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## **SELECTED ASPECTS OF THE SITUATION OF THE COOPERATIVE BANKS ON THE RETAIL BANKING MARKET**

### *WYBRANE UWARUNKOWANIA SYTUACJI BANKÓW SPÓŁDZIELCZYCH NA RYNKU USŁUG BANKOWOŚCI DETALICZNEJ*

**Key words: bank, strategy, market share**

*Słowa kluczowe: banki, strategia, udziały rynkowe*

**Abstract.** The article presents the results of the research on the situation of the cooperative banks and the trends as regards the selected factors that determined this situation in the years 2000-2011. The cooperative banks won important and valued capital of trust, and their current customers appreciate the quality of their services. The cooperative banks, however, have systematically lost their market position in the retail customer segment. Because of the local character, falling behind in offering modern settlement, credit and investment services and the decline of their image, the cooperative banks are avoided by the young consumers with the economic potential. The spheres, which recently had been the sole domain of the cooperative banks, are increasingly often encroached by the commercial banks, which usually win the competition. Although the current market situation of cooperative banks is not yet alarming, the trends that have been observed for years indicate that it is necessary to undertake numerous remedial actions as regards to the cooperative banks' functioning.

### **Introduction**

The cooperative banks play an important role in the Polish banking system. They are respected and appreciated by their customers [Audit Bankowości... 2011]. The share of the cooperative banks in the market of the banking services is relatively low and inadequate as regards to the resources and the potential. Recently the sector of the cooperative banks has been frequently praised for its activities and successes. However, numerous praises are accompanied by equally numerous voices that indicate the need to undertake preventive and remedial actions in the business area of the cooperative banks. Despite the increasing balance sheet total of the sector of the cooperative banks at the end of 2011, 75% of the cooperative banks in Poland belonged to the group with a balance sheet total not exceeding 140 mln PLN. The dynamics of the increase of this amount were lower not only than the pace of the development of the banking sector in total, but also twice as low as the dynamics recorded for the biggest cooperative banks.

In the past years, the dynamics of the increase in the banking activity of the cooperative banks were lower than the dynamics of their costs which meant that their financial effectiveness deteriorated. In the perspective of effectiveness, we should pay attention to the almost three times lower indexes of the balance sheet total per one employee of the cooperative banks in comparison with the commercial banks. The issues of effectiveness grow in importance when we take into account the high tendency of a decreasing margin at the cooperative banks in the past ten years (from 10.4% in 2000 to approx. 5.3% in 2010), given the relatively stable level at the commercial banks (from 5.9 to 4.6% respectively).

The analysis of the structure of the balance of the cooperative banks including their size, which is measured by the balance sheet total, indicates that there is a structural development barrier as well as a risk of losing the achieved position on the market. The changes of the position of the cooperative banks observed in the official statistics exemplify the processes in the relations of the cooperative banks with their customers. These changes are expressed, among others, in the yearly loss of the potential that the cooperative banks have had.

### **Materials and methods**

This work presents the conditions of the current market situation of the cooperative banks. The analysis is aimed at the evaluation of the relation of the retail customers with the cooperative banks. The source of the empirical data was the results of the research conducted by the author on the retail customer and bank relations in Poland, including the cooperative banks in the years 2000-2011. Each year, a research was conducted on a nationwide representative sample of N=1000 residents of Poland aged 15 and over.

In 2011, the customers of the commercial banks constituted 570 people and 109 were the customers of the cooperative banks. Among the most important factors, the following aspects were determined, namely, the current and prospective demand for the services of the cooperative banks, customer's trust, and satisfaction with the cooperative banks. The research evaluated the daily relations of the customers with the cooperative banks, the image of the cooperative banks and the research characterized the basic problems among the relations of the cooperative banks with their customers.

## The current customers of the services of the cooperative banks in the retail segment

In 2011, the share of the cooperative banks in the retail market was 14%, calculating by the percentage of the served customers [Audit Bankowości...2012]. The average age of the customers of the cooperative banks in 2000 was 46.4, of a commercial bank – 40.8, and at present, it is 51.2 and 43.8 respectively [Audit Bankowości... 2011]. With each passing year, the customers of the cooperative banks become older. Although the average age of the customers of the commercial banks also increased, in the case of the cooperative banks, this increase was much faster (figure1).

