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POLISH MARKET OF PRIVATE BANKING. GENERAL CHARACTERISTICS AND DEVELOPMENT TRENDS

Summary: The article presents the general characteristics and the development trends of the private banking market in Poland. The author's analysis provides arguments to support the assertion of dynamic growth of the segment in Poland in the foreseeable future. Following Poland's accession to EU structures and the liberalization of foreign exchange legislature, the share of private banking segment in the overall market of banking services in Poland will continue to grow.

Keywords: private banking/wealth management in Poland, Poland's liberalization of foreign exchange legislature, art banking services.

1. Introduction

For more than a decade now, the number of affluent people has increased dynamically on the global scale. The mechanism of the individual creation of wealth seems to stem from two fundamental phenomena, namely: the general increase of GDP offering potential for wealth accumulation to individual social strata and the systematic capitalization increase of publicly traded companies worldwide.

As a result of the changes in individual affluence, there is a marked growth in the popularity of private banking services and a steady development of this sector on the global scale. Despite the fact that the term "private banking" itself has somehow devalued and lost its elite attribute, the sector is still considered one of the most profitable forms of banking services, with retail margin reaching as much as 30-35% in the case of the most prominent banking institutions. Consequently, it comes as no surprise that private banking services are offered by an increasing number of universal banks and the number of customers that benefit from this form of service continues to grow [Pietrzak 2006]. This phenomenon applies also to the Polish banking market.

A Wealth of Opportunities in Turbulent Time, report published by Boston Consulting Group in 2002-2007, ranks Poland among the four most rapidly developing markets of the Central and Eastern Europe (i.e. the new emerging

markets of the region), along with the Czech Republic, Slovakia, and Hungary. In comparison with the so-called BRIC market, the AuM (Asset under Management) increase in those four countries in 2002-2007 was only marginally lower. However, in terms of their share in the European HNWI (High Net Worth Individuals) market, the aforementioned four countries represent only 1.6% of the market.

In 2007, the AuM increase in Poland reached 37.8%, representing the level of 302 billion USD as expressed in absolute values. These statistics, coupled with the reported development of the private banking services in Poland well past the 20% annual mark, have been a strong incentive for Western wealth management institution to open their branches in Poland. As shown in the report entitled *A Wealth of Opportunities in Turbulent Time*, only half of total population of HNWI make use of wealth management services, which, in addition to the rapid AuM growth of local market, illustrates the immense potential of the Polish market in the analyzed aspect [Opolski *et al.* 2010, pp. 24-25].

This paper aims to present specificities of the Polish private banking market and fundamental factors influencing the development of financial services tailored to affluent clientele as well as identify the modern concepts of private banking products and distribution channels addressed to high net worth individuals. To meet this objective, it might be useful to start with the position of private banking services within the structure of local banking services.

2. Private banking on the Polish banking market

The introduction of private banking services marks the next important step in the development of the Polish banking industry. The extension of services is a consequence of progressing competition on the local market, calling for a more accurate management of sales and cost in banking institutions, aimed at improving the overall effectiveness of banks.

The Polish banking sector follows the same rules that govern banking development worldwide. Despite certain setback, local banking industry proceeds along the same stages of development, with some elements tailored to local market potential and others fully consistent with the global characteristics of banking transformation.

In general, the present forms of private banking model in Poland closely follow the Western standards, save for some diversities that come naturally as a result of local specificity of the Polish market. The most significant elements of the private banking services in Poland can be observed in the placement and importance of private banking within the structure of universal banking services as well as in the range of services and selection of target clientele. It must be noted that the range of products, service, organization, and the selection of targets in respect to private banking varies from bank to bank. Introduction of private banking not only solidifies, but also emphasizes the structural transformations observed in functioning of Polish banking institutions [Dziawgo 2003].

The individualized approach to servicing stringent requirements of high net worth customers dates back almost 20 years ago, with the forerunner being Bank Handlowy w Warszawie S.A. (PLC). In 1993, Bank Handlowy initiated the choice standard of service for selected individuals (mainly the top management of companies serviced by the bank). Other banks that closely followed with their own private banking services were: BRE Bank (1995) and Bank Pekao S.A. (PLC) (1997). At present, the aforementioned three banks are considered as the leaders of the private banking in Poland despite the fact that a similar range of services was subsequently introduced by nearly all of the largest banking institutions of the local market.

