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RATIONALE BEHIND AND DILEMMAS OVER CONSOLIDATION AND COOPERATION OF COOPERATIVE BANKS IN POLAND

Key words: cooperative banks, cooperative banking sector, bank consolidation, cooperation, Poland

ABSTRACT. The study analyses the processes of consolidation of cooperative banks in Poland in 2010-2020 and the cooperation of banks within operating cooperative banking associations. The essence of the processes of consolidation and cooperation of cooperative banks was determined and their premises, scale and effects to date were presented. The main focus was on the analysis of factors determining the need for the further transformation of the cooperative banking sector in Poland and the role that may be played by bank consolidation and various forms of cooperation of cooperative banks in this process. It has been shown that the consolidation of banks, consisting of taking over economically weak banks by larger cooperative banks, better performing on the market, is necessary, but it is not a solution leading to the development of the sector. Such a solution may be the tightening of cooperation between banks within associations, leading to the gradual integration of selected areas of banking activity while maintaining the autonomy of local banks in relations (at the contact) with customers.

INTRODUCTION

In its more than 150-year history, cooperative banking in Poland has evolved multiple times, which testifies to its sustainability, resilience and adaptability to various socioeconomic and political conditions [Siudek 2011]. The driving force behind such sustainability and resilience is the segment of cooperative banks (CB), which is firmly embedded in local, regional economic and social structures. The problem is that banks, even those operating locally, must perform very well in terms of economic and financial efficiency and competitiveness. This requires, inter alia, considerable outlays on new technologies, because clients, regardless of where they are based, expect high-quality banking services.

As a result of the COVID-19 pandemic, in 2020 and in H1 2021, we could observe a significant increase in the number of clients using mobile banking services and the number of operations performed via electronic channels. At the same time, the Mean Time to Repair in electronic banking increased significantly as a result of IT system failures and some necessary service works [KNF 2021]. On the other hand, the regulatory conditions for performing payment transactions via electronic channels became considerably strengthened by the Payment Services Act and PSD2. This is tangible proof that technology is becoming a key and, at the same time, critical resource for banks. Banks that are unable to keep up with the competition in this respect or duly fulfil their regulatory obligations to improve the security of payment transactions will be exposed to the resulting risk and will also lose in market competition for acquiring new clients or retaining current ones.

Cooperative banks, which at the beginning of the systemic transformation in Poland had to successfully face the challenges of the market economy, have been struggling with new regulatory challenges for more than a decade now, mainly in the wake of the global financial crisis of 2008. The second area of challenges is growing competition in the financial services market, also from non-bank financial companies and fintechs, combined with ongoing concentration processes in the banking sector, dominated by large transnational banks, such as Credit Agricole, Santander and BNP Paribas. In addition, record-low interest rates of the National Bank of Poland (NBP)[1], which have been in place for several years now (more specifically, since 2013), are a great challenge for cooperative banks, as the level of rates has limited the "room" for banks to generate profits from an interest margin. Finally, the COVID-19 pandemic caused an economic crisis in 2020, thus contributing to a significant increase in economic risk and overall uncertainty, which is reflected in a decline in bank lending.

The above-mentioned challenges necessitate further changes both in the operational model of the entire sector and in the microeconomic operational model of individual cooperative banks [Kata 2016]. The solution called for by many experts and also expected by the regulator (PFSA) [Parkiet 2020, BSNET 2021] and some representatives of the cooperative banking community is progress in the consolidation of the cooperative banking sector and its integration, which is to be founded on closer cooperation between the banks concerned.

Consolidation is a concept with various interpretations due to the complexity of the process; moreover, the consolidation of banks is one thing, while the consolidation of

[1] The NBP reference rate started to decline in May 2012 (from 4.75%). In July 2013 it reached a level of 2.5%, in October 2014 – 2.0%, in March 2015 – 1.5%. This level remained until March 2020, when, as a result of the economic crisis caused by the COVID-19 pandemic, the Monetary Policy Council lowered the reference rate to 1.0% and a month later to 0.5%. Finally, from May 29, 2020, the reference rate is only 0.1% [see NBP 2021].

the banking sector is quite another. The word "consolidation" itself comes from the Latin *consolidatio – bonding* and means: "unification, fusion, combining into a single whole, strengthening, fixing" [Dunaj 1996, p. 407]. In business, consolidation means a business combination (merger) of entities which unite into one. As a result, a new economic entity is created, which is the legal successor of the merged companies, or one enterprise is incorporated in (connected to) another [Frąckowiak 2009].