Another urgent challenge that the cooperative banks face is the structure of their customers by the socio-professional group (Fig. 2). The segments of the young people with the economic potential decrease by the year in the structure of the customers of the cooperative banks<sup>1</sup>.

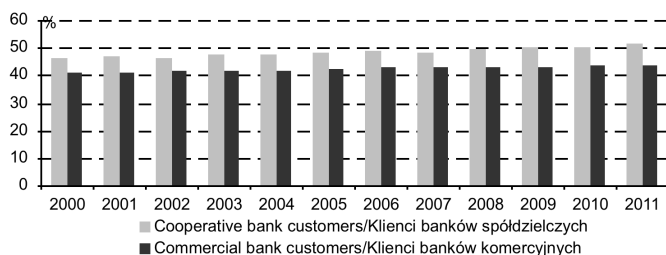


Figure 1. The average age of the customers of the cooperative and commercial banks between 2000 and 2011  
Rysunek 1. Przeciętny wiek klientów banków spółdzielczych oraz klientów banków komercyjnych w latach 2000-2011  
Source: own study

Źródło: opracowanie własne

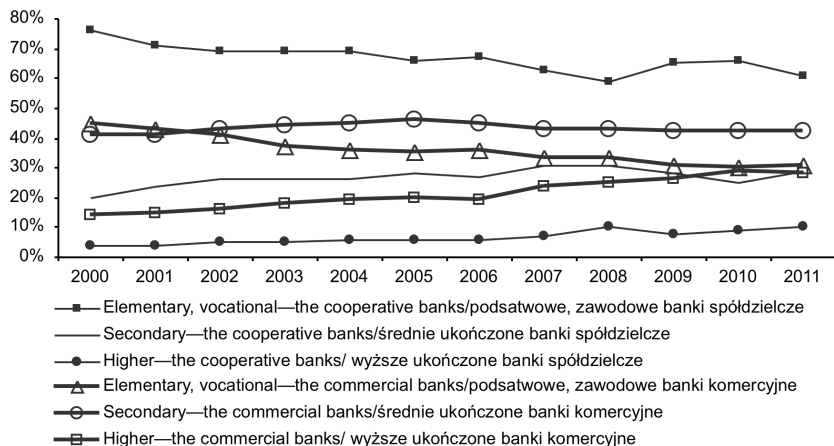


Figure 2. The educational attainment level of the cooperative and commercial bank customers during the period 2000-2011

Rysunek 2. Struktura pod względem wykształcenia klientów banków spółdzielczych oraz klientów banków komercyjnych w latach 2000-2011

Source: own study

Źródło: opracowanie własne

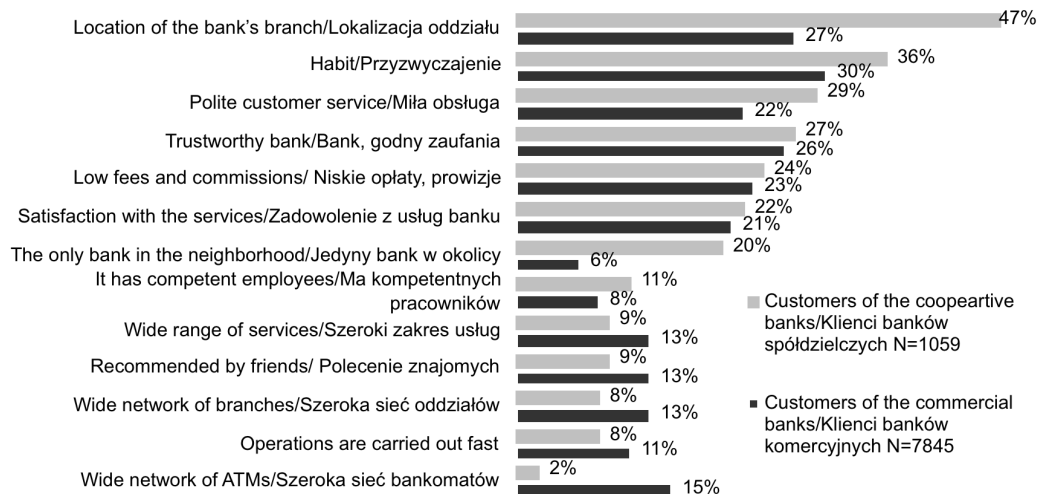
<sup>1</sup> For example, among the BBA students, the level of banking oscillates around 17-18%. On the other hand, among the MA students, the level of banking is 79%. These two years have been decisive. When a customer, a young consumer, goes to college, he/she notices the offers of the other institutions. It is then, when the cooperative banks are most frequently pushed out from his/her portfolio of the services.