The local branches of foreign banks joined the market of private banking in Poland in the second half of the 1990s. The most active were: Citibank, Millennium, Fortis Bank, Raiffeissen Bank, Deutsche Bank, ING, and BNP Paribas. Fairly recently, private banking services have been initiated in the largest Polish retail bank: PKO BP S.A. A number of foreign banks have joined the market since then, including UBS, Credit Suisse, and Dresdner Bank Luxemburg [Pietrzak 2006].

Poland's accession to EU structures has been a strong incentive for further development of private banking. It is expected that this factor will continue to affect the local market in a positive way in the foreseeable future.

Private banking services are, without doubt, well-recognized in Poland. Naturally, they attract the affluent clientele, providing means for a more effective use of banking services [Dziawgo 2006, pp. 198-199].

3. The characteristics of the affluent segment in Poland

By the end of 2008, the segment of customers qualifying as HNWI (net wealth of 1 million USD or more) was estimated at *ca.* 7.7 thousand individuals, marking a decrease of over 20% compared with the previous year's estimates. A number of sources estimate the net worth of 10 most affluent Polish citizens in the range of 33-40 billion PLN. Due to the global crisis, the pace of Polish fortunes' growth decreased to a maximum of 8-10% per annum (data for 2008). Bankers estimate that the growth rate increased in 2009 to the minimum of 15%. The chances for the rate to grow to the levels observed three or four years ago, i.e. *ca.* 20%, are good. Some believe that the rate will be observed as early as the next year.

For many years now, private bankers in Poland have emphasized that our society was at the threshold of affluence. It is more important that – setting aside the number of HNWI in Poland – the Polish market of private banking attracts predominantly the customers that are far from the level of elite wealth. Local institutions tailor their services not only to those that present sufficient level of affluence, but also to persons who – given proper saving strategies – offer potential for gaining the affluent status in the future.

Bankers' estimates of the size of this target group are based solely on the official figures published by the Ministry of Finance. According to the published data, at the

end of 2009, annual income above 85 528 PLN was reported by 387 295 individuals, which constitutes 1.59% of the total tax-paying population in Poland. As compared to the 2008 data, this marks an increase by over 45 thousand individuals. It is, however, difficult to assess at this point the exact percentage of the people with accumulated assets already in the range of 300-500 thousand PLN or above the mark of 1 million PLN [Zielewski 2010].

The criteria for access to private banking services in the aforementioned group vary from bank to bank. Typically, the access is determined by the amount of investible assets held or/and the amount of monthly account deposits (revenues), but in most cases, meeting one of the two criteria is considered acceptable. The access criteria and other characteristics of institutions operating on the Polish market are shown in Table 1.

Table 1. The criteria for access to private banking services in Poland (selected banks, September 2008)

Bank	Minimum asset value (minimum monthly account deposit)	Number of private banking customers (thousands)	Number of customers per advisor
Bank Millenium	100 thousand PLN (12 thousand PLN)	13.9	87
BRE Bank	private banking: 500 thousand PLN wealth management: 2 million PLN	7.5	100
Citi Handlowy	1.5 million PLN	25	N/A
Noble Bank	500 thousand PLN	4	100
PKO BP	500 thousand PLN (20 thousand PLN)	42	80-100

Source: author's own research based on: [Forbes Private Banking Report 2008, p. 4].

Minimum deposit threshold starts at 12 thousand PLN (Bank Millenium S.A.), while the minimum level of investible asset requirements is set typically in the range of 100-500 thousand PLN. In mature economies, the threshold requirements for private banking are considerably steeper, typically equivalent to 1 million USD. Such a large threshold divergence is naturally reflected in the quality of customer service and the standards of services on offer. Despite the rapid growth of the Polish private banking sector, the range of services of domestic banking institutions is still well below the standards found in mature economies [Opolski *et al.* 2010, p. 114].