In this paper, analysis is focused on the consolidation of cooperative banks through the processes of mergers and acquisitions, which leads to a reduction in their number.

Mergers of banks facilitate the achievement of a couple of goals, such as increasing scale and sometimes the scope of operation, reducing fixed costs, expanding the product portfolio, increasing the number of clients and the bank's turnover figures, concentrating own funds of merging entities or improving the quality of the loan portfolio [Kata 2015].

On the other hand, cooperation (liaison) between banks may take various forms and scales, and may extend over various areas of bank operations without compromising their organisational and legal independence (autonomy). Cooperation, if it takes the form of long-term and institutionalised liaison under specific agreements between banks, dealing with selected areas of banking activity, is referred to as integration of the area concerned (e.g., IT, liquidity and solvency maintenance, risk assessment or service marketing). One example of integration in cooperative banking is the creation of affiliations which bring together independent cooperative banks and affiliating banks with the latter performing service and control functions for member entities. There are currently two such affiliations operating in Poland, namely the affiliation of Bank Polskiej Spółdzielczości (BPS SA) based in Warsaw and Spółdzielcza Grupa Bankowa (SGB), for which the affiliating bank is SGB-Bank SA in Poznań. Some cooperative banks, i.e., the ones with equity higher than the equivalent of EUR 5 million, operate independently, outside affiliations.

One aspect of integration processes in the sector was the establishment of the Institutional Protection Scheme (IPS by both affiliations in 2015, forced to a large extent by new legislation (the CRD IV/CRR package) and the regulator. The IPS is meant to strengthen the financial security of cooperative banks through cooperation in the field of security and counteracting the loss of liquidity and solvency by banks [Lepczyński, Gostomski 2018]. At the end of 2020, 97% of cooperative banks belonged to the institutional protection schemes of their respective affiliations (IPS SGB and SOZ BPS). The strength of these schemes is derived primarily by their accumulated assistance fund, which at the end of 2019 reached PLN 1 billion.

MATERIAL AND METHODS

The aim of this study is to describe consolidation and cooperation processes of cooperative banks in Poland that took place in 2010-2020, as well as define their reasons, scale and effects to date. Another objective of the paper is to identify the determinants for further transformations of the cooperative banking sector and define the role of consolidation and various forms of cooperation among cooperative banks for sustained competitiveness and the development of cooperative banking in Poland. The barriers and dilemmas related to these processes are presented as well, including those resulting from interchangeability (substitutability) between concentration and the cooperation of banks and the potential impact of such processes on the maintenance of existing advantages held by cooperative banks as local financial institutions. Given the multiplicity of threads and the complexity of issues touched upon in this paper, it should be treated as a contribution to wider research and discussion on the topic.

Empirical materials for the research were banking sector statistics published by the Polish Financial Supervision Authority (KNF) for 2010-2021. The literature on the subject and reports of the Polish Bank Association (ZBP) were reviewed and used as well.

In the assessment of the financial efficiency of cooperative banks in Poland, in the analysed period, the following indicators were used: interest margin, cost to income ratio, return on assets, return on equity and non-performing loan ratio. The ratio of coverage of deposits with loans and the relations of assets and net profit per employee were also used.

REASONS FOR AND THE SCALE OF CONSOLIDATION OF COOPERATIVE BANKS IN POLAND

More important reasons for consolidation processes in banking are [Sablik 2004]:

- changes in legal regulations related to the banking sector;
- changes in the economic macro environment, including the situation on the financial market and in the economy as a whole;
- benefits resulting from the scale and scope of activity;
- the implementation of new and often costly technological solutions.

The cooperative banking sector in Poland has been undergoing consolidation processes since early 1990s. In 1993, 1,653 cooperative banks operated in Poland. Between 1994 and 1997, such consolidation processes were predominantly remedial in nature: stronger cooperative banks (occasionally also commercial ones), supported by aid funds from supervisory institutions, took over cooperative banks at risk of bankruptcy [Kozak 2013]. In subsequent years, the main trigger for consolidation processes became legal regulations related to the implementation of the EU banking directive of 1989 [Directive 89/229/EEC, OJ L124] on banks' own funds, to the requirement of which Poland had to adjust as part of the implementation of the Community acquis. Pursuant to the Act of 7 December 2000 on the Operation of Cooperative Banks, their Affiliation and Affiliating Banks [Journal of Laws, 2000.119.1252], cooperative banks were obliged to achieve an equity of EUR 1 million (by the end of 2007), whereas the target figure for affiliating banks was EUR 20 million (to be achieved by the end of 2006). The Act also contributed to the transformation of the three-tier organisational structure of the cooperative banking sector (with BGŻ acting as the national bank) into a new, two-tier structure consisting of cooperative banks and affiliating banks. Consolidation of affiliating (regional) banks in 2000-2011 from 11 to 2 was forced by capital requirements, but also by the economic weakness of those banks which, in order to survive on an increasingly competitive market, had to undertake further mergers.

