being observed in the Polish economy also [16].

Banking business was the most expanding economy sector in Poland during last decade. But still there is significant gap between Polish and developed countries banking systems in Europe and Japan. During the years Polish banks in nationalized centrally administered economy were not market oriented and did not respond to market pulses. Substantial transition of banking system structure have been proceeded due to overall system transformation process.

New social-economic terms resulted in transformation process favored introduction of radical changes into banking law [24]. There have been nine commercial bank established (01.02.89 r.) separated from the structure of National Polish Bank, the sole mono-bank until year 1989. This fact founded the legal possibility for banks to take independent decisions on own activity and generation of profit was the basic task for bank performance. There have been opportunity settled for new banks to be established, for commercialization and privatization of state owned banks and freedom to bank selection became available to the client as well as the competition between banks initially weak became more visible nowadays.

Due to changes introduced, the banking system structure started to accommodate to new rules and market economy mechanisms. Transition from nationalized economy to market economy required constant and often radical changes to Polish banking law.

Contemporary Polish banking system is controlled by Banking Law and Law for National Polish Bank that came in force on January 1<sup>st</sup> 1998. These legal acts determine the rules for banks and banking organization activity on the territory of Poland [23].

## **Types and position of banks in the economy**

Banking system in Poland characterizes two stages that means separation of issue function adequate for central bank from direct service available for people and economy, a typical activity of the other banks, thus establishment of two type institutions. At the basic level there are commercial banks with superior central bank, presenting its issue function, so called bank of the banks or the bank of national economy. There are specific bonds between central bank and commercial banks, typical for two stages banking system.

Co-operative banks segment is a portion of Polish banking system indicated by 5 % participation in whole banking system sector. Co-operative banks perform their economic activity based on economic calculation while providing profit to the members [22]. The basic goal of those banks is the profit but meeting of their members demand, but first of all providing good service and availability of the loan. Co-operative banks take important role at the rural areas as well as small cities being sometimes sole banks offering basic banking services to the population [4]. Function rules and organizational structure of co-operative banking in Poland have been substantially changed by law act for Co-operative banking put into force since January year 2001 [20].

The most appreciated changes introduced by the law is to let the co-operative banks expand the area of their functioning, introduction the rule for voluntary associate bank, two-stage structure of this banking sector, etc. [10].

The most wide spread form of banking institution is commercial bank, which in case of two-stage banking system structure represents the system core. Sometimes identified with the independent form of commercial enterprise, which in the market economy environment is suppose to generate profit. This assumption might be supported by several arguments that follow:

- the bank is an independent organization;
- the bank itself determines based on own decisions the scope of activity, internal structure, overall strategy, detailed policy, takes free operational decisions and takes financial responsibility for the decisions given;
- the bank performs specific economic activity whereas in case of the banks includes: accepting investment deposits, settlement of accounts and different financial operations including crediting and guaranty granting, etc.;
- the bank uses specific means and ways that are typical for the field of interest;
- offers paid services and makes profit and tend to achieve profit as well as to enlarge financial resources and owned possessions [9].

Bank is in significant degree different from industrial enterprise. The most important difference is in the bank establishment process and specific bank environment. Also the goals for bank should have been more precisely determined when compared to other enterprises [25].

The 1989 Law Act for Banks stated the banks are independent and self-financed organizations having legal entity and acting based on Acts of Law and bank charter. This definition skipped important features that distinguish banks form another legal entities acting on the market [24]. The 1997 Bank Law specifies

bank as legal entity established acc. to law acts, working based on authorization to perform banking operations, burden with risk the means consigned under any of repayable legal title [23]. Legislator has stressed the issue of banking operations performance as well as separated operations into two which are banking operations determined by the banking law and the others which are banking operations being done by the institutions having bank legal status.

The scope of bank operations and type of product and services being offered determines the division of commercial banks. Taking into account this criterion one may distinguish three types of commercial banks according to the solutions assumed in EU directives: deposit-credit banks, investment banks, and universal banks. Initially during system transition period the majority of banks tend toward universal banking. Specialized banks started to enrich their product range in favor to keep their market position not losing the specific character. Actual trends diversify operability in banking sector.

Bank specialization may concern very specific economy area, industry branch or product being offered. The group of banking institutions focused on one subject for example is the segment of automobile banks, which main task is car brand name installment sale finance, as well as mortgage banks which operations are being regulated by Bank Law Act and Mortgage Bank Law Act and Mortgage Bond Law [6].

Basic source of banks profit is deposit acceptance from different clients and loans granting. In order to attract money banks offer potential clients easy terms for open and keep banking accounts. At the other side when already having the money in their possession, banks must find profitable way to use it in crediting activity.

