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How to navigate the rough seas of banking?

A new Polish banking paradigm

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Executive summary

Favorable winds seem to have returned to the banking industry, with the past 18 months being the best period for global banking since at least 2007. However, it is not all smooth sailing, as several major banks in the United States and Europe have undergone forced restructuring. Banks everywhere must change course to navigate emerging challenges, such as the rise of digital innovation, new competitors, and an ever-evolving risk landscape.

In 2022, the global banking sector achieved the highest return on equity (ROE) in over a decade, with an average of 12 percent.[1] Yet both globally and in Poland, the increase in ROE was primarily driven by higher interest rates resulting from central banks' efforts to counter inflation.

At the end of 2022, profits in the Polish banking sector amounted to 13 billion zlotys, despite the financial impact of reserves for CHF loans and credit holidays, which totaled around 26 billion zlotys. This demonstrated the ability of banks in Poland to accumulate capital and finance further economic growth. The current lending potential of Poland's banking sector is estimated at approximately 420 billion zlotys. By utilizing available tools, such as the recently introduced Additional Tier 1 (AT1) instruments, banks could potentially achieve up to 1 trillion zlotys in lending potential.

Although well-positioned, banks in Poland need to revise their business and operating models to further digitalize banking services and leverage the use of generative artificial intelligence (Gen AI) in internal processes. They should also prioritize empowering consumers and deposit holders while responding to new regulatory requirements. The key element that distinguishes banks from their competitors is their relationship with customers, as high customer satisfaction leads to loyalty to the institution. To meet a wide range of customers' needs, banks must provide differentiated financial solutions, green finance products, and opportunities for financial education.

Skillful navigation through the challenges and opportunities will determine the competitiveness of banks.

The following initiatives might be considered as priorities for growth of banks in Poland:

- **Supporting strategic investment needs of the Polish economy**
- **Facilitating energy transition in Poland**
- **Holistically satisfying customer needs**
- **Balancing the distribution of benefits and risks with consumers**
- **Promoting core values of the sector in the eyes of the public**

This document aims to diagnose the primary factors shaping the global and Polish banking sectors, explore key issues being discussed by industry representatives, and identify future paths for growth based on current trends. This is not an exhaustive list, however, and the document does not intend to provide specific recommendations for individual banks.

1 Polish banking in the European and global context

Sustained profitability growth a key challenge for banks

Prospects for global financial institutions have shifted in response to changes in the macroeconomic environment. Central banks' introduction of higher interest rates[2] to counter inflation has resulted in long-awaited improvements to banks' net interest margins and higher returns on equity (ROE). In 2022, the profitability of the global banking sector rose to 12 percent[3], reaching its highest level in over a decade. The industry's average ROE had been hovering around 8-9 percent since 2010 (Exhibit 1). Similarly, European banks saw their average profitability rise to 8 percent at the end of 2022, surpassing pre-pandemic levels.[4]

The profitability of the Polish banking sector also experienced significant growth[5], despite being somewhat hindered by legal and regulatory issues. These included the introduction of reserves to cover legal risk of foreign currency mortgage loans and credit holidays, whose financial impact on the sector in 2022 was estimated at 26 billion zlotys[6]. Nonetheless, banks in Poland managed to generate 13 billion zlotys in profits in 2022[7] and achieved a net profit of 18.5 billion zlotys in the first eight months of 2023.

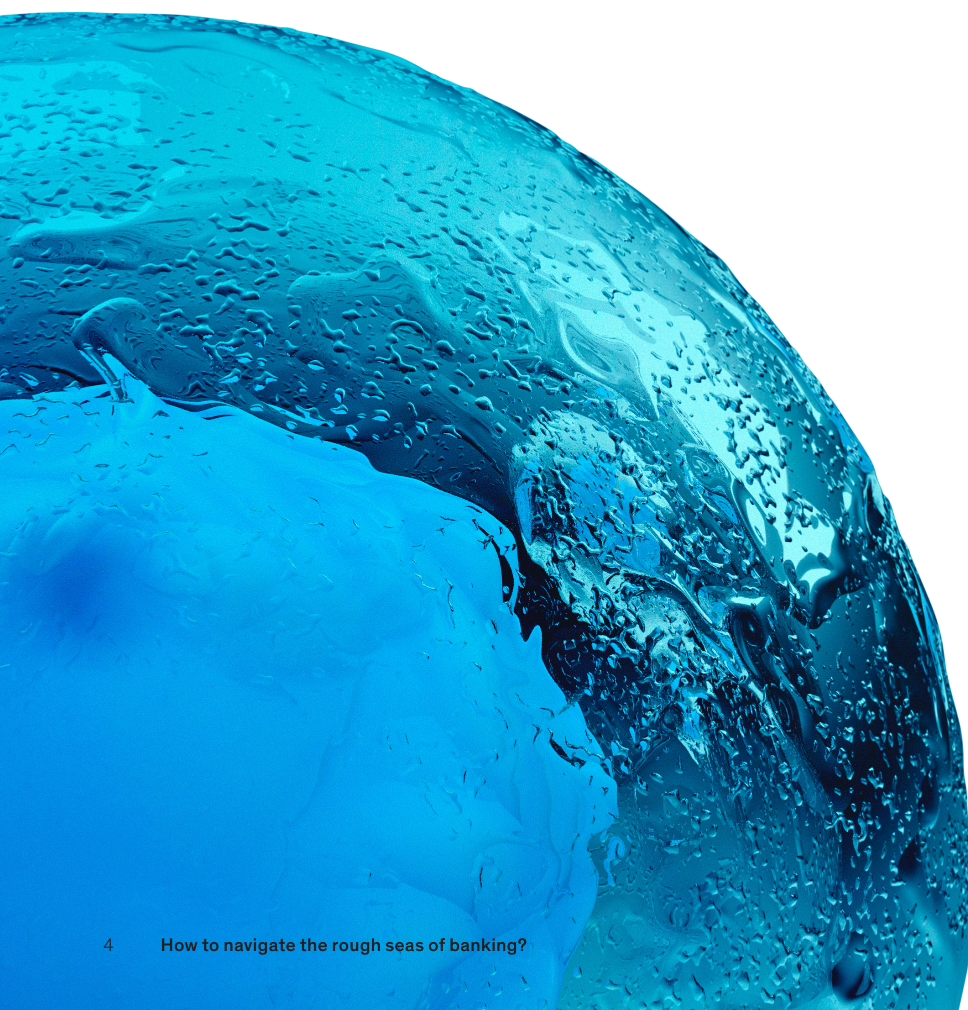
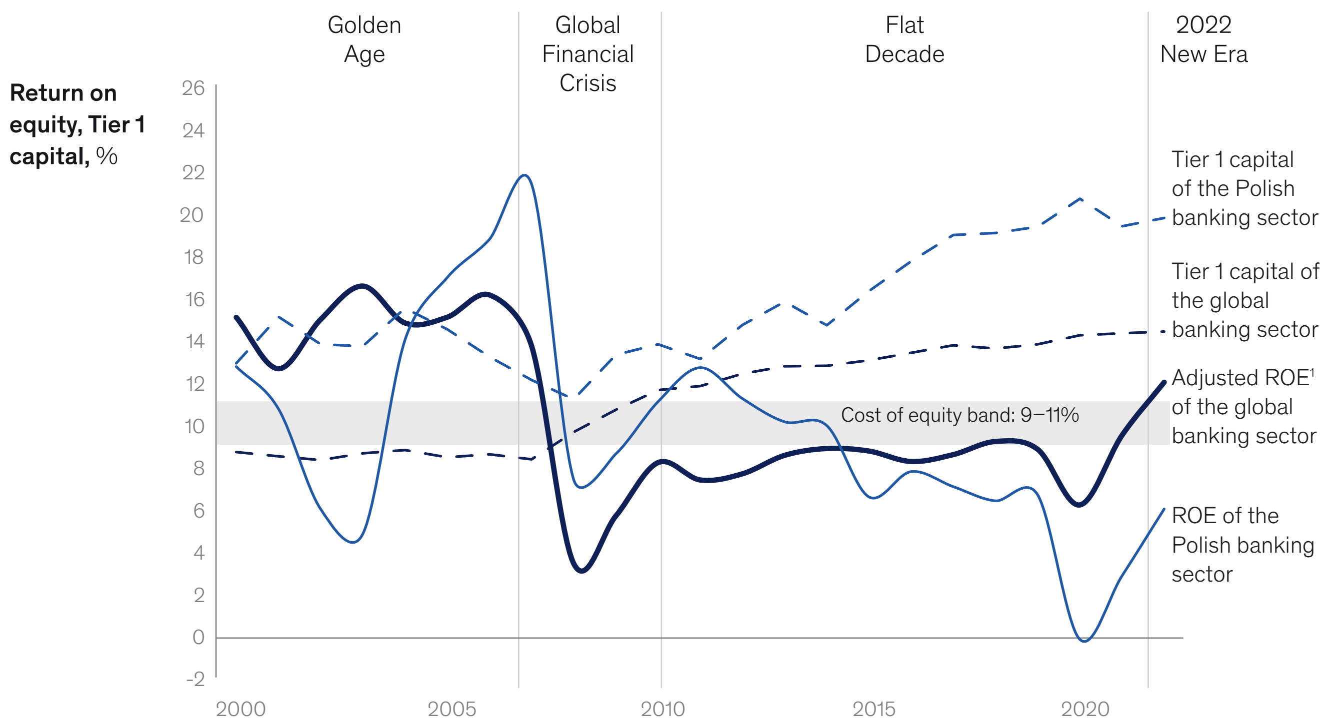