Consolidation processes of cooperative banks caused by the necessity to achieve the minimum equity threshold ended in 2002. At the end of that year, 605 cooperative banks operated independently (Figure 1). Subsequent mergers and acquisitions of cooperative banks resulted mainly from the need to save economically weak banks from collapse by efforts of other cooperative banks, often the ones closest in geographic terms. In general, consolidation processes of cooperative banks in Poland in recent years have always been met with reluctance by the community of cooperative bankers, and, in most cases, were forced by regulations or the risk of bankruptcy.

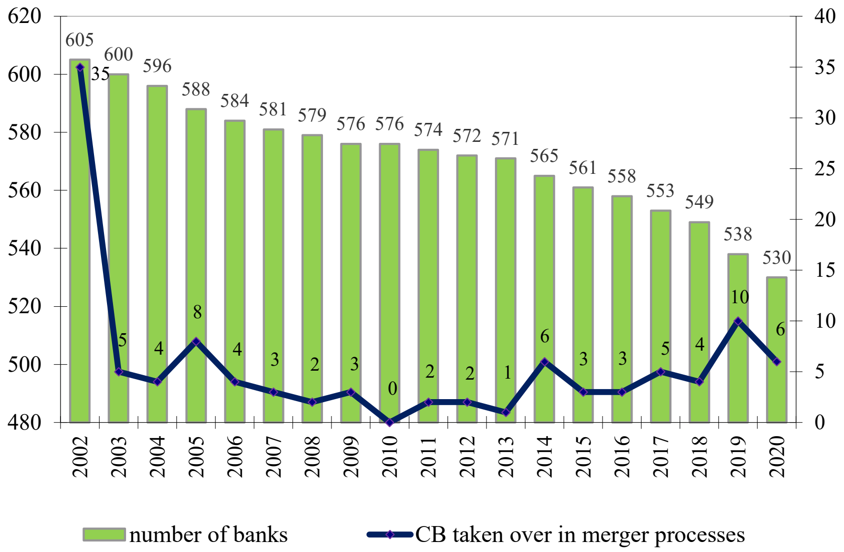

Figure 1. The number of cooperative banks in Poland in 2002-2020 and the number of banks taken over by other cooperative banks (CB) in the merger process

Source: Polish Financial Supervision Authority (KNF) data

At the end of 2020, 530 cooperative banks were operating in Poland, of which 326 were members of the SOZ BPS protection scheme, and 192 members of the IPS SGB protection scheme. 12 banks operated outside IPSs, including 10 with own funds exceeding the equivalent of EUR 5 million. The number of cooperative banks decreased by 8 compared to 2019 and by as many as 19 compared to 2018. It can, therefore, be concluded that merger processes accelerated to some extent. Before 2019, the number of local banks had been decreasing by approximately 4-5 entities a year. Apart from voluntary merger processes, 2020 also witnessed two compulsory resolutions among banks, namely Podkarpacki Bank Spółdzielczy in Sanok (taken over by Bank Nowy BFG SA in January 2020) and Bank Spółdzielczy in Przemków (taken over by SGB-Bank SA in April 2020). The process of compulsory resolution of PBS in Sanok was the first time that the resolution procedure was applied by the Bank Guarantee Fund (BFG).

Compared to other European Union countries, the consolidation of Polish cooperative banking has been relatively slow to date. In the period under study, i.e., 2010-2020, the number of cooperative banks decreased by 46, i.e., by 8%. Between 2014 and 2018, the number of cooperative banks in Poland decreased by 22 entities: from 571 to 549 (Figure 1). In the same period, in the German cooperative banking sector, 203 banks were affected by mergers and acquisitions. Considering the size of the sector, this means a pace 5 times higher than of that in Poland [Kurkliński et al. 2021]. In 2004-2018, the number of cooperative banks in Poland decreased by 7.9%, while in Austria it was reduced by 37%, in Finland by 35%, in Germany by 34%, and in Portugal by 39%. In total, the number of cooperative banks in Europe fell by about 41% during the period in question [Kil et al. 2020].