**Commercial banks** are brokers acting under the license issued by state to allow credits, accept deposits including deposits that can be charged with the value of cheque issued. In the lack of brokers the clients may have not time nor knowledge to take right decisions on location of means between variety of possible credits and investments. This the economic core of services offered by bank in its role as financial broker [2].

Banks activity concerns their monetary function seen from two points of view:

- **makroeconomic**, in which banking system takes part in determining of means payment offered to economic subjects;
- **technical**, in which banking system is the administrator of means of payment or the means of payment provider, accepted by economic subjects and performing all operations required for exchange process [19]. Very significant role of banks is their settlement function. Both, enterprises and natural person almost everyday pay for goods or services or accept the payment. In developed market economies when settlements involve large sum of money between many remote clients, banks have been assigned function clients payment acceptance in order to deliver it to adequate addressees. Significant part in precise and fast client servicing takes already common electronic remittance as well as Internet services so called

e-banking. Considering the large scale of transactions one may say these became the most common banking service [14].

Electronic banking is the fastest developing field of bank services. As in other economy areas, Internet and computers contributed to fast modification existing structures and introduction to the market accelerating repeatedly their realization [11]. This might as well be considered in marketing categories as the competition of multiple subject is present on the bank market and starting from May 1 2004 this may be even stronger and may become another bigger challenge for our banks resulted in increased participation of high technology.

### **Commercial banks service characteristics**

Bank activity subject is bank turnover i.e. economic turnover created by banking operations. The banks operate based on licenses for establishment and activity commencement. The license specifies the operations allowed to be performed by bank established [23]. In banking practice and economic sciences one may find term “banking operations”. This term can be used in two meanings: broad, and the narrowed one. Banking operations in broad meaning are identified with banking operations. A narrowed meaning of that term considers particular operation i.e. credit application acceptance, examination of borrowing power, conclusion of credit contract, payment to borrower etc. It can be assumed that banking operations are those which actual an legal operation that are functionally bond to concluded contracts when and if performed by banks or other subjects based on legal order of the bank [13].

According to Bank Law [23] the following can be included as *bank operations*:

- payable on demand or on schedule deposit acceptance, keeping the deposit accounts (payable at sight and fixed time deposits);
- keeping other account (current and auxiliary accounts);
- banking operations of accounts settlement;
- other operations reserved by law for banks only.

In the majority of banks the following operations are considered the most significant:

- depositing;
- crediting;
- account settlement.

This means three unit operational rule of banks i.e. deposits acceptance, granting credits, and account settlement which established the base of banking development process [5].

The banks offer to their clients a wide variety of services tailored to specific requirements. The services can be classified based on different criteria. The classification can be based on the division that considers mutual relation of client and bank. The mutual relation of bank and client is the significant field of bank activity that affects its market position. From this point of view one can determine four group of banking operations:

- finance services;

- deposit services;
- payment traffic services;
- auxiliary services (advisory service, broker service, etc.) [7].

Deposit services belong to passive banking operations, which means accumulation of client pecuniary resources that together with own means can be invested in profitable active operations i.e. credit granted, securities bought or profit deposits at other banks. Securities issue can also be considered as passive banking operations.

Banks should in best way satisfy client requirements expressed as deposits administration, payment settlement or savings administration in order to gain deposits. From this point of view the bank deposits can be divided into deposits for which important is to offer liability services and fixed time deposits services for which important is savings management [19].

In accordance with bank law client pecuniary resources can be accumulated on bank accounts of natural persons, legal entity and organizations not being legal entities but representing legal capacity. Bank accumulates pecuniary means of bank account owner and has it for disposal. In exchange for right of disposal banks are obliged to provide maximum security for the means [23].

Banks as the institutions possessing the right to accept deposits are subject to supervision of Bank Audit Committee in the scope and base determined in Bank Law and Law for National Polish Bank. All savings consign to the bank by clients are guaranteed by Bank Guaranty Fund [21]. This institution provides security to the deposits accumulated in the banks. The main task of this institution is to pay guaranteed deposits of bankrupted banks and to prevent bankruptcy.

Bank may keep the following accounts: current accounts auxiliary accounts, fixed term accounts and savings accounts.

Current accounts are divided into two types: for legal entities (payable at sight) and current accounts for natural persons (mostly savings and settlement account). Current account has no time terms for deposits, which means the deposit is available for client at any time with no effect to interest rate. Bank does not know the period of time the means will be deposited, thus the interest rate offered is low. The purpose of this account is the settlement operation and the surplus over current needs is better to place as long term deposit. No doubt current deposit is the basic source of inexpensive money for the bank.