Among the customers of the cooperative banks, the dominating group are the customers living in the countryside. Almost all the time, they have constituted approximately 80% of the customers. It can be stated that the cooperative banks practically do not function anywhere else, but in the countryside and towns with a population of up to 20 000. Among the customers of the other banks, there are no such clear cut divisions, and the share of the residents of the countryside, cities with a population from 50 000 to 200 000 and cities or more than 200 000 is comparable.

### Using the product and services of the cooperative banks

The commercial banks have gone step by step through certain stages of the banking development and the stages of the modifications of the relations with the customers. This concerns the introduction of the Internet banking which very quickly dominated the services of telephone banking. Similarly, the cash payments are gradually replaced by cashless solutions. The changes aimed at anonymous contacts and moving the customers towards the electronic banking were halted at the cooperative banks more than at the commercial banks. From many points of view, this situation is very favorable in the era of the decreasing direct contacts with the customers. In the first quarter of 2012, a customer of a cooperative bank used 1.9 products of this bank on the average in comparison with 2.6 products at a commercial bank [Audit Bankowości... 2011]. In the case of the market leaders, the average is 3.1 products per bank customer. In this ranking, the cooperative banks come last. 39% of the customers of the cooperative banks admit having a debit card. In the case of the market leader, it is 95% of its customers and the market average is 73%. In the case of the cooperative banks, 47% (and this is the highest figure on the market) of their customers admit that the other household members additionally use their bank accounts. In the case of the credit cards that the customers of the cooperative banks have, only 57% are actually issued by the cooperative banks [Audit Bankowości... 2011].

The customers of the cooperative banks leave their banks. On many occasions, they become multi-bank users because they do not quit the services of their previous bank, but they become passive users by tightening their cooperation with a competitive bank. When asked about the services of what bank(s) they would take if they were unable to use the services of their current bank or if they considered changing a bank, the customers of the cooperative banks most frequently indicated PKO BP, Pekao S.A., BGŻ, BZ WBK and Bank Pocztowy (Postal Bank). A characteristic thing is that the customers of the commercial banks faced with the same choice almost equally indicated PKO Bank Polski, Pekao S.A., Bank Zachodni WBK, ING Bank Śląski, cooperative banks (in general) and Alior Bank [Audit Bankowości... 2011].



**Figure 3. Reasons for using a bank selected by the cooperative and commercial bank customers in 2011**  
**Rysunek 3. Powody korzystania z usług danego banku w grupie klientów banków spółdzielczych oraz klientów banków komercyjnych w 2011 r.**

Source: own study

Źródło: opracowanie własne

In comparison with the customers of the commercial banks, the customers of the cooperative banks also reveal different patterns of using the contact channels with banks. In 2011, 95% of the customers of the cooperative banks contacted their banks mainly by going to the bank, and only 2% by the Internet banking. In the case of the commercial banks, 69% of their customers do their business directly at the bank and 29% use the Internet banking [Audit Bankowości... 2011].