The most serious problems of cooperative banks in Poland in recent years (2015-2020), which constitute a circumstance justifying changes, including the acceleration of consolidation processes, are:

- a shrinking interest margin (Table 1) and a decrease in cooperative banks' interest income as a result of low interest rates[2]. This problem is exacerbated by an increase in assets in the form of receivables from an affiliating bank with almost zero profitability;
- increasing operating costs of cooperative banks, which are significantly higher compared to those of commercial banks (Table 1);
- gradually decreasing profitability of assets and equity. Except for 2020, the profitability level was lower than the figure in the sector of commercial banks (Table 1);
- a significantly deeper surplus of deposits over loans within the non-financial sector. The coverage of deposits from the non-financial sector with loans to clients from the sector at cooperative banks was a mere 47.9% at the end of 2020 (with 52.1% in the preceding year, and 70.2% in 2014). On the other hand, in commercial banks, the ratio

[2] This income in the structure of the result on banking activities in 2015-2020 on average amounted to 73.7%.

Table 1. Economic and financial efficiency of cooperative banks (CB) compared to commercial banks (CMB) in 2010-2020

Year	NIM Net interest margin		C/I Cost to income ratio		ROA* Return on assets		ROE* Return on equity		NPL Non-performing loan ratio**	
	CB	CMB	CB	CMB	CB	CMB	CB	CMB	CB	CMB
	%									
2010	4.4	3.2	69.3	50.6	1.1	1.1	10.5	10.2	5.3	8.8
2012	4.3	3.1	65.8	49.2	1.2	1.2	11.2	11.2	6.3	8.5
2014	3.4	2.5	68.9	48.8	0.8	1.1	7.5	10.3	6.4	8.1
2015	3.17	2.50	75.2	56.7	0.5	0.9	5.0	7.7	6.7	7.6
2016	3.02	2.54	70.1	54.0	0.51	0.86	5.3	7.72	7.8	7.1
2017	3.06	2.69	66.0	54.4	0.51	0.80	5.2	7.04	8.5	6.8
2018	2.96	2.59	67.9	53.8	0.47	0.83	5.1	7.21	9.1	6.8
2019	2.69	2.52	66.7	53.2	0.41	0.76	4.69	6.73	9.1	6.6
2020	2.05	2.16	74.8	61.2	0.32	0.01	3.74	0.30	8.6	6.9

* The CB profitability ratios for 2015 do not include losses resulting from the bankruptcy of SK Bank

** Impaired receivables (past due) in relation to total gross receivables from the non-financial sector

Source: own calculations based on Polish Financial Supervision Authority data from 2010-2020 and [ZBP 2020]

stood at 75.9% (85.3% in the previous year, and 107.9% in 2014). This testifies to significant difficulties faced by cooperative banks in their efforts to boost lending on local financial markets and the lack of an efficient mechanism for distributing surplus deposits and converting them into loans in affiliations;

– the percentage of non-performing loans in 2016-2020, higher than the level in commercial banks (Table 1). Credit risk increased because of a wider presence of cooperative banks in urban markets and new segments of the economy (real estate developer investments). Another factor here was an increase in the share of loans to enterprises in the banks' loan portfolio. Finally, the COVID-19 pandemic had its impact too;
– a significant increase in tax burdens, as well as those related to deposit guarantees and the financial stability of banks;
– persistently low effectiveness of employment, expressed by the volume of total assets, loans from the non-financial sector, and net profit per employee (Table 1);

– declining customer loyalty and the difficulty of many cooperative banks with acquiring new, especially young clients;
– a decrease by 14.4% in the number of shareholders of cooperative banks in 2012-2020;
– a decrease in income from granting preferential loans to agricultural sector entities;
– increasing competitive pressure related to technological progress.

The last of the above-mentioned problems appears to be one of the most important motivations for merging processes in cooperative banking. It should be emphasized that over recent years cooperative banks and affiliations have made progress in the use of state-of-the-art IT tools. For example, in 2019, both affiliations created a uniform IT platform, BS API, which, among others, makes it possible for clients to make mobile payments (SGB Mobile, BPS Mobile); however, these solutions are still not exploited by all cooperative banks[3]. There is still a significant gap in the application of modern remote banking across many cooperative banks and commercial banks. In terms of the consequences of the COVID-19 pandemic, this problem is becoming an increasing burden for cooperative banks when it comes to competing for clients with commercial entities. Moreover, the maintenance of various IT systems that are incompatible with each other makes it difficult for cooperative banks to create a joint proposal, which translates into limited development, increased expenditure on IT infrastructure, and higher total IT support costs.