Exhibit 1.

Profitability of banking in the years 2000-2022

Banking metrics, 2000–22



[1] For 2020 and 2021, ROEs have been adjusted for cyclicality due to the impact of the Covid-19 pandemic

Source: McKinsey Panorama; S&P Global, The Polish Financial Supervision Authority

Unchanged scenario of low market valuations

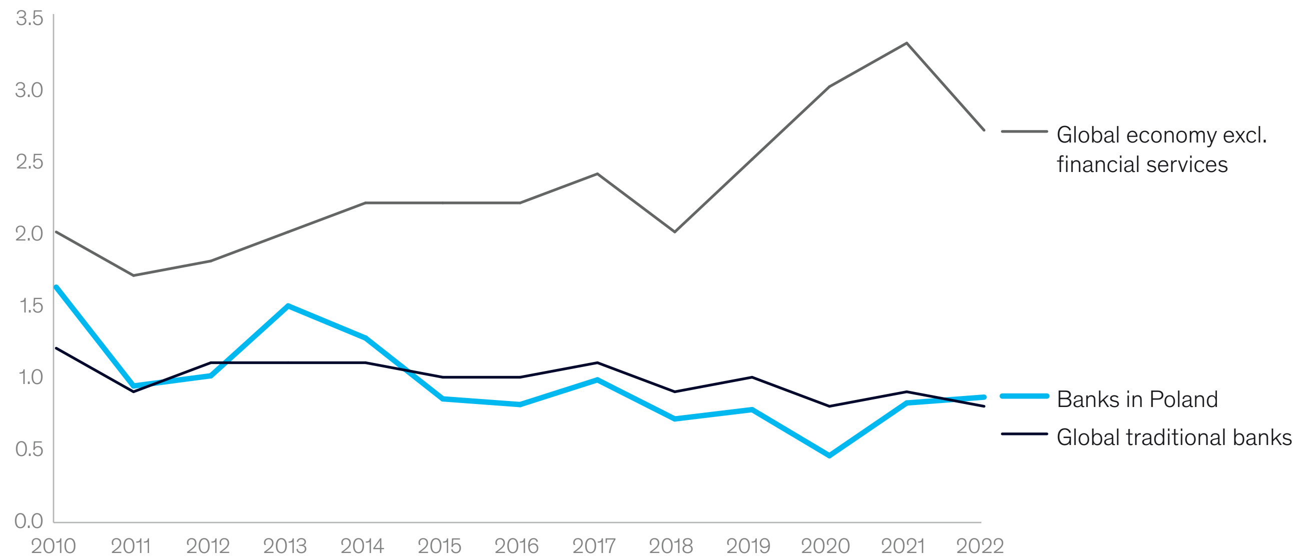
However, one dimension of the global banking sector remains unchanged. Valuations of traditional banks continue to sit far below the average of the rest of the economy (Exhibit 2). In 2022, banks' price-to-book value (P/BV) was at 0.9 globally, a level that has remained stable since the financial crisis of 2008. This reflects the limited expectations capital markets have for sustainable improvements to banks' profitability and overall growth potential of the sector. The Polish banking sector is no exception to this trend[8].

The outlook for the banking industry depends on whether the current interest rate environment holds. Lower P/BV and price-to-earnings (P/E) levels suggest potential growth if investors concede that interest rates will remain higher over the long term, as the expected value creation of leveraged banks is tied to macroeconomic changes. The success of each bank will depend on how well it copes with these discontinuities.

Exhibit 2.

Global banking sector among the lowest in terms of P/BV valuations

Price-to-book value ratio (P/BV)



