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Financial Innovations For Companies Offered By Banks: Polish Experience

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Objective

- to identify the main types of financial innovations offered to non-financial companies by the banking system in Poland
- these innovations are classified with regard to the types of decisions:
 - financing
 - investment
 - working capital management
 - risk management

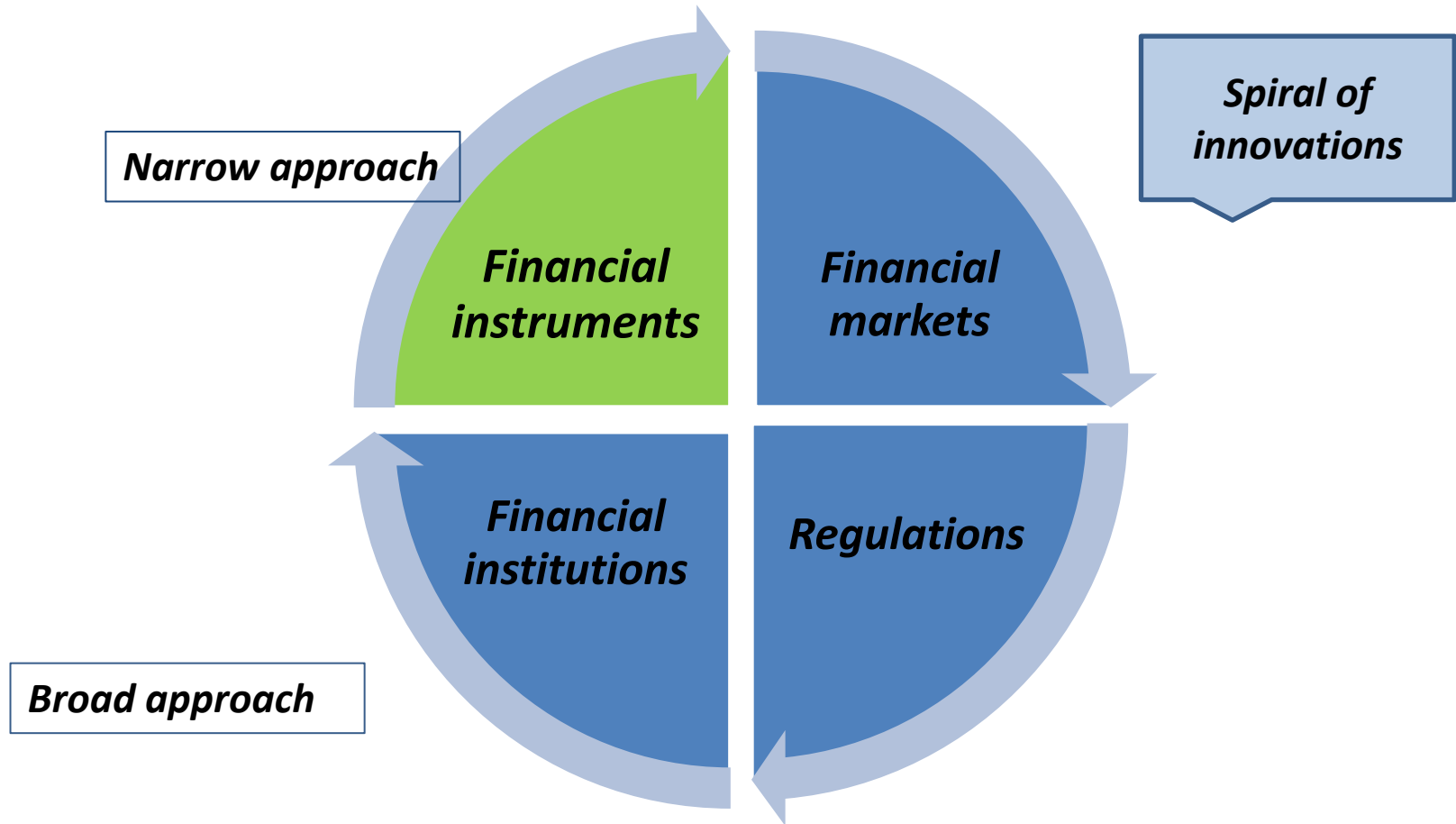
Research questions

- Q1: Do financial innovations pertained to financing decisions dominate in the offer of the analyzed banks?
- Q2: Is there a difference between the financial innovations offered by banks with the dominant domestic (Polish) investors and by banks controlled by foreign investors?
- Q3: Is there a difference between financial innovations offered to SMEs and to large corporations?