Table 2. Selected measures of efficiency of cooperative banks (CB) compared to commercial banks (CMB) in 2004-2018

Year	Loans/deposits of clients [%]		Assets per employee [PLN million]		Net profit per employee [PLN thousand]		Staff costs/ operating costs [%]		Non-interest result/ assets [%]	
	CB	CMB	CB	CMB	CB	CMB	CB	CMB	CB	CMB
2010	73.6	114.1	2.2	7.5	23.1	74.1	71.5	54.9	1.54	1.97
2012	73.2	115.1	2.6	8.8	29.6	102.0	69.8	53.7	1.33	1.81
2014	70.2	107.9	3.2	10.4	23.1	110.2	64.6	50.3	1.07	1.4
2015	70.4	104.9	3.4	10.5	14.5	90.4	60.0	45.4	1.02	1.35
2016	63.4	100.3	3.8	11.3	18.1	97.3	63.2	45.5	0.89	1.34
2017	60.4	100.1	4.2	12.0	20.0	98.2	64.6	46.2	1.00	1.2
2018	57.4	97.9	4.5	12.8	20.1	104.9	63.7	46.7	0.91	1.1
2019	52.1	85.3	5.0	14.6	19.6	104.2	64.9	45.2	0.87	1.1
2020	47.9	75.9	5.9	18.1	17.8	55.7	63.1	44.4	0.83	1.0

Source: Polish Financial Supervision Authority data from 2010-2020

3 For example, in mid-2021, the SGB Mobile application was used by 145 CBs out of 192 associated in the SGB group [SGB 2021].

These problems are, to some extent, a consequence of fragmentation in the cooperative banking sector and a relatively weak capital base of many sectoral banks. Fragmented as they are, cooperative banks find it more difficult than commercial banks to:

- keep up with the pace of investments in IT technology and innovation;
- replace interest income with income from other sources;
- reduce operating costs, especially fixed costs;
- meet the requirements that are currently faced by bank staff in the field of bank management, computerisation and automation of banking operations, the implementation of banking regulations, risk assessment, reporting and many others.

Consolidation processes reduce the number of cooperative banks, which may affect their market position and share in the banking sector. Obviously, the market share depends on numerous factors, in particular the effectiveness of the banks' activity in specific markets and macroeconomic conditions. When we compare the dynamics of consolidation processes with changes in the share of cooperative banks in the banking services market, we cannot prove the relationship between these processes, but some light is shed on the question of whether consolidation of cooperative banks and the resulting concentration of the entire sector contribute to overcoming current development-related problems.

There is a fairly common view that the share of cooperative banks in Poland in the deposit and credit market, as well as in assets and equity of the banking sector as a whole is disproportionately low compared to the social, relational and even economic potential of cooperative banking. In the years 2010-2020, the share of cooperative banks in employment in the banking sector increased (Table 3), even though in the last years of the period concerned the sector implemented some layoffs (in 2017 the headcount amounted to 31,100, whereas in 2020, the number of jobs stood at 28,500). This means that the scale of employment reduction was smaller than of that in the commercial banking sector.

The share of cooperative banks in the number of banking establishments increased systematically in 2010-2018, reaching the level of 34%. However, in 2019-2020, a significant reduction in cooperative bank establishments could be observed (from 4,415 at the end of 2018 to 3,425 at the end of 2020). To some degree, this phenomenon was caused by the acceleration of consolidation processes, but the main trigger was "streamlining" the network by the liquidation of small branches and offices on the level of municipalities. In terms of assets, the share of cooperative banks in the banking sector increased successively from 6.1% to 7.8%; the share of cooperative entities in deposits of the non-financial sector grew to a similar extent, from 8.6% in 2010 to 9.8% in 2019. However, in 2020, a slight decrease was observed (to 9.3%). On the other hand, the share of cooperative banks in receivables from the non-financial sector showed a slight upward trend in 2010-2014 (from 5.9% to 6.7%) just to record a gradual decline to 5.8% in 2020.