Source: Economist Intelligence Unit; S&P Global; McKinsey Panorama

70%

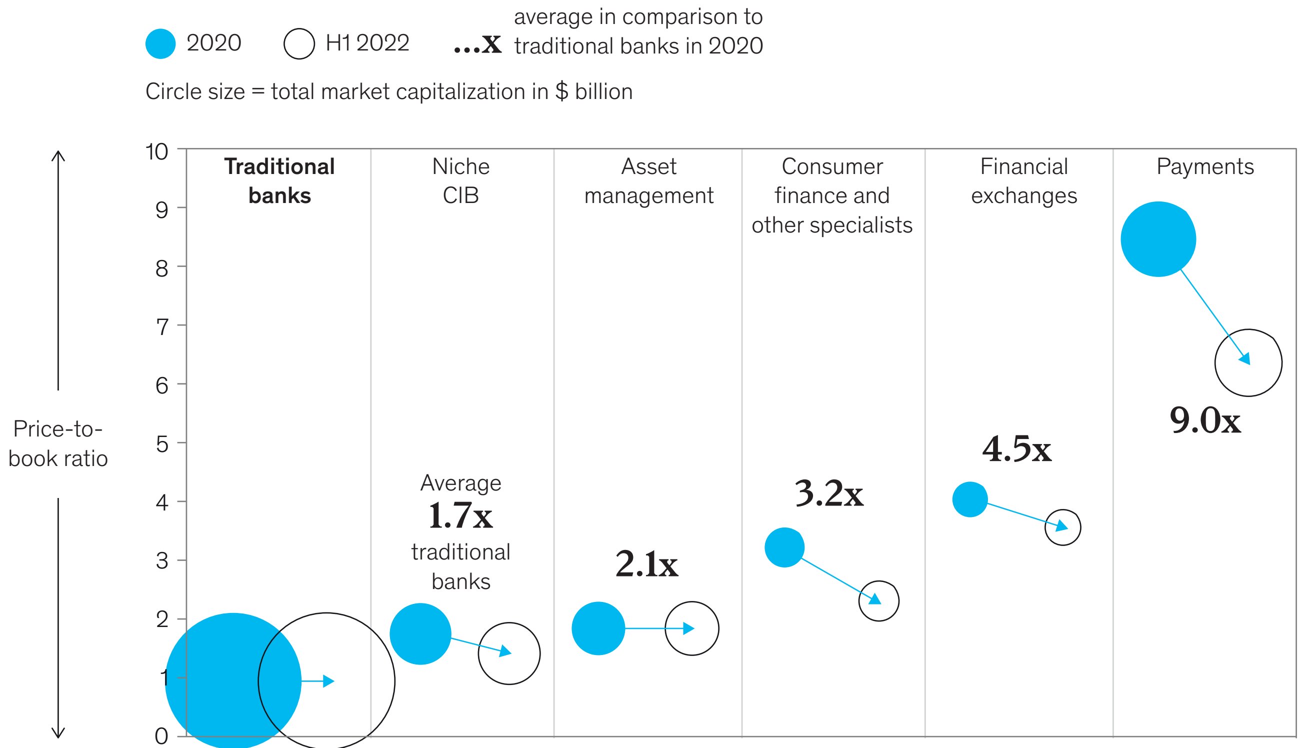
of the increase in funds in the financial ecosystem between 2015 and 2022 was generated by non-banking financial institutions

Elevated competition in financial services

The global banking landscape is witnessing a shift as balances and transactions are increasingly moving from traditional banks to non-traditional institutions and market segments that are capital-light and subject to different regulations. While this dynamic is not new, it appears to be strengthening. Between 2015 and 2022, non-banking financial institutions accounted for over 70 percent of the growth in funds in the financial ecosystem[9], highlighting the increasing competitive pressure faced by traditional banks. In Poland, the trend is not as evident as it is primarily the banks themselves that have expanded their offerings to include savings and credit products, except for payments.

On a global scale, non-banking financial institutions outperform banks in terms of profitability. They benefit from a cost advantage due to their limited supervision and lower regulatory burdens, as well as more agile digital operating models. The relatively low profitability of banks also reflects the widespread commoditization of typical banking services. As a result, profitability in banks is shifting towards specialized and more attractive product niches, such as payments, financial transactions, or consumer finance. Among the analyzed banks, the ROE

Exhibit 3.
Market capitalization and price-to-book ratio by sector



Source: McKinsey Panorama, S&P Global

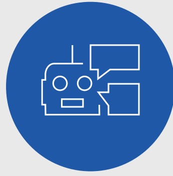
of specialized financial services portfolios was approximately 20 percent in 2021, which is five times higher than for traditional banking services[10].

Specialized financial services providers outperform traditional banks, as evidenced by their valuation. In 2022, their P/BV was nearly three time higher than that of banks (Exhibit 3). Payment and financial transaction providers recorded the most favorable P/BV.

Innovations as the driving force for banks

As technology continues to advance, customers are increasingly demanding a tech-based banking experience. To meet these expectations, banks need to adopt Gen AI and advanced analytics that enable them to automate processes, implement cloud-based architectures, and operate more like a tech company to scale their products and services.

Generative AI has the potential to be a game-changer for the global banking sector, as it can lead to a 3 to 5 percent productivity increase and a reduction in operating expenditures by 200-300 billion US dollars annually across the globe[11].



Gen AI in banking

Generative AI has the potential to reshape business models by enabling significant improvements in both productivity and customer experience. The technology's relatively low barrier to entry facilitates high adoption rates, and its applicability in the back-office allows for sustained competitive advantage that is difficult to replicate. Potential use cases include consistent content personalization, synthesizing information from unstructured data sources, and automated report generation. Additionally, generative AI may facilitate comprehensive value chain rebalancing and lower pressure on the necessary talent pool.

It is important to note that Gen AI is still a relatively new technology and may be prone to factual and other errors. In Poland, banking secrecy may also prove to be a challenge for its implementation. Despite these challenges, it is crucial to recognize the potential use cases and view Gen AI as a strategic issue rather than just a technological one.

Integration of Gen AI in the banking sector can increase productivity by 3-5 percent

Digital activity

Poland 2017 **=** **Europe** 2022

Poland's banking sector remains one of the most advanced in Europe. The digital activity of customers at an average European bank in 2022 was equivalent to that of Poland in 2017. The future pace of digital innovation in Poland may be somewhat hindered by the necessity to modernize existing IT systems in banks, with over half of them averaging 20 years old[12]. Nevertheless, some banks have already initiated modernization efforts. The implementation of cloud-based systems is anticipated to shorten the time required to bring new products and services to market, improve business processes' reliability, and enable seamless systems updates without technical disruptions. These advancements will contribute to improved operational availability and scalability for banks, as well as the personalization of products and services, ultimately leading to increased customer satisfaction.

Banks' adaptation to systemic risks

Financial institutions worldwide are confronted with a constantly changing risk landscape, which includes inflation-related macroeconomic volatilities, uncertain growth prospects, evolving regulatory requirements, cybersecurity threats, and risks arising from the integration of advanced analytics and AI with the banking system. As a result, banks must enhance their risk functions and prioritize the management of emerging sources of risk.

Regulatory uncertainty poses a major challenge for banks. These include, for example, new capital requirements for credit institutions (CRR3) and a growing trend towards strengthening consumer protections.

Banks also need to be on high alert for unexpected geopolitical risk and the fundamental economic changes it may cause. While the global economy remains characterized by cross-border flows of goods, services, people, and data, rising geopolitical tensions as well as increased trade and investment barriers add to the risk of disruption[13].

Global tensions have intensified due to conflicts, as well as the decoupling between the United States and China and their respective allies. Since the global financial crisis, the number of trade barriers imposed has risen fivefold, with steady growth since 2020. Furthermore, the number of investment barriers have increased more in 2022 than they have in any year over the past 15 years[14]. All these issues have a negative impact on the stability and attractiveness of the banking sector.

***

Globally, the banking sector faces a range of challenges, including the need to sustainably improve profitability, manage low market valuations, respond to competition from specialized financial providers, harness technology advancements, and navigate an ever-evolving risk landscape. In Poland, banks face many of these challenges, as well as issues specific to the industry in the country. These include untapped potential to finance economic growth, increased protections for consumers and deposit holders, and the need to transform business and operating models. The following chapters discuss these challenges in detail.

2 Lending potential in the Polish banking sector

The Polish banking sector is ranked second to last in the European Union (EU) in terms of asset value to GDP, with a ratio of 86 percent (ahead of Lithuania, with 77 percent)[15]. Considering that the banking sector is the primary source of financing for the Polish economy, the level of banks' own funds is a crucial factor in determining their capacity to fund national development programs and economic growth.