THEORETICAL BACKGROUND



Definition of financial innovations



Financial innovations in **narrow meaning** = instrument innovation

- entirely new solutions or just traditional instruments in which new elements of construction have been introduced
- used as a substitutes to the traditional financial instruments
- can not be easily assigned to one particular segment of the financial market
- used to hedge against the intensive volatility of the market parameters
- used in a form of complex instruments
- used in a form of new financial processes or techniques or new strategies

Financial innovations in **broad meaning**

- Any new developments and solutions or changes in the functioning of:
 - 1) Financial instruments
 - 2) Financial markets
 - 3) Financial institutions
 - 4) Financial regulations

Determinants of financial innovations

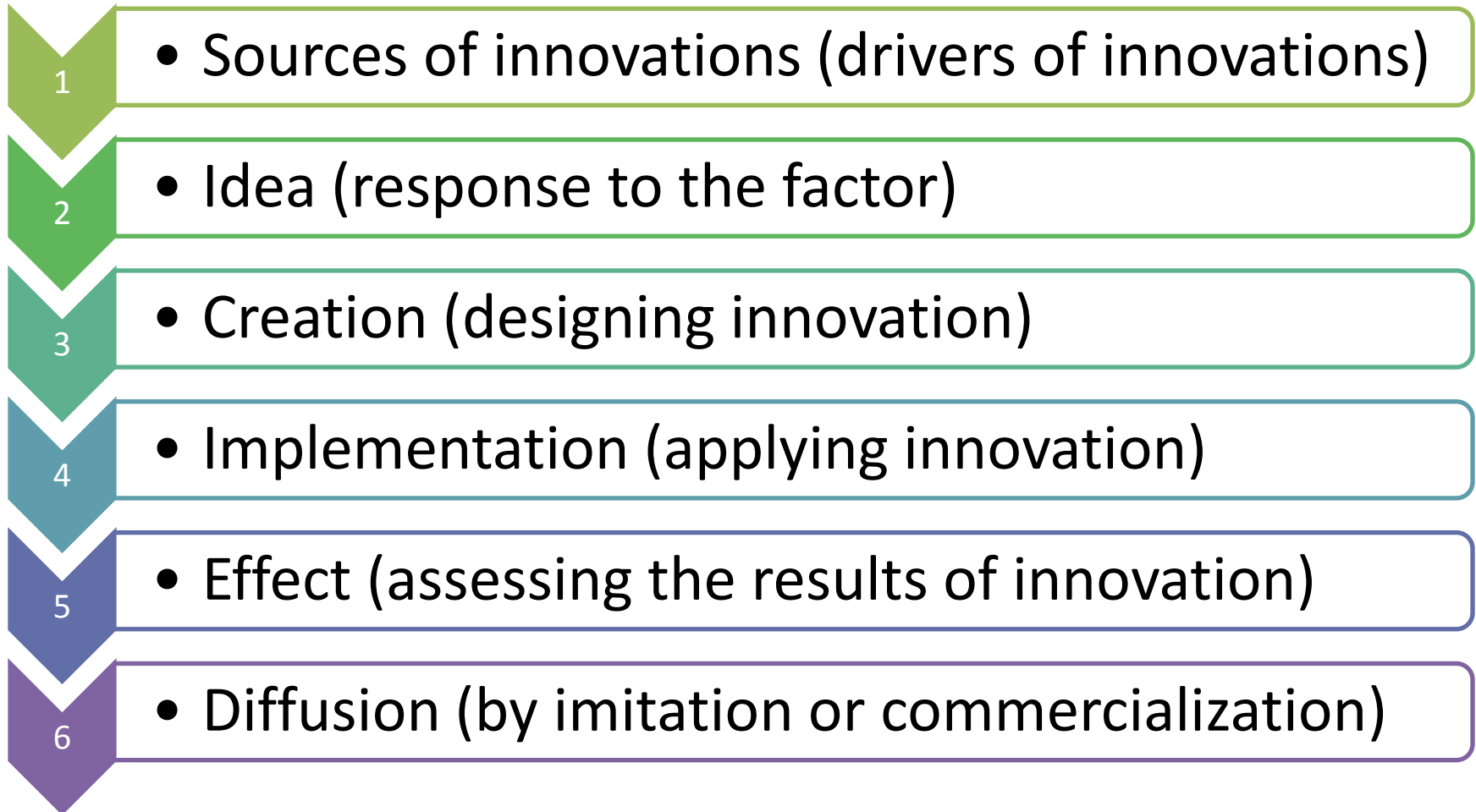
Supply side factors

- Globalization
- Deregulation
- Liberalization
- Increased competition between financial institutions
- Searching for non-interest revenues
- New technologies
- Risk management process

Demand side factors

- Financial market imperfections:
 - 1) Asymmetry of information
 - 2) Agency costs
 - 3) Transaction costs
 - 4) Increased market volatility
 - 5) Unfavorable tax regulations

Process of innovation



BIS classification

Financial innovations are divided into five groups, based on their functions:

- price-risk transferring
- credit-risk transferring
- liquidity-generating
- credit-generating
- equity-generating