Table 3. Share of cooperative banks* in the banking sector in Poland in 2010-2020

Year	Employment	Bank branches (including CB headquarters)	Assets	Receivables from the non-financial sector	Deposits of the non-financial sector
	%				
2010	18.0	30.3	6.1	5.9	8.6
2012	18.7	30.8	6.4	6.2	9.1
2014	18.8	31.6	6.8	6.7	9.7
2015	18.7	32.6	6.9	6.4	9.2
2016	18.6	31.7	7.0	6.0	9.4
2017	18.9	33.5	7.3	6.0	9.8
2018	18.6	34.0	7.3	5.8	9.8
2019	19.1	30.2	7.5	5.9	9.8
2020	19.1	29.6	7.8	5.8	9.3

* Participation without affiliating banks
Source: Polish Financial Supervision Authority data from 2010-2020

The progressing consolidation in cooperative banking did not improve the market position of cooperative banks, which is stable, but generally low. Cooperative banks have a relatively strong position only in the area of financing local government units, where their approximate share in deposits and loans is about 30%. Most probably, however, were it not for consolidation processes, which to a large extent consisted in "sanative" procedures applied to banks in a poor economic condition, the share of cooperative banks in the banking sector and in the banking services market would have been lower.

Data on the growth rate of basic assets, equity and liabilities at banks indicate that in 2010-2020 cooperative banks maintained a higher growth rate of assets and deposits of the non-financial sector than commercial banks (Table 4). However, figures were slightly lower in equity and receivables from the non-financial sector. In terms of assets, loans, deposits or equity per employee, cooperative banks fall far behind commercial banks. However, if we look at the dynamics of these figures in 2010-2020, it did not differ significantly from that of commercial banks, and was higher only as far as assets are concerned (Table 4). This means that in the analysed period, cooperative banks did develop their banking activities and increased their assets and equity, although at a slower pace than competitors. Compared to commercial banks, they lagged behind in terms of efficiency criteria. Consolidation processes and the reduction of employment (coupled with closing some banking establishments) probably contributed to the fact that cooperative banking, as a sector, retained its relative *status quo* in terms of market position, which is not the case, however, for all cooperative banks.

Table 4. Changes of assets and liabilities of cooperative and commercial banks between 2010 and 2020 and their dynamics

Specification	CB		CMB	
	Sector total (nominal values)	per employee (in constant prices)	Sector total (nominal values)	per employee (in constant prices)
Change 2020/2010 [%]				
Assets	137.9	126.0	103.4	105.0
Equity	81.9	72.8	88.7	91.6
Receivables from the non-financial sector	63.3	55.1	64.2	65.5
Deposits of the non-financial sector	145.8	133.4	126.6	128.3
Average annual growth rate [%]				
Assets	9.1	8.5	7.4	7.4
Equity	6.2	5.6	6.6	6.7
Receivables from the non-financial sector	5.0	4.5	5.1	5.2
Deposits of the non-financial sector	9.4	8.8	8.5	8.6

Source: own calculations based on Polish Financial Supervision Authority data from 2010-2020

The transformation of cooperative banks, which started a few years ago, was accelerated by the ongoing pandemic. Cooperative banks now have to adapt to new market conditions. The community of cooperative bankers is becoming increasingly aware of the need to increase the scale of business operations and optimise operating costs. Therefore, mergers of cooperative banks are becoming more and more common, being an obvious response to the current challenges faced by the sector[4]. Triggers for merger processes are also changing more and more often. More specifically, the number of forced acquisitions (saving banks from bankruptcy) is decreasing, whereas the number of voluntary mergers motivated by an economically rational approach is on the rise. An increasing number of banks have become aware that the scale of their operations does matter, so they start looking for partners to create larger entities together. The consolidation of banks is not only about connecting the market, assets, equity and other resources, but also about combining various competences and experiences, which provides an impetus to launching a modern product offer.

[4] In March 2021, two banks of the BPS association, i.e., CB in Jędrzejów and CB in Sędziszów, merged. In April 2021, in two mergers, 6 banks of the SGB association merged into 2 banks.

It is also easier for a larger bank to invest in state-of-the-art technological solutions and cope with various regulatory challenges.

If we consider the problems of the sector described above coupled with the market, technological and regulatory challenges that it faces, it seems that the progress of consolidation processes in the cooperative banking sector is inevitable. Nevertheless, lessons learned from the consolidation of cooperative banks are that such processes are far from easy and will definitely not solve all the problems of banks.