As of the end of 2022, the lending potential of the Polish banking sector stood at 417 billion zlotys[16]. Historically, this potential had been increasing until 2020. Since then, the situation changed, and the potential declined by 20 percent in 2021 and by 1 percent in 2022 (Exhibit 4). Over the years 2014-2022, the lending portfolio of the Polish banking sector grew by an average of 53 billion zlotys annually. As a result, it was not the supply of credit, but rather the demand for it, that determined and continues to determine the size of the loan portfolio.

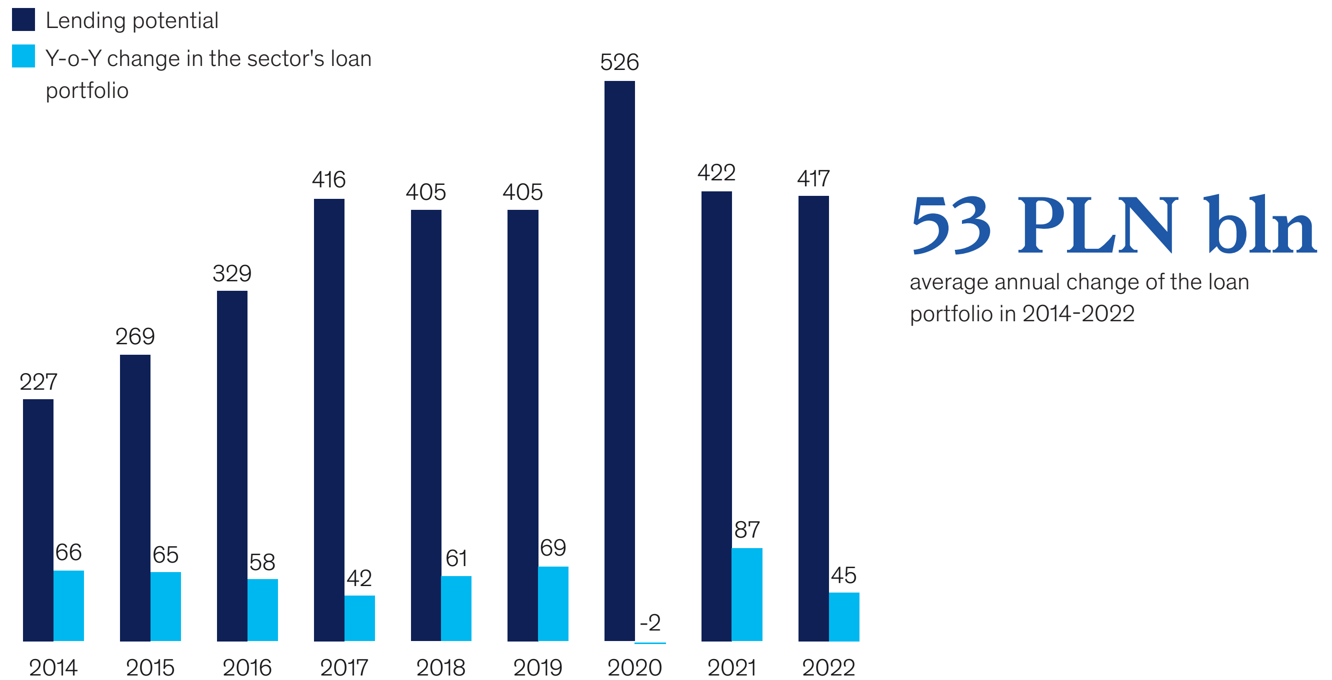
The decline in the lending potential of the Polish banking sector in 2021 was primarily caused by the Monetary Policy Council raising the National Bank of Poland's (NBP) reference rate. This, in turn, resulted in a decrease in the value of fixed interest bonds held by banks, which were measured at fair value through equity. Consequently, the other comprehensive income of banks was negatively impacted, ultimately constraining their lending potential. Going forward, the lending potential of the sector will continue to be indirectly influenced by the NBP's reference rate policy. If the reference rate is maintained or reduced, the lending potential of the sector is expected to increase, as was the case in 2020.

When compared to its European peers, Poland's lending potential in relation to GDP is relatively low (Exhibit 5). In 2022, the lending potential amounted to 13.5 percent of GDP, which is lower than the Czech Republic's 30.4 percent and Spain's 36.9 percent of GDP[17].

Exhibit 4.

Lending potential of the Polish banking sector

2014–2022, PLN bln



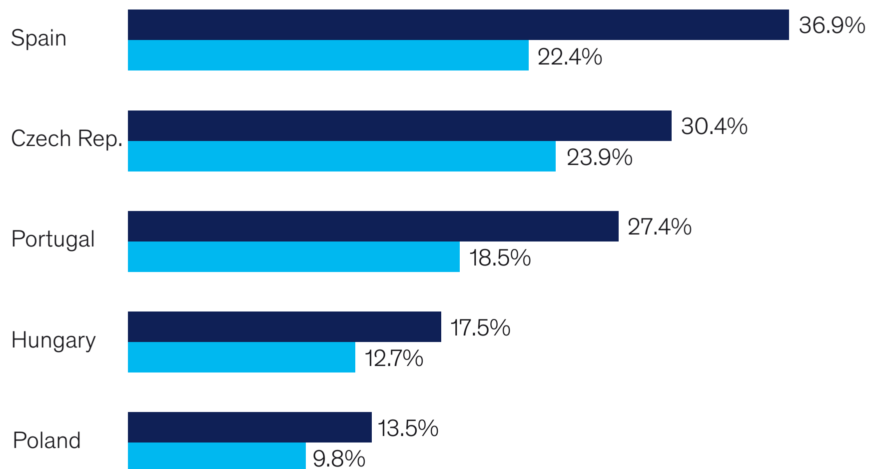
53 PLN bln
average annual change of the loan portfolio in 2014-2022

Source: European Central Bank, National Bank of Poland

Exhibit 5.

Lending potential in relation to GDP

% GDP



Note: Both analyses for EU countries are based on EBC's data, which leads to discrepancies in TCR numbers reported by KNF for Poland in the same year as a result from adopting different methodologies for local central bank reports. EBC uses Full Sample containing reports from capital groups and other sources (TCR at 17.92 percent), while KNF uses FINREP/COREP (TCR at 19.38 percent). To ensure comparability of the Polish sector with other EU countries, the lending potential was calculated based on ECB data
Source: Eurostat, European Central Bank

Lending potential distribution in the Polish banking sector

In 2022, almost two-thirds of the Polish banking sector's lending potential was concentrated among banks with Polish majority capital. The vast majority was held by three institutions: Bank Gospodarstwa Krajowego, accounting for 28 percent of the entire potential, followed by PKO Bank Polski with 18 percent, and Pekao S.A. with 11 percent of the lending potential. Cooperative banks, including SBG and BPS, collectively held 8 percent of the overall potential.

Among banks with foreign majority capital, Santander Bank Polska accounted for half of the lending potential in the group[18], which overall held 36 percent of the lending potential.

Bank Gospodarstwa Krajowego stands out with a significantly higher TCR of 29 percent compared to other participants in the industry. On the other hand, both banks with Polish and foreign majority capital have similar average TCRs of 17 percent.