FUNCTIONS OF FINANCIAL INNOVATIONS FROM CORPORATE FINANCIAL MANAGEMENT PERSPECTIVE

Areas of corporate financial management	Function of financial innovations	Definition of financial innovations applied in the study
Financing decisions	Financing function	Financing services other than traditional bank loans with fixed or floating rate
Investment decisions	Investment function	Investment products and services that are not in the form of traditional bank deposits
Working capital management decisions	Working capital management function	Products and services enhancing payment, cash and receivables management
Risk management decisions	Risk management function	Products and services enhancing risk management (insurance and non-insurance transfer)



RESEARCH RESULTS



TOP 20 BANKS OPERATING IN POLAND

No	Bank	No	Bank
1	PKO Bank Polski S.A.	11	Bank BGZ S.A.
2	Bank Peakao S.A.	12	Bank BPH S.A.
3	Bank Zachodni WBK S.A.	13	Nordea Bank Polska S.A.
4	mBank S.A.	14	Deutsche Bank Polska S.A.
5	ING Bank Śląski S.A.	15	Alior Bank S.A.
6	Getin Noble Bank S.A.	16	BNP Paribas Bank Polska S.A.
7	Bank Millennium S.A.	17	Bank Ochrony Środowiska S.A.
8	Raiffeisen Polbank w Warszawie S.A.	18	Santander Consumer Bank S.A.
9	Bank Handlowy w Warszawie S.A.	19	SGB-Bank S.A.
10	Bank Gospodarstwa Krajowego	20	Euro Bank S.A.

Structure of innovations

Classes of innovations	Number of types	Structure index
Financing innovations	44	46%
Investment innovations	8	8%
Working capital management innovations	30	31%
Risk management innovations	14	15%
total	96	100%

Financing innovations (1)

Identified **44 types** of innovative financing products and services (FIN) classified into 4 groups:

- loans and credit-lines: 24 types
- factoring and forfeiting: 7 types
- leasing: 6 types
- other financing products and services: 7 types

Financing innovations (2)

The most popular (FIN) innovations are:

- factoring - offered by 15 banks
- loans connected with UE grants/support - offered by 11 banks
- multi-purpose credit-lines and reverse factoring - offered by 7 banks each

Investment innovations (1)

Identified only **8 types** of innovations dedicated to investment decisions (INV) of companies

Banks offer various forms of time and savings deposits to their corporate customers

Other instruments are connected with structured products and services based on electronic solutions

Investment innovations (2)

The most popular (INV) innovations are:

- auto-overnight deposits - offered by 8 banks
- multicurrency deposits - offered by 6 banks
- structured deposits - offered by 5 banks

WCM innovations (1)

Identified **30 types** of innovative working management products and services (WCM) classified into 4 groups:

- payment solutions: 18 types
- products related to bank cards: 6 types
- products related to bank accounts: 3 types
- other WCM innovations: 3 types

WCM innovations (2)

The most popular WCM innovations are:

(1) mass payments (offered by 15 banks)

(2) electronic platform (offered by 15 banks)

(3) cash pooling (offered by 12 banks)

Risk management innovations (1)

Identified **14 types** of risk management innovations (RMD)

Banks offer risk management products in two forms:

- based on derivative instruments
- based on insurance products

Risk management innovations

The most popular types of RMD innovations are:

- currency forward and (IRS) interest rate swaps (offered by 14 banks)
- currency option (offered by 13 banks)
- interest rate options together with currency swaps (offered by 8 banks each)

NUMBER OF TYPES OF FINANCIAL INNOVATIONS OFFERED BY PARTICULAR BANKS

no	Bank	Country of origin of the major shareholder	FIN	INV	WCM	RMD	total
1	PKO Bank Polski S.A.	Poland	5	4	10	8	28
2	Bank Pekao S.A.	Italy	12	1	8	7	30
3	Bank Zachodni WBK S.A.	Spain	7	0	6	5	23
4	mBank S.A.	Germany	18	4	10	9	54
5	ING Bank Śląski S.A.	Netherlands	15	0	3	7	32
6	Getin Noble Bank S.A.	Poland	6	1	0	3	11
7	BGŻ BNP Paribas Bank Polska S.A.	France	13	1	6	10	37
8	Bank Millennium S.A.	Portugal	5	2	9	6	25
9	Raiffeisen Polbank w Warszawie S.A.	Austria	7	4	10	5	31
10	Bank Handlowy w Warszawie S.A.	USA	8	0	14	0	26
11	Deutsche Bank Polska S.A.	Germany	10	2	10	5	37
12	Bank BPH S.A.	USA	9	2	7	6	30
13	Alior Bank S.A.	Italy	4	2	5	3	16
14	Bank Ochrony Środowiska S.A.	Poland	3	1	4	4	14
15	SGB-Bank S.A.	Poland	6	1	3	3	14

Findings

- Q1: yes, financial innovations pertained to financing decisions dominate in the offer of the analyzed banks
- Q2: yes, there is a difference; banks controlled by foreign investors offer wider range of innovations than banks with the dominant Polish investor
- Q3: difficult to find the answer; there are differences in the market strategy of particular banks towards SMEs and large corporations



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