The risk associated with cooperative bank consolidation processes is that they will lose their local character and that their relational capital towards various stakeholders in the local socioeconomic environment will erode. Research shows that cooperative banks still enjoy a high level of trust among clients, in particular local micro and small enterprises, local government authorities and natural persons [Kurkliński, Idzik 2019]. It is a *sine qua non* for conducting banking activity, but still not a sufficient condition. It must be enhanced by an attractive product portfolio, professional client service, easy access, etc., all within the framework of an effective business model that is aligned with contemporary market circumstances. Merger-based consolidation of cooperative banks cannot be treated as a cure-all for the problems experienced by the cooperative banking sector and individual banks. It is not a recipe for the long-term survival and development of cooperative banks either.

COOPERATIVE PROCESSES IN COOPERATIVE BANKING IN POLAND

In the context of the necessary reforms of the cooperative banking sector, an alternative to consolidation processes may be closer cooperation between banks within the affiliation and a stronger integration of members with their affiliating bank. In particular, this concerns the IT integration of banks and the centralisation of some activities and functions (marketing, reporting and risk assessment) within the affiliation.

The Polish cooperative banking sector is considered to be one of the least integrated in the European Union. Most cooperative banks belong to one of two active affiliations, whereas cooperative banks are joint owners of affiliating banks, i.e., BPS and SGB-Bank. The increasing number of banks leaving affiliations to operate independently proves that affiliating banks fail to effectively perform their functions towards affiliated banks (including in the field of back-office services, the implementation of new IT solutions, as well as the transfer and conversion of surplus deposits into loans). They are quite weak in terms of capital and are unable to cope with combining operational/business with control/ supervisory functions in affiliations. Such banks try to be change leaders in cooperative banking by initiating and leading numerous projects, such as creating a common integrated mobile platform for cooperative banks. Due to their own financial efficiency problems, however, they lack the authority to be a more effective driving force

Table 5. Reasons and possible solutions in the field of cooperation (integration) of cooperative banks within associations

Reasons for the cooperation (integration) of banks within associations	Possible solutions
–new technologies as an accelerator of changes in customer preferences - the need to have a mobile platform, multi-channel customer access to the bank's services, the development of sales channels; –technological and product delays constitute a barrier to attracting new customers and generate a picture of poor quality of services provided by cooperative banks; –the small scale of operations and the inability to „share" fixed costs do not allow generating income covering operating costs and necessary investment outlays; –technological progress generates a dissonance between customer expectations and the possibilities of their implementation by a CB; –regulatory requirements that are increasingly difficult to fulfil (in the area of capital, liquidity, securing payment transactions, etc.) and the increasing increase in other operating costs (payroll, technological service, etc.); –a decline in net interest income as a result of low interest rates and the need to look for higher commission income; –the need to optimize the branch network; –failure to keep up with the growth of bank business compared to the growth of the business of its clients (enterprises); –shortage of qualified employees, failure to keep pace with the growth of competency requirements generated by the market, technology and regulations; –excessive involvement of staff in the implementation of non-sales functions.	–the creation of a common marketing base and joint promotion of services; –establishing a common operational, IT and reporting base; –the creation of a common mobile banking system; –the unification of some banking services (e.g., consumer loans) in the framework of the association or voluntary agreement of several CBs; –the creation of a common IT system, including an internet banking system; –the takeover (centralization) of the banking business support function (back-office service) by the affiliating bank; - creating systems for integrating the offer and providing services by cooperative banks on the part of the affiliating bank; –the centralization and unification of banking activities within the association, cooperative banks lose their autonomy and in their area of operation only deal with the distribution of products and services offered by the association.

Source: own study

behind sector integration. Moreover, cooperative banks often cripple affiliation efforts when it comes to closer integration [Kil et al. 2020].

The implementation of IPS solutions by both affiliations in 2015 made it possible to partially step-up cooperation, at least in areas related to liquidity management. Still, the scope of cooperation between the affiliating bank and its affiliated banks, as well as among affiliated banks within the same group is such that considerable room for development is left.

Research conducted by Lech Kurkliński and Marcin Idzik [2019] showed the reluctance of cooperative bankers to undertake joint activities, for example those aimed at the creation of a common, central IT system. Its development seems to be crucial for the possibility of offering common products and, consequently, reducing the banks' operating costs. Research points to major problems of the sector that hinder in-depth cooperation and integration: the cooperative banks' fear of losing autonomy; the weakness of affiliating banks; a lack of positive affiliation experiences, and problems with corporate governance in cooperative banking.