The bulk of Polish affluent segment consists of young, well-educated entrepreneurs with first-generation amassed wealth. As indicated in the report by BPS Consultants Poland *Inwestor indywidualny 2005. Segment klientów zamożnych* [Individual investor 2005. The affluent segment], more than half (51%) of high net worth individuals in Poland are below the age of forty. In addition, they are well-educated (60% with university education, compared to 52% in the West). Moreover,

the Polish affluent segment is a markedly progressive and open social group, with as much as 61% of the population belonging to the so-called “innovator class”, i.e. easily accommodating individuals, open to or actively seeking novelty. As much as 88% of the affluent segment customers have Internet access. Private entrepreneurs (company owners) are the most prominent professional group (38%), closely followed by a good representation of top managers and freelancers.

These characteristics have a strong influence on the structure of needs and requirements of the affluent segment. The marked majority of the HNWI population represent a relatively early life cycle stage, with basic life standard needs and requirements not yet fulfilled. Polish HNWI on average have yet to build and decorate their houses, buy household appliances, travel abroad, raise children. Such a profile of needs implies a preference for credit products rather than investment or long-term deposit packages. They expect efficient service, products on short notice, facilitated loan procedures, and safe access to modern distribution channels [Pietrzak 2004].

4. The offer of products and services and the customer support in the Polish private banking

The concept of private banking on the Polish market of banking services should, naturally, be tailored to local realities. This applies, particularly, to such characteristics as: lowering the access threshold, narrower range of products and services, lesser scale of transactions. Despite these limitations, private banking is a sector of rapid growth, gaining popularity on the domestic market [Dziawgo 2003].

The Polish private banking market is populated by many institutions. A wide range of private banking services is offered by large local banking institutions such as: Citibank Handlowy S.A., BRE Bank S.A., and Pekao S.A. Other large banks are in the process of expanding their private banking offer, which applies to Bank Millennium, Kredyt Bank, Raiffeisen Bank Polska, PKO BP, and BPH. The first bank to cater solely to the affluent segment on domestic market is Noble Bank S.A., presently within the structure of Getin Holding. The services for the affluent segment are also offered by other financial institutions, such as investment funds, asset management companies, brokerage companies, and even financial intermediaries. The domestic market is also populated by the local branches of foreign banking institutions. These include not only large capital groups such as UBS and Credit Suisse, but also a large number of small, competitive institutions, such as the Luxembourg-based Banque Privée Edmond de Rothschild de Europe and Austrian Sal. Oppenheim, which entered the local market in 2007. However, the most dominant financial institutions in the sector of private banking are the large Polish banks. As a result of the liberalization of foreign exchange regulations in Poland, local affluent segment representatives seek financial services abroad, in foreign financial institutions and investment groups (investment boutiques).

The range of private banking services is wide and typically consistent with the international standards in the field (in proportion to local realities). The standard offer of private banking includes such services as: current accounts (of varied form and currency), credit and debit cards (issued by all major providers in gold and platinum standard, as well as co-branded and affinity cards, which are typically accompanied by insurance and privilege packages, such as Priority Pass, Priority Traveller, Executive Club International), fixed-term deposits (in various forms, also in combined packages, such as: dual currency deposits, simple investment deposits tied to capital markets, and structured deposits of greater complexity), credits and loans (investment loans, mortgage), foreign currency transactions, brokerage transactions (domestic and foreign securities, both debt and equity, including EU bonds of both private and public issuers, municipal bonds, company bonds), transactions on the financial market of securities (treasury bills, short-term commercial papers), transactions on derivatives' market, asset management (large selection of standard and individual strategies, also with blind portfolio products), investment consultancy, investment fund units (share, bond, mixed, monetary market), property investment funds, retirement plans, insurance products and others (such as, deposit boxes, hedge fund investments, traveler's and cashier's cheque trade). The associated products and services also include the elements of non-financial benefits, such as real estate investments through property funds, elements of art banking, partnership programs and concierge programs [Dziawgo 2006, pp. 215-216].

One particularly interesting group of financial products is art banking – the system of comprehensive and individualized services for art trade and art collection. The art banking idea reaches far beyond straightforward surplus asset investment in arts for the affluent segment. Banking representatives in this respect offer support in defining, initiating, and developing a strategy for art collection, tailored to the individual preferences, interests, philosophy, and taste of the customer. A close co-operation between a bank and a client in the field of arts creates a specific and strong relationship through mutual passion for a particular art [Piechaczek 2006]. The Polish market of art is in the stage of development. As estimated by Wealth Solution, in the first quarter of 2008, the total turnover value of domestic auction market was in the range of 35 million PLN, with painting taking a predominant share. The most prominent arts market is Warsaw – with close to 95% of total turnover on the market. Art banking services are offered by Noble Bank, with the most active auction houses being: Desa, Rempex, Nautilus, and Desa Unicom [Opolski *et al.* 2010, p. 183].