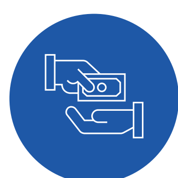
When discussing lending potential, it is crucial to consider that any mergers and acquisitions within the Polish banking sector would result in reduction of available lending potential due to concentration limits, unless the transaction involves a new share issue. Additionally, dividend payments can also have a negative effect on lending potential. Currently, a change of one billion zlotys in the industry's own funds leads to a corresponding change of approximately 8 billion zlotys in lending potential.

Lending potential growth scenarios for the Polish banking sector

Aside from mergers, acquisitions, and dividend payments, there are other factors that can affect the lending potential of the Polish banking sector. In October 2023, new laws introduced AT1 instruments to the sector. Assuming a comparable structure of own capital in Poland and Spain[19], if banks in Poland were to issue AT1 instruments with an increased share of T2 instruments, they could potentially increase their lending potential by 190 billion zlotys. Another factor that could have a significant impact on the Polish banking sector's lending potential is a decrease of the average risk weight, which currently

Exhibit 6.

Lending potential distribution in the Polish banking sector in 2022



	Lending potential			
	PLN bln	Percent	TCR	IRB
Polish banking sector	417	100%	18%	
Bank Gospodarstwa Krajowego	115	28%	29%	None
Banks with Polish majority capital[1]	150	36%	17%	None
Banks with foreign majority capital[2]	152	36%	17%	Partial

[1] Includes: SGB, Plus Bank, Cooperatives, PKO BP, Pekao SA, BOS, BPS, Bank Pocztowy, Alior Bank, Velo Bank

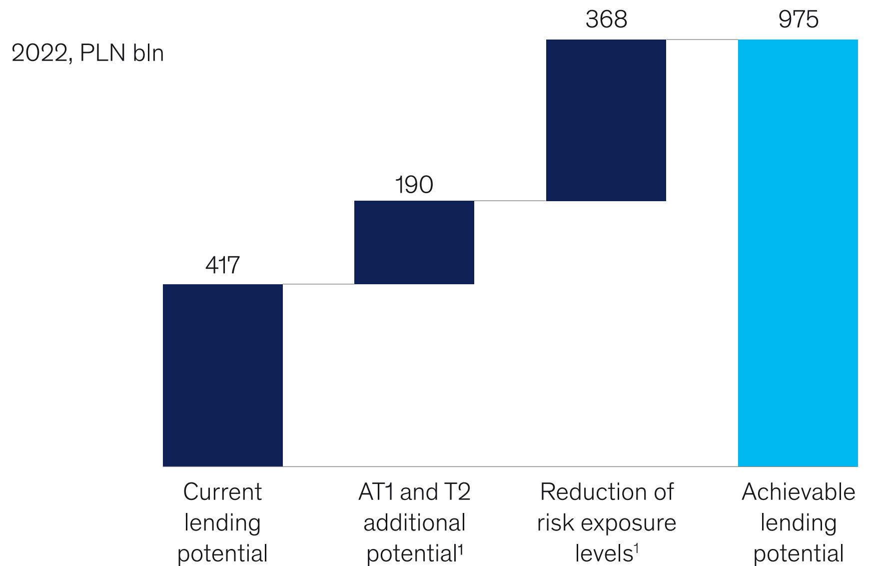
[2] Includes: BHP, Deutsche Bank, Santander (Including SCB), Citi Bank, mBank, BNP Paribas, ING Bank Śląski, Credit Agricole, Millennium Bank, Nest Bank

Source: Financial statements, European Banking Authority

amounts to 96 percent for the sector[20]. This could be achieved by increasing the share of internal ratings-based method (IRB)[21] in the calculation of capital requirements. Again, using the Spanish sector as a point of reference, where the average risk weight is 66 percent[22], the Polish banking sector could potentially increase its lending potential by another 368 billion zlotys, particularly in banks with Polish majority capital. If both scenarios were to materialize, the potential lending capacity could reach up to 975 billion zlotys (Exhibit 7).

Exhibit 7.

Total lending potential of the Polish banking sector



[1] Assuming own capital structure and risk levels of the Spanish banking sector, which has a similar balance sheet structure to the banking sector in Poland, is characterized by an extensive adaptation of the IRB approach and as estimated, will not be subject to significant changes introduced by the proposed CRR3

Source: McKinsey analysis based on the data from European Central Bank and The Polish Financial Supervision Authority

Up to 1 PLN tln of lending potential in the Polish banking sector

3 Empowering consumers and deposit holders

From status quo to balanced distribution of benefits and risks

Over the past few years, the banking sectors in both Poland and abroad have experienced interventions aimed at protecting and strengthening the position of consumers. The following is an overview of some of these. The interventions seem to be striving towards shaping a new social contract, that aims to rebalance the distribution of power between consumers and financial institutions and establish a benefit and risks sharing that will be perceived as more balanced, just, and fair.

The trend is also in line with ESG principles, which, although currently dominated by environmental concerns, may shift towards a focus on society in the long run. As banks make strategic decisions about their future growth directions and business policies, they should consider customer interests and personalized service that will be based on balancing the distribution of benefits and risks.

15–50%

range of the sector's own funds allocated to cover the costs of each of customer protection interventions

Examples of customer empowerment

Foreign currency mortgage loans

Consumer protection interventions related to foreign currency mortgage loans were seen in in many European countries. In Croatia, the government enforced obligatory loan conversion to euros to protect credit holders, which cost the banking system nearly one billion euros, or roughly 15 percent of their own funds during the reported period[23]. In Hungary, the government introduced a new scheme for Swiss franc (CHF) mortgage payments, with conversion to the Hungarian forint, which cost banks approximately 2.5 billion euros, or 30 to 35 percent of their own funds during the reported period. In Spain, the courts required currency conversion for loans taken in Japanese yens at a favorable rate for credit holders.

The number of loans under litigation in Poland has been steadily increasing, with over 150,000 such cases by the end of 2022[24]. In 2019, the Court of Justice of the European Union supported Polish CHF mortgage-holders by effectively allowing the cancellation of long-term mortgage loan contracts[25]. According to the Polish Financial Supervision Authority (UKNF) estimates, the potential costs generated by CHF lawsuits for banks could exceed 100 billion zlotys, which is nearly 50 percent of the sector's own funds[26].

Mortgage loan payment insurance in the United Kingdom

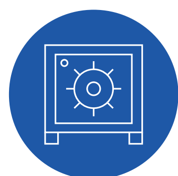
Consumer protection regulatory initiatives have been implemented in the United Kingdom in relation to the sale of payment protection insurance (PPI). Banks were required to return mis-sold premiums and fees, as well as compensate their customers[27]. The estimated cost for the British banking sector was over 50 billion British pounds, or more than 30 percent of their own funds at the beginning of the compensation payment period[28]. This led to regulatory changes that completely prohibited sales-based remuneration and resulted in deep remodeling of sales representatives' functions at banks' branches.

Transaction-based reference rates

The gradual reference rate systems reform serves as another example of increased customer protection. Until recently, it was common practice to apply reference rates based on the averaged rates declared by banks, which created opportunities for manipulation. After British banks were found to be purposefully influencing LIBOR rates to maximize their own profits[29] FCA (Financial Conduct Authority) announced in 2018 that the rate will be discontinued[30]. Since 2021, LIBOR has been replaced by retrospective reference rates based on actual transactions with financial institutions and institutional investors (for example, SONIA – Sterling Overnight Index Average to replace LIBOR GBP; LIBOR USD with SOFR – Secured Overnight Financing Rate, and LIBOR CHF with SARON – Swiss Average Rate Overnight).