Table 5 presents the reasons for deepening cooperation between cooperative banks within the affiliation and between such affiliated banks and their affiliating bank, as well as possible solutions in this regard. These solutions are ranked according to the strength of cooperation/integration of banks within affiliations. At the same time, studies by Lech Kurkliński and Marcin Idzik [2019] prove that the management staff's willingness to accept specific integration (cooperation) solutions decreases along with the strength of integration, which in practice means a smaller or greater loss of bank autonomy in business operation and provision of financial services. It should be emphasized, however, that nothing comes for free and banks need to put some of their autonomy on the line, if they are to stay in business. Market realities force the logic based on prudential and efficiency criteria, which – whether the management of cooperative banks likes it or not – will force the integration of the sector; nevertheless, for many banks it may be too late, if they fail to implement stronger cooperative (integration) efforts.

CONCLUSIONS

Cooperative banking in Poland is facing an accumulation of problems. In current market conditions, relatively small banks are unable to generate income on their own to cover operating costs and necessary investment outlays. Consolidation processes can be a solution to a certain extent only, as their considerable scale and pace may result in an excessive concentration of the sector and the loss of the most valuable advantage of cooperative banks, i.e., their local character and operational relationality. Consolidation processes are necessary as a mechanism to protect banks in a poor financial condition, and thus the entire sector, against uncontrolled collapses through takeovers by other banks.

Voluntary mergers of banks to create economically stronger entities, which will benefit from the economies of scale and have development potential, are both beneficial and expected by many stakeholders (including banking supervision authorities). In Poland, however, such mergers are very rare. On the other hand, changes in market conditions caused by the COVID-19 pandemic have brought merger processes to the surface, so they are currently attracting the interest of an increasing number of bankers. An alternative to bank mergers is consolidation that will provide local banks with strong and integrated facilities while allowing them to maintain autonomy in their contacts with clients. Such consolidation is possible through an increase in the scale and scope of bank cooperation within affiliations, leading to the integration (centralisation) of certain services and activities. A good example of such cooperation is Institutional Protection Schemes (IPS), which are enforced on cooperative bankers by the regulator to ensure liquidity and improve the security of bank operations.

Currently, the dominance of cooperative banks that have adopted a survival strategy shapes the image of the entire sector as one that fails to keep up with changes and is thus losing its market share to commercial banks. In the long run, this situation will force integration regardless of the attitudes of some cooperative banks. It will be influenced by an insufficient scale of operations, capital weakness, shortages in the offer of products other than traditional loans and deposits, focus on a fixed client portfolio of clients, and technological backwardness. These conditions become key in acquiring new clients and increasing profitability. Demanding regulatory requirements and a growing rise in other operating costs (e.g., salary costs) will further aggravate a not so good condition of banks, especially smaller ones. Changing customer expectations as regards the use of banking services with the simultaneous rapid development of technology is becoming a serious barrier to overcome given the current structure and organisation of cooperative banking. In this situation, the further advancement of bank cooperation and the integration of specific spheres of their activity has become unavoidable. A key role here must be played by affiliating banks, which should perform better than before as a shared service centre for cooperative banks.

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PRZESŁANKI I DYLEMATY KONSOLIDACJI ORAZ KOOPERACJI BANKÓW SPÓŁDZIELCZYCH W POLSCE

Słowa kluczowe: banki spółdzielcze, spółdzielczy sektor bankowy, konsolidacja banków, kooperacja, Polska

ABSTRAKT

W opracowaniu dokonano analizy procesów konsolidacji banków spółdzielczych w Polsce w latach 2010-2020 oraz kooperacji banków w ramach funkcjonujących zrzeszeń bankowości spółdzielczej. Określono istotę procesów konsolidacji i kooperacji banków spółdzielczych oraz przedstawiono ich przesłanki, skalę i dotychczasowe efekty. Główną uwagę poświęcono analizie czynników determinujących konieczność dalszych przekształceń sektora bankowości spółdzielczej w Polsce oraz rolę, jaką w tym procesie może odegrać konsolidacja banków oraz różne formy kooperacji banków spółdzielczych. Wykazano, że konsolidacja banków, polegająca na przejmowaniu banków słabych ekonomicznie przez większe, lepiej radzące sobie na rynku banki spółdzielcze jest konieczna, ale nie jest rozwiązaniem prowadzącym do rozwoju sektora. Takim rozwiązaniem może być zacieśnienie kooperacji banków w ramach zrzeszeń, prowadzące do stopniowej integracji wybranych obszarów działalności bankowej przy zachowaniu autonomii banków lokalnych na styku z klientami.

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