At present, the Polish affluent segments takes preference for simple products and services. The results of studies carried out by BPS Consultants Poland show that HNWI in general make most use of banking deposits (52%). This may indicate a relatively low propensity for risk and strong attachment to traditional saving strategies. The low share of investment funds in the structure of the liquid assets of the domestic affluent segment suggests that the Polish HNWI segment is at the onset

of the natural process of carrying accumulated assets over from banking products towards investment products.

The structure of liquid asset investment shows another interesting trend. A large part of investments on the part of the affluent clientele does not involve traditional deposits nor the classic forms of investment. The assets are most typically directed to the support development of own companies or the purchase of utility real estate. As such, the strategy represents a shift towards maintaining and supporting current needs rather than capital accumulation.

Due to the stringent financial requirements of investment strategies, the customers of the domestic affluent segment – in contrast to their Western counterparts – display a marked preference for short-term investments. Financial instruments of due date no longer than one year constitute as much as 58% of the assets invested by the segment. Long-term investments with due date of five years or more represent, on average, 10% of total liquid assets. The displayed preference for particular forms of asset investment seems to corroborate the observed reluctance for long-term investment. Only 13% of affluent customers make use of investment funds, with 17% investing in shares and 20% in bonds.

The affluent customers are also reluctant to utilize the services of professional advisors (relationship managers); they perceive themselves competent enough to decide on investment strategies on their own. More than half of the customers in the segment under study (52%) report making their own decisions unaided in investment matters, with only 9% being prone to admit that liquid assets are best left in the hands of financial market specialists. This remains in striking contrast with the trend observed in Western Europe, where the largest share of assets is left under the professional management of specialized financial institutions. Western customers of the affluent market seem to value their time and are more aware of the information asymmetry factor, i.e. they are more aware that making informed investment decisions requires considerable knowledge and systematic monitoring of market trends [Pietrzak 2006]. Table 2 presents an overview of private banking products on offer in selected banks in Poland (for November 2010).

Another important aspect of domestic private banking service is the use of electronic media, especially the Internet (e-private banking). All the major players on the market of private banking offer their customers secure access to account and a range of simple transactions online. Experts believe that, in the foreseeable future, the use of online facilities in the Polish private banking will increase considerably, although some limitations in this respect are also anticipated. Despite the increased use of online access, it is believed that eye-to-eye contact with a bank representative outside the banking institution will remain an important feature or, in fact, will gain importance. In general, experts suggest that the changes will shift towards limiting the need for direct contact at the local outlet.

Table 2. Private banking products on offer in selected Polish banks

Bank	Account label	Banking cards on offer	Other products and services
Bank Millennium	Prestige, personal account Prestige	Millenium VISA Platinum, Millenium VISA Prestige, Millennium VISA Gold, Millenium MasterCard, Millenium American Express	Financial planning, wealth management services tailored to a customer profile, open product architecture, incl. The open architecture of funds and structured domestic/foreign products, bancassurance products: Prestige Endowment Policy, Prestige Investment Programme, Planet Prestige promotion package, and Assistance Programme, potential for investing through Millenium Banque Privee (Switzerland)
BRE Bank	BRE Private Banking & Wealth Management, vista account	VISA Platinum BRE Private Banking, American Express (incl. Centurion), VISA Gold	Comprehensive wealth management (financial and non-financial assets), Active Portfolio of Funds, Accumulation program, Steady Asset Portfolio, tax optimization, succession planning, alternative investments and real estate investments, open product architecture and individual portfolio of investment products
Citibank Handlowy	CitiGold and Citi Private Bank London, personal account CitiGold	Gold Maestro, credit card Citibank Platinum, cards on offer by Citi Private Bank London	Investment platform offering a range of domestic and foreign investment funds, Citi Private Bank platform, investment program in co-operation with MetLife, bancassurance, wealth management via Citi Private Bank London, secured credit line, optional servicing through Citi Private Bank London, concierge and discount program
Noble Bank	Private banking, account NOBLE	VISA Platinum, VISA Infinite Pininfarina	Open product architecture, individualized products, real estate consultancy, art banking, asset management, authored concierge service, insurance package
PKO BP	Private banking program Platinum, account Platinum	PKO VISA Infinite, PKO MasterCard Platinum, PKO Express Platinum, Diners Club, VISA Gold, gold credit card	Renewable credit line and cash credit Platinum, large selection of investment products, flexible procedures, individualized transaction terms, partnership program, financial consulting for holders of assets above 1 million PLN