In Poland, the WIBOR, which is determined prospectively by banks, will be replaced by WIRON *(Warsaw Interest Rate Overnight)*. WIRON is defined retrospectively with reference to deposit transactions made on the wholesale market with financial institutions, banks, and corporate clients. This system is considered more transparent for customers.

Exhibit 8.
Deposit guarantees in selected countries in 2023



Country/region	Currency	**Bank deposit guarantee,** LCU ths	**Bank deposit guarantee,** EUR ths[1]
United States	USD	250	235
Norway	NOK	2,000	190
Australia	AUD	250	159
Switzerland	CHF	100	102
EU (incl. Poland)	EUR	100	100
United Kingdom	GBP	85	96
Japan	JPN	10,000	71
Canada	CAD	100	69

[1] FX as per EOY 2022
Source: Respective, national financial authorities: FSCS, EC, FDIC, DIC, Bankenes Sikringsfond, ESI, CMF, FCA (2023)

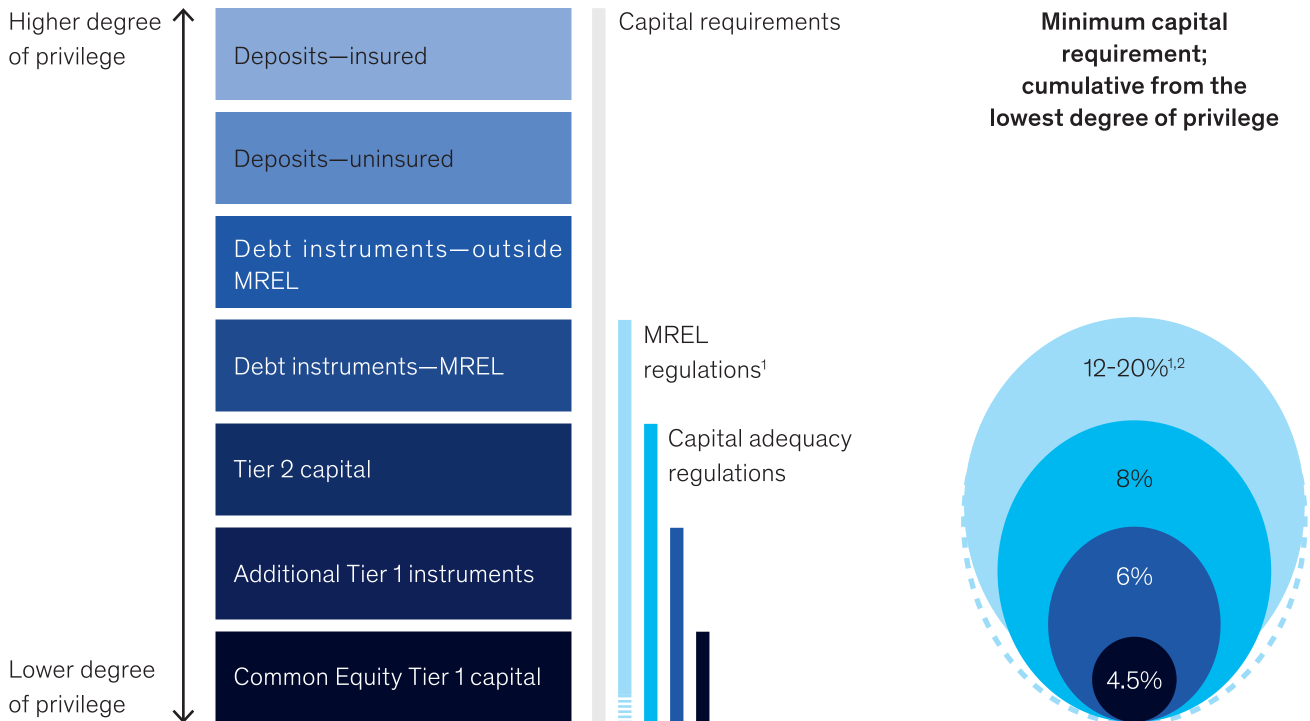
Deposit holders' protection requirements
A deposit guarantee mechanism is another example of consumer protection in which countries of the European Union protect bank deposits up to 100,000 euros. While this amount is higher than the guarantees provided in Japan or Canada, it is more than twice lower than the deposit guarantees in the United States (Exhibit 8).

The EU's implementation of Minimum Requirement for Own Funds and Eligible Liabilities (MREL) is another example of protecting deposit holders. These measures provide contingencies in the event that a bank is likely to fail, in which case its shares and long-term qualified debts are redeemed, while customer deposits are not affected.

The compulsory restructuring of Podkarpacki Bank Spółdzielczy, Idea Bank, or Getin Noble Bank in Poland exemplify a well-functioning guarantee system and the utilization of funds to cover bank losses in order to protect deposit holders. The Bank Guarantee Fund implemented protection measures, including the use of a so-called "safety crumple zone", to protect the interests of the maximum number of deposit holders. This involved redeeming shares and subordinated bonds while ensuring that customers' deposits were protected[31].

Exhibit 9.
Regulatory structure of liquidity requirements for banks

Hierarchy of banking instruments by ranking in winding-up proceedings



[1] Excluding part of CET1 based on the CBR (combined buffer requirement) and Pillar II
[2] Average MREL TREA (excluding CBR) for major banks in Poland EoY 2023, minimum values calculated for specific banks based on their risk levels
Source: Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012

Towards balancing benefits and risks between consumers and banks

4 The future of banking business and operating models

Global evolution of business and operating models

Traditional operating models that focus solely on providing banking services are no longer sufficient to ensure banks' competitiveness. Customer loyalty and satisfaction, both in the retail and corporate segments, are critical and increasingly depend on highly personalized banking products, convenient and modern customer service, and the availability of ecosystems of services or "green" products[32]. Customer-centricity requires a fundamental shift in business and operating models, as well as effective analysis of available data. Process digitalization and advanced analytics applications are becoming increasingly important tools for attracting customers, monitoring their satisfaction and engagement, and building loyalty.

From commoditized products to unique relationships

Customer satisfaction and loyalty are the direct result of the relationship that a bank has established with its customers. The most effective banks go beyond providing basic banking products and offer additional services that ensure customer satisfaction, such as hyperpersonalization of products and services, or customization of application interfaces to lend the relationship a unique character. Customer loyalty is a valuable asset, as it enables banks to generate stable revenue streams in the form of subscription payments, payment commissions, or distribution fees, which are not related to balance sheet items but ensure attractive margin levels[33]. A balanced distribution of benefits and risks between the customer and financial institution is required for building a loyal customer base. A fair and just relationship helps customers build trust in the bank, which ultimately translates into loyalty.

Green banking as integral part of strategy

The competencies of banks, such as lending, trading in shares, managing investment portfolios, and corporate bonds are increasingly being utilized to support sustainable development and communicate sustainability efforts to stakeholders such as regulatory authorities, shareholders, and society[34]. In 2018, green finance, which allocates income to finance sustainable development and environmental projects, was almost non-existent, but it has since experienced significant annual growth globally until 2021.