The customers of the cooperative banks mention a convenient location of the bank and the force of habit as the main reasons for using the services of the given bank much more frequently than the customers of the commercial banks (Fig. 3). The key difference, however, can be observed in the statement, "this is the only bank in the neighborhood." This reason is indicated by 6% of the customers of the commercial banks and 20% of the customers of the cooperative banks. Barely 1% of the customers of the cooperative banks admit that the reason for using the services of the cooperative banks is the possibility to use the Internet banking (Fig. 3). 62% of the customers of the cooperative banks gain their information about the bank and its offer from their direct visits at the bank, and in the case of the customers of the commercial banks it is 31%. The Internet website of the bank is the main source of information about the bank for 13% and 5% of the customers.

### Bank image

The customers of the cooperative banks speak well about their banks. The cooperative banks are indeed slightly less known than the commercial banks, but as regards the image they are well perceived by the customers who use their services as well as the customers of the competitive banks. The customers of the cooperative banks perceive their banks as close to an ideal bank and which meet their expectations and requirements. On a scale from 1 to 10, 70% of them award it grade 7 and more, taking into consideration the satisfaction with the services. In the case of the other banks, this figure is 45%.

The customers of the cooperative banks are much more willing to recommend their banks, experience fewer difficulties and inconveniences in their relations with the bank, and are characterized with a high degree of loyalty. In view of this the ethical and usefulness aspects of trust are mostly fulfilled. It is worth mentioning that the customers of the cooperative banks had time to gather experience. The average time of being a customer of the cooperative bank is 9.4 years in comparison with the market average of 7.7 years.

The values cultivated by the cooperative banks are the old values when a banker was a role-model for the society. Because of the phenomenon that has been observed throughout the recent years, namely the commercialization, the banking services have become one of many services for the consumers. The customers start looking at the financial institutions through the prism of the simple calculation of the price versus the service. The customers' expectations from the banks constantly increase as regards the offer, technology and the prices of the banking services. The cooperative banks are spontaneously mentioned by barely 4% of the Polish society as those which offer access to the banking services by the Internet and/or telephone. In the group of customers of the cooperative banks, this figure is 21%. The majority of the society at present eliminate from their choices those banks which in reality, or only in the customer's perception, do not offer friendly access to the services of the Internet banking.

One of the significant features of the cooperative banks is the trust that the consumers have towards the cooperative banks. Apart from the normative aspect of the security of the allocated money, the trust is associated with such features as honesty (in other words, acting in good faith), telling the truth, keeping promises, predictability, care and also acting for the interest of the other party [Barber 1983, Hardin 1991, Holmes 1991, Kłopocka 2002, Patterson 2002, Grudzewski et al. 2007, Lewicka-Strzałecka 2007]. On the other hand, trust means something more than only security. At present the expectations from the banks go beyond it. The customers less and less frequently look for a guardian for their money because every bank meets this expectation to a higher or lesser degree, and more and more frequently they look for an institution that will take care of the customer and will treat him/her as an equal partner<sup>2</sup>. The feature of the image "a reliable and trustworthy bank" for many years has been invariably attributed to the banks.

<sup>2</sup> When analyzing the issue of trust, one needs to take into consideration at least three of its dimensions: a regulative dimension, ethical and functional. The regulative aspect, among other things, is responsible for the safety of the money entrusted to the banks. It is indispensable in building the overall trust in banks. The actions of the regulators and the responsible conduct of the banks have effectively diminished the differences in the social perception of the money entrusted to different banks. The majority of the banks on the market, including the cooperative banks, are perceived as safe. The safety factor of the entrusted money by the banks' customers is at present understood as a hygienic factor – a characteristic axiom which is not thought over and not discussed. However, is it unimportant? On the contrary, in the perception of the consumers, the money entrusted to the bank is safe and has to be safe.

The belief that the bank is reliable and trustworthy is also one of the main and constantly growing reasons of choosing the bank by the private individuals. At present, 30% of the bank customers indicate trust as the reason for using the services of a given bank [Audit Bankowości... 2011].

In the public reception, the cooperative banks are perceived as trustworthy and treating well their customers with average and low incomes and honestly informing the customers. They are also liked by the customers, which is a rare feature attributed to the other bank brands. For many years the cooperative banks have collected huge capital of social trust which is helpful in building the relations with the customers required by the majority of the financial institutions. It was possible thanks to the long-term positive experiences of the consumers and building the general attitude of trust towards the banks. Year by year, the consumers have established an emotional tie with the banks whose services they were using.