Source: author's own research based on: [Forbes Private Banking Report 2010, p. 116].

The development of private banking services is not limited to the introduction of products and services based on advanced tele-information technologies. More attention is directed towards improving the quality of service, supported by such concepts as CRM, ISO compliance, and Six Sigma [Dziawgo 2006, pp. 225-226].

The widespread use of private banking is not always correlated with sufficient care for proper brand recognition. Only a small group of banks – most notably, Citibank and Millenium – have managed to separate the brand of private banking from the retail banking. Both Citigold Wealth Management and Millenium Prestige are well-recognized brands, clearly associated with exclusive services for affluent clientele. This step is essential as the exclusive brands will be forced to compete on the domestic market with such recognized labels as UBS and Credite Suisse [Pietrzak 2006].

The most interesting example of branding in the Polish private banking is the brand of Noble Bank. The brand (together with the brands of Fiolet and Open Finance) represents a notable departure from the hybrid brand model strongly associated with the leading brand (Getin Bank, Getin Leasing, Factorin Bank), so typical for the brand policy of Getin Holding. As such, the introduction of a separate brand for a private bank, not associated with the brand of ownership grouping, is a bold decision. First of all, as a novel and pioneering move, it naturally results in a steeper entry barrier for the competing brands. Secondly, Noble Bank is a rare example of an entity formed solely for the purpose of servicing a selected group of customers (the first such enterprise on domestic market was the mBank brand catering solely to online customers). The third interesting feature is the internal discrepancy observed in the communication strategy of the brand: the marketing image of Noble Bank is built on the concept of pioneering and tradition, supported by exclusive interior design and the image of utmost discretion – positioning itself along other traditional private banking houses. However, this image is communicated in FMCG style, using mass communication media (TV), which would be unacceptable for any traditional private bank. Moreover, the character of communication, suggesting elite quality of Noble Bank, is in clear contrast with the low access threshold (100 thousand PLN). Such discrepancies in the market communication of Noble Bank are numerous, but this cannot change the fact that the institution is a good example of the thorough use of brand potential as a major marketing instrument [Pietrzak 2007].

5. Conclusions

Private banking is a dynamic sector of modern banking and global financial market. Services tailored to the needs of affluent customers are also an important segment of the Polish banking, but the domestic market in this respect faces certain challenges of financial, organizational, and operative nature. The Polish market of private banking is an emerging market with a large potential for development. The efficiency of local banking institutions offering this type of service, coupled with the global potential of finance institutions, will help raise the standards of domestic private banking to those of Western and global institutions.

At present, two directions of development can be observed in the Polish private banking sector, based on the distinct segmentation of target clientele. The first

direction is the development of elite private banking tailored to the needs of the Polish HNWI segment, offering their products under exclusive brands, clearly distinguished from the retail services of parent companies. The second path of development is the “mass” private banking, tailored to the affluent segment, predominantly based on the wide selection of credits and investments, coupled with simplified and transparent banking procedures.

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POLSKI RYNEK PRIVATE BANKING. OGÓLNA CHARAKTERYSTYKA I TENDENCJE ROZWOJU

Streszczenie: W artykule przedstawiono ogólną charakterystykę i tendencje rozwoju rynku usług *private banking* w Polsce. Przeprowadzona w artykule analiza tego segmentu pokazuje, że będzie się on dynamicznie rozwijał w najbliższych latach w Polsce. Przystąpienie naszego kraju do Unii Europejskiej oraz liberalizacja przepisów dotyczących prawa dewizowego w Polsce spowodują zwiększenie udziału tego segmentu w całym rynku bankowym, co zostało zaprezentowane w artykule.