As the popularity of green financial instruments grows, their variety is also expanding. Activities related to sustainable financing of capital markets, including mergers and acquisitions, private equity funds, and emissions trading, have grown significantly in recent years[35]. Green guarantees or impact funds, which prioritize environmental or social goals over financial ones, are also gaining popularity[36]. In addition to the constantly growing environmental, social, and corporate governance (ESG) product portfolios, developing sustainable ecosystems around energy transition (green business building) is another increasingly popular trend in developed countries.

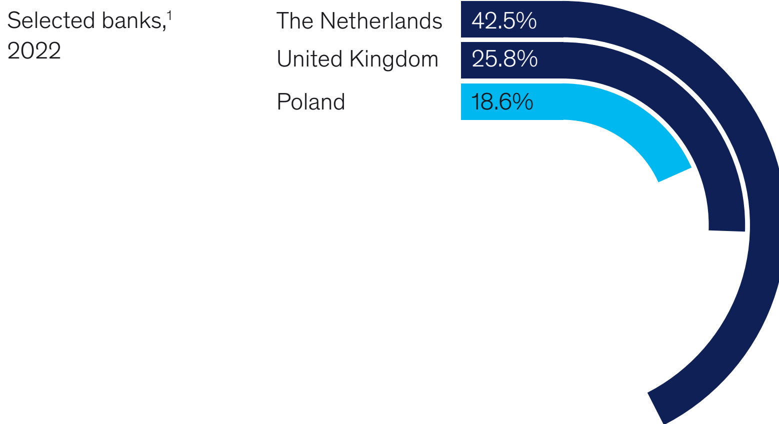
Finance embedded in daily life

Modern banks are increasingly exploring the development of cross-sector platforms that transform value chains into ecosystems and independently and comprehensively meet customer needs. This is achieved through activities such as embedded finance[37], which transforms banking into a lean, cost-effective service with the desired transaction as the outcome, performed in a possibly imperceptible way. Advanced analytics, roboticized customer assistants based on generative AI, and highly skilled and trained experts are key enablers of this transformation, allowing banks to provide seamless services to their customers[38].

The emergence of cross-sector platforms can lead to an increase in non-banking revenue share in the banking sector[39]. Poland has the potential to grow such activity, as currently only 18.6 percent of fee and commission revenues come from non-banking operations, while in the United Kingdom it was 25.8 percent in 2022, and in the Netherlands 42.5 percent (Exhibit 10).

Exhibit 10.

Share of non-banking fee and commission income as % of total fee and commission income



[1] Includes fee and commission income earned on insurance, leasing, real estate, investment, portfolio management, trust activities and other non-banking services

Source: Financial reports of selected banks: PKO BP, Bank Pekao; Santander Bank Polska, ING Bank Śląski, mBank, HSBC, Lloyds, NAT West, Barclays, Standard Cartered, ABN Amro, Rabo Bank, ING NV, Volksbank; McKinsey analysis

From a small player to market leader

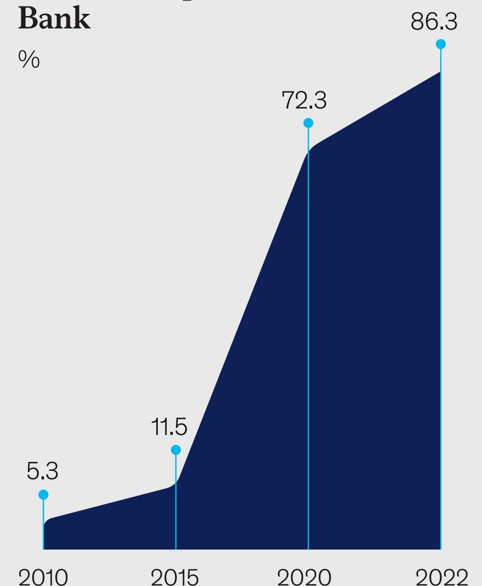
The Kazakh Kaspi Bank serves as the example of the growth potential of the banking ecosystem described above. Originally one of many post-communist banks, the company expanded in 2014 to include an e-commerce platform. In less than eight years, the bank was able to capture nearly half of all online sales volume in Kazakhstan. The bank's strategy involved continuously expanding a tightly integrated product offering based on three pillars: fintech, marketplace, and payments.

Kaspi Bank's customers have access to millions of products sold by over 250,000 providers from practically all market segments. The platform facilitates easy, fast, and cheap shopping, while the bank charges a fixed access fee from partners. The embedded credit line is based on customer data, such as daily activity and shopping or browsing history, which enables credit decisions to be issued within seconds. Payment services can be used to cover daily expenses, pay bills, or finance P2P payments.

As a result of these offerings, the Kaspi Bank application has marginalized other players, accounting for approximately 70 percent of transactions and payments on the market in 2022[40]. Kaspi's fintech pillar remains the main revenue source for the bank, and advanced analytics and machine learning have helped to significantly reduce credit risk. One particular success of Kaspi Bank is the integration of multiple platforms into a single, universal multiproduct application, which has generated a return on equity of nearly 90 percent (Exhibit 11).[41]

Exhibit 11.

ROE of Kaspi Bank



Source: Kaspi, Gurufocus

Product ecosystems as new sources of revenue

Building product ecosystems does not necessarily involve only banking entities. An increasingly common way for banks to generate non-banking revenue is by partnering with non-banking entities, such as insurance companies, car dealerships, or real-estate agencies. The Banking as a Service (BaaS) area is an example of how efficient and universal technology platforms enable non-banking organizations to integrate banking services into customer-facing outlets. In this approach, banks participate in an ecosystem delivered by an external entity[42].

Big Tech companies leverage their platforms to provide banking services to their customers, primarily through BaaS models. Apple serves as a notable example of this approach. Over the years, Apple has offered its customers financing services through Apple Financial Services and the Apple Pay digital wallet. In 2021, Apple Pay emerged as the second most popular digital payment facility worldwide in terms of volume, with transactions totaling 6 billion US dollars. This placed Apple Pay ahead of traditional financial giants such as Mastercard or American Express, and second only to Visa. Later, Apple expanded its offerings by introducing savings accounts, which quickly gained traction and attracted billions of dollars in just a few months.

In Poland, BaaS providers offer a range of solutions, including current accounts, payments, loans, such as buy-now-pay-later (BNPL), and savings. The planned transformation of Allegro Pay is a prime example of non-banking BaaS collaboration. Currently, Allegro users can access a cashless payment system, buy-now-pay-later options, and installment loans.

However, the announced partnership with a BaaS operator would grant Allegro access to products and services typically reserved for licensed banking entities, such as savings or current accounts[43]. As BaaS collaboration deepens, it could enable Allegro to develop a platform similar to that of Kaspi Bank, despite Allegro's roots in the tech industry.

Prioritizing core values to attract essential young talent

Creating a work environment that fosters collaboration and entrepreneurship is crucial for attracting and retaining the most talented employees, who are necessary to conduct banking transformation. In the banking sector, tech talent is highly sought after and often prefers to work for Big Tech companies and start-ups. These employees are drawn to the collaborative organizational culture that is vastly different from the traditional hierarchical silos.

In recent years on the global scale, some banks reduced employment, especially among lower-tenured staff, and limited spending on talent development and training, which has had an impact on effective succession planning[44]. This trend was also highlighted as one of the key issues for the banking industry in the Polish market during the European Financial Congress (EKF) 2021[45]. According to *Randstad Employer Brand Research*, candidates recognize firms from the banking sector, but rank their attractiveness as potential employers relatively low[46]. To improve the situation, banks could take steps to facilitate talent development, both internally and externally, promote innovation, and implement modern work tools.