The cooperative banks are also established in the local communities and enjoy their trust. On the one hand, the bank employees are familiar with the customers; and, on the other hand, a representative of the local community knows that he/she can meet a person at the cooperative bank whom he/she has talked to recently and who can provide help. Thus, the customer feels safe, trusts the bank as an institution, as well as trusts the bank's representative as a human being.

The fact that this segment of banks has not suffered high image-related losses in connection with the crisis after 2008 is of high importance for the perception of the cooperative banks. The selected trends/events of the past years in which the cooperative banks have not participated were:

- a fight to win over new customers by making one's offer more attractive (additional services), frequently by simultaneously neglecting the current customers; increasing dissatisfaction of the regular customers who feel that the attractive promotions are aimed at the other people;
- “cons and scams” – banks with an asterisk; a drop of trust in communication with the environment; aggressive advertising which is a means of getting a market share at any price and misleading the customers;
- the banks do not undertake steps to reduce dishonest actions towards the customers and they do not inform the customers about risks or fees;
- an arrogant system of banks' behavior in a situation of conflict with the customer; low culture based on formal as well as spontaneous behavior of the banks' employees;
- a strongly upset balance in communication, namely, the identification and reception of “the good messages” versus the identification and reception of “the bad messages.”
- a deficit of the social responsibility of the banks, their mission and role versus the realization; the banks' voluntary commitment on behalf of their customers, economy and society is low;
- there are no partner-like relations; there is no need to answer a question, “what does a customer need to know first of all about the bank in order to evaluate its reputation and fully enjoy its offer”.

## Summary

Numerous processes and issues constitute sufficient reasons indicating the need to formulate an in-depth diagnosis of the situation of the sector of the cooperative banks in Poland. Making these reasons and the terms of the functioning more specific for each bank should lead to creating appropriate strategies which in the long run will decide about the proverbial “to be or not to be” of those smaller cooperative banks in particular.

The cooperative banks have gained important and valued capital of trust, and their current customers appreciate the quality of their services. The cooperative banks, however, systematically lose their market position in the segment of the retail customers. Because of their local character, the fact that they linger behind in offering modern settlement services, credit services as well as investment services and the image-related deficit, the cooperative banks are avoided by the segments of the young consumers with the economic potential. The areas which not long ago were the sole domain of the cooperative banks have been more frequently invaded by the commercial banks which usually win in competition with the cooperative banks. More and more frequently, the customers of the cooperative banks become multibanking customers. They also voice their requests for the services of the Internet banking, attractive credit and investment offers. Although at present the market situation of the cooperative banks is not alarming yet, the trends that have been observed for years indicate that it is necessary to undertake numerous remedial actions as regards the functioning of the cooperative banks.

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## Streszczenie

*Prezentowano wyniki badań nad sytuacją rynkową banków spółdzielczych oraz tendencje w zakresie wybranych czynników ją determinujących w latach 2000-2011. Banki spółdzielcze zdobyły ważny i ceniony kapitał zaufania, a aktualni ich klienci doceniają jakość usług. Banki spółdzielcze systematycznie tracą jednak pozycję rynkową w segmencie klientów detalicznych. Lokalny charakter, zapóźnienia w oferowaniu nowoczesnych usług rozliczeniowych, kredytowych oraz inwestycyjnych, jak również deficyty wizerunkowe powodują, iż banki spółdzielcze omijane są przez segment młodych konsumentów z potencjałem ekonomicznym. Na tereny jeszcze do niedawna obsługiwane wyłącznie przez banki spółdzielcze coraz częściej wkraczają banki komercyjne, z którymi konkurencyjnie zwykle przegrywają banki spółdzielcze. O ile obecnie jeszcze sytuacja rynkowa banków spółdzielczych nie jest alarmująca, o tyle tendencje obserwowane od lat wskazują na konieczność podjęcia licznych działań naprawczych w zakresie funkcjonowania banków spółdzielczych.*

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