Fixed term deposits are significantly different to above mentioned types of bank deposit accounts. There are different tasks and profit criteria as well as service technique [17].

Fixed term deposits – in accordance with bank law are nominal deposits. There are no bearer deposits available now (the last were open by Environment Protection Bank) as these are not covered by Bank Guaranty Fund. These are the deposits with the declared accumulation period. The time period and interest rate of those depend on bank decision and are part of bank proposal offered to client. Banks prefer to accept short term deposits as the long ones are too expensive [12].

Constantly rising market competition of banks (variety of banks, pension fund, social insurance, trust funds, stock exchange, savings banks) makes the banks

to gain clients appreciation for their services that cover most demanding requirements. All this make the banking service diversified. Constantly growing group of clients shows interest of different form of means to be deposited, looking for bank advisory services in this aspect and bank offer for more specific deposit services, included the high risk operations [19].

One of the basic operation performed by the banks are settlement operations. These are the operations of carrying modifications to means balance on bank account ordered by client or as the result of different operation, which based on law indicate the change of personal assets of client. In this way bank offers its service involved to money transfer (intermediate operations) [23].

Not involving cash settlement are carried out by electronic or paper information carriers such as:

- cheques;
- money order;
- payment order;
- payment card [19].

The important and new bank activity field, after introduction of economic reform, became bank payment cards. It is assumed that in near future payment card will become most common form of payment of majority of Poles as these are convenient and safe method of obligation settlement.

Recently there are many reported cases of economic crimes being committed with the use of payment cards. All these forces bank to provide better secured cards.

Among variety of functions performed by commercial banks the credit function allowed to enterprises, households and other banks as well as credits and loans granted to local communes must not be omitted.

Economic subject crediting is one of the most important area of commercial bank activity, being the main source of its profit and incomes.

Bank credit activity is not always well understood. This is not only credit and loans granting operations (credit operations) but selling of the draft, factoring, guaranty providing, opening the letter of credit, granting so called cheque credit, acceptance credit (e.g. credit operations in general) [13].

Credit is considered as economic relation, based on granting of specific means or goods, between one party (the grantor of credit) and credited party provided the equivalent will be returned to the grantor with the interest, within fixed time, as the price of credit [3].

Credit subject is determined by two main credit tasks- consumption and investment. The third task is current need finance resulted in lack of synchronization of incomes and expenses of economic subjects.

Credits can be allowed to economic subjects or to natural persons. Sometimes the name of corporate client and individuals is used and specific bank department are provided for particular client servicing. Despite the majority of contracts are credit contracts both for natural persons finance as well as legal entities some of those contract are in fact loan contracts. That's why the division of those contract concerns both credits and loans.

In the respect to method (form) of credit granting one can specify: credit in current account (overdraft) and credit in credit account: discount credit, acceptance credit, credit on securities, mortgage, leasing and factoring.

One of the most important current phenomena in Polish banking market is change in form of credits. More common become small amount credits for small businesses and natural persons. New credit forms for clients, specifically in current accounts and credits absorbed by credit cards are the major part of income source for the banks.

The increasing role in europeization of Polish banking system takes the rule of bank clients interest protection. In Polish bank system there are severe requirements for banking operation license granting and the rules and measures for bank audit. Also the protection of clients deposits have been significantly increased. Art № 43 Item 3. of Bank Law imposes the duty to apply any available measures to protect pecuniary means of bank clients in exchange of freedom of its disposal. Moreover every bank is liable for results of failure to perform or improper client order performance.

Preparation of Polish banking sector to EU membership are led since long time. Today it is said the National polish Bank and Union of Polish Banks as well as Ministry of Finance performed the task that Polish banking law conforms to EU standards. In October 2003 two agreements have been signed that let Polish bank compete with foreign banks, that resulted in lowering the factor of irregular credits in banks portfolio. Also accounting rules will be simplified in the near future. When analyzing the efficiency factors of Polish “daughter” companies it is certified that these achieve better results than foreign mother companies. Ministry of Finance declares that the banks should invest into technologies and create attractive offer for companies as in few months time foreign banks may present them better offer [1].

One of the potential threat is the possibility to convert banks acting as joined stock company into branches. That why the important thing is to create adequate regulation that encourage banks to remain in unchanged legal status.