5 Outlook on growth opportunities for the Polish banking sector

Banks in Poland maintained financial stability and increased profitability levels in 2022, which positions them well to expand their operational capabilities and adapt to the highly competitive banking environment in the future.

The following initiatives could be considered as key growth directions for the Polish banking sector:

1

Support of strategic investment needs of the Polish economy through

- increasing the availability and use of debt and equity finance, mainly in business sectors with high value added,
- actively supporting companies to take advantage of the global geographical trend of shortening supply chains,
- increasing capital efficiency of banks to meet the investment needs of the country's economy.

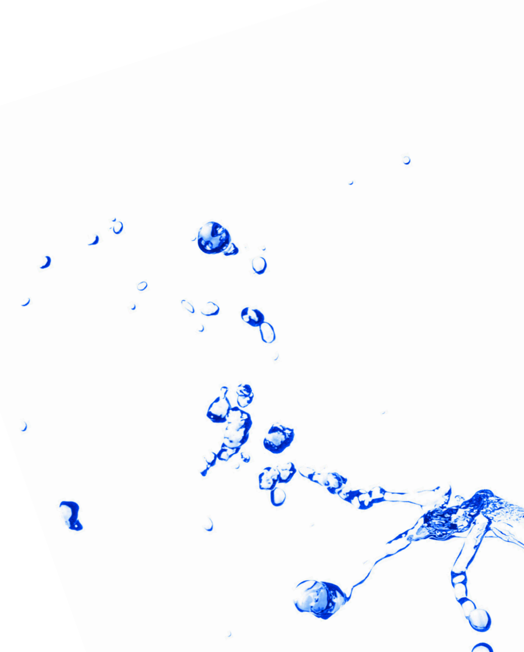
As the primary source of financing for the country's economy, Poland's banking sector has the potential to support the development of Polish companies, which can in turn have a positive impact on the sector's own growth. To foster a sustainable competitive advantage for Poland and attract foreign investments in high-value sectors, it is important to increase the availability and utilization of debt financing in investments and strengthen the capital efficiency of banks. However, achieving this requires a dialogue with the Financial Supervision Authority, which has a significant influence over the introduction of the IRB method and the proper implementation of new capital requirements (CRR3), particularly in terms of operational risk.

2

Facilitate energy transition in Poland through

- using debt instruments within the lending potential available in the sector now and in the future, and to intermediate access to investors on debt markets,
- offering dedicated product lines that go beyond typical banking products while supporting emissions reduction, for example in the energy, construction, agriculture, or mobility sectors.

Poland is estimated to require investments of between 1.8 and 2 trillion zlotys to achieve its climate neutrality goals by 2050. This presents a significant opportunity for banks and financial institutions to expand their product portfolios, which could potentially become significant sources of revenue.



Holistically satisfy customer needs through

- fundamental digitalization of all touchpoints in customer journey,
- focus on performing extensive analysis of available consumers' data using big data, digital technologies, and building product ecosystems,
- forming alliances with non-banking entities, including fintechs and Big Techs, to maximize presence in the most profitable sectors, such as consumer finance, financial transactions or payments.

The demand for services that require effective analysis of available data, such as everyday banking and investment consulting, is growing dynamically around the world. The ability to have digital contact between customers and banks is crucial for both one-off interactions and when purchasing long-term banking products, such as mortgages or investments. To meet the quickly changing needs of consumers, there has been a significant increase in cooperation between banks and non-banking entities in the market, providing more holistic and timely responses.

4

Balance the distribution of benefits and risks with consumers through

- supporting customers to build healthy, secure, and predictable financial portfolios at various stages of lives and wealth and helping in effective portfolio management,
- providing education on safe utilization of financial products, including effective management of household finances.

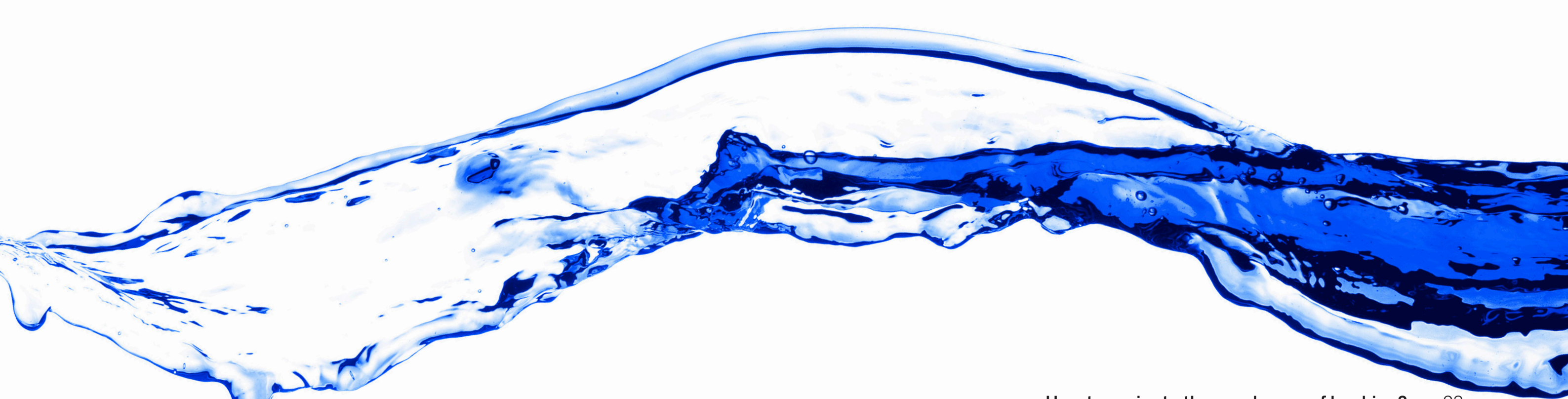
The increased regulation of the banking sector regarding consumer protection requires banks to build enduring relationships with their customers. This involves providing comprehensive financial education and continuous support of consumers in building their financial health by tailoring the services and products offered to their various life stages and levels of wealth. As such, the development of wealth management offerings for affluent and private banking clients by banks may prove to be highly significant.

5

Promote core values of the sector in the eyes of the public through

- creating partner relationships with customers by providing personalized services and building consumers' trust,
- transformation of organizational culture to improve employees' professional development opportunities and job satisfaction.

Improving the image of the sector can increase satisfaction and retention of both consumers and employees, attract young talent and improve decision-making processes.



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Endnotes

1 McKinsey Panorama; S&P Global.

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17 Assuming TCR at 13.5 percent.

18 Some systemically important banks with predominantly foreign capital have limited lending potential due to reduced levels of capital ratios resulting from legal and regulatory events, as well as in connection with the issue of Swiss franc loans.

19 The share of AT1 instruments in the structure of own funds in the Spanish banking sector is 8.8 percent, the analysis also assumes the share of T2 funds at 12.2 percent.

20 Risk density is calculated as the quotient of the total amount of risk exposure to the value of loans and advances. In Poland, 83 percent of the risk density is attributable to credit risk, while 11 percent is for other types of risk. In Spain, 59 percent of the risk density is attributable to credit risk, while 7 percent is for other types of risk.

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