### *Literatura*

1. Dobosiewicz Z. Wprowadzenie do finansów i bankowości PWN. – Warszawa, 2000.
2. Banki przygotowane do UE. Nie boimy się konkurencji // Rzeczpospolita. – Nr. 12 z dnia 13.01.2004.
3. Begg D., Fischer S., Dornbusch R. Makroekonomia. – Warszawa: Polskie Wydawnictwo Ekonomiczne, 1997.
4. Borys G. Zarządzanie ryzykiem kredytowym banku, PWN. – Warszawa, Wrocław, 1996.
5. Gliniecka J., Harasimowicz J. Zasady polskiego prawa bankowego. – Lex Sopot, 1998.
6. Gloajewska M., Jozefowska M. Banki komercyjne. W Bankowość w świecie i w Polsce. Stan obecny i perspektywy rozwojowe / Praca zbiorowa pod redakcją L. Oręziak, B. Pietrzak. – Warszawa, 2001.
7. Jaworski W. Bankowość. Podstawowe założenia. Poltext. – Warszawa, 1999.
8. Jaworski W.: Banki i system bankowy. W: Banki. Rynek, operacje polityka. Z. Krzyżykiewicz, W. Jaworski, B.Kosiński. – Poltext. Warszawa, 1998.
9. Kosiński B. Podstawy zarządzania przedsiębiorstwem bankowym. W: Współczesny bank. Praca zbiorowa pod red. W.L. Jaworskiego. – Poltext, Warszawa, 2000.
10. Kwaśniak W. Początek już jest // Gazeta bankowa. – Nr 17/2001. – S. 10.



11. Macierzyński M. Istota i pojęcia bankowości internetowej //www.pnews.pl.
12. Moje pieniądze 2000. Jak oszczędzać, w co inwestować, jak płacić i nie płacić podatków / Praca zbiorowa pod redakcją B. Żóławik, K. Bień. – Warszawa: Respublica, 2000.
13. Narożny T. Czynności kredytowe banku. Zagadnienia prawne Biblioteka Managera i Bankowca. – Warszawa, 2000.
14. Oleksiak K., Zawadzki A. Podstawy bankowości. Podręcznik dla studentów bankowości i ubezpieczeń. Warszawa: Wyższa Szkoła Bankowości i Ubezpieczeń, 2000.
15. Pieniądz i Bankowość. W: ABC bankowości (nr 7) / Praca zbiorowa pod red. R. Wierzby. Materiały studialne. GAB przy Instytucie Badań nad gospodarką Rynkową. – Gdańsk, 1998.
16. Pleśniewska-Kaźmierczak H.. Klasyfikacja podmiotów sektora bankowego. W: Bankowość w okresie przemian systemowych-wybrane zagadnienia (Z. 262). Red. Naukowa W. Przybylska-Kapuścińska. Zeszyty naukowe Akademii Ekonomicznej w Poznaniu. – Poznań, 1998.
17. Rajczyk M. Podstawy bankowości komercyjnej. Cz.3 Finanse banku komercyjnego. Fundacja Banku Śląskiego. – Bielsko Biała, 1997.
18. Solarz J. K., Daniluk D., Zombrit J. Integracja europejska a krajowe banki komercyjne // Biblioteka Menadżera i Bankowca, "Zarządzanie i Finanse". – Warszawa, 1999.
19. Usługi i procedury bankowe. Praca zbiorowa pod redakcją E. Bogackiej-Kisiel. – Wrocław: Wyd. Akademia Ekonomiczna we Wrocławiu, 2000.
20. Ustawa z dnia 07.12.2000 o funkcjonowaniu banków spółdzielczych, ich zrzeszaniu się i bankach zrzeszających. – Dz. U. – Nr 119. – Poz. 1252.
21. Ustawa z dnia 14.12.1994 r o Bankowym Funduszu Gwarancyjnym. – Dz. U. 1995. – Nr 4. – Poz. 181.
22. Ustawa z dnia 16.09.1982. Prawo spółdzielcze. – Dz. U. 95. – Nr 54. – Poz. 288. – Art. 67.
23. Ustawa z dnia 29.08.1997 r. Prawo bankowe. – Dz. U. – Nr 140. – Poz. 939; ustawa z dnia 29.08.1997 r. o NBP. – Dz. U. – Nr 140. – Poz. 938.
24. Ustawa z dnia 31.01.1989 r. Prawo Bankowe. – Dz. U. – 1989. – Nr 4, Poz. 21.  
Zarządzanie bankiem komercyjnym / Praca zbiorowa pod red. A. Gospodarowicza. – Warszawa: PWE, 2000.

Ruszkowski, Jacek M. The position and role of banks in market economy (Polish experience in the aspect of adjustment to EU requirements) / Jacek M. Ruszkowski // Проблеми і перспективи розвитку банківської системи України : зб. наук. праць / Державний вищий навчальний заклад "Українська академія банківської справи Національного банку України". – Суми, 2004. – Т. 11. - С. 22-31.