



Local banking is a perfect fit for current trends - interview with Bartosz Kublik

We have the pleasure of introducing an interview with Bartosz Kublik, CEO of Cooperative Bank in Ostrów Mazowiecka, Poland. The National Association of Cooperative Banks (KZBS) interviewed Mr. Kublik at the beginning of May this year.

- The current situation caused by Covid-19 is rather exceptional. The Polish government and state institutions introduce a number of support measures and stimuli, primarily for entrepreneurs, but also for regular citizens. What are the greatest challenges that cooperative banks have to face right now?

In my opinion, the basic challenges we are dealing with remain the same, and the coronavirus crisis has only made them more acute. **The economic parameters of cooperative banks are a challenge** in numerous dimensions related to efficiency, capital and loan portfolio concentration. Attempts that individual cooperative banks make to **keep in touch with micro markets and customers** are another challenge. A good cooperative bank is a bank that is simply required by its local community. Such a bank takes care of what is important for its customers and adjusts its offering to their needs. It is a bank that does not give up on the general market and does not give way to its corporate counterparts. Such an approach is evidenced particularly well right now, when various support measures are introduced in order to help those customers who are affected by the social and economic lockdown and by the crisis it has created. It would not be understandable if we failed to join those efforts that are of crucial significance for the very existence of our customers.

Building the identity of the Cooperative Group is another challenge we face. Despite significant progress (establishment and strengthening of protection systems) this continues to be a problem. And this condition has to be met in order to solve the two issues I mentioned before, namely the economic standing and the market position of our banks. Transformation of bank associations into thoroughbred financial groups would boost the economic indicators of cooperative banks and would improve the competitive position of the entire sector in comparison to corporate banks. The opinions that are commonly shared in the cooperative bank industry, claiming that this would undermine the very nature and the independence of cooperative banks, need to be strongly denied here. This is not true. Such views are based on misinterpretation of different notions. Democracy must not be equal to anarchy, uncoordinated, destructive actions and economic hitchhiking. These phenomena are costly and downright dangerous. Therefore, they need to be neutralized.

Economic parameters of cooperative banks may be improved by concentrating numerous functions at the level of associating banks and protection systems. The market position, in turn, may only be boosted if a comprehensive financial offering of the entire BPS Group is available... Let me give you an example: whenever I can, I stress that the **Polish sector of cooperative banks serves 40% of local governments, 70% of farmers and - according to various sources - even as much as 20% SMEs.** These figures are truly impressive. Our share in the leasing, factoring or bancassurance services rendered for the benefit of those customers is - to put it mildly - modest. This is food for thought. Employee Capital Plans are another example. We

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are about to face another test as a sector: **we are the banks of first choice for the majority of SMEs** operating at commune and county levels. Our Brokerage House was, last year, one of the leading entities in terms of offering bonds issued by local governments. It was responsible for issuing over PLN 1 billion worth of bonds and enjoyed a market share of over 20%. The result is truly impressive. The question is whether we will be able to be equally successful in terms of Employee Capital Plans for local government entities. Is this something we should be fighting for? Surely it is, as in Poland, local governments are usually the largest employers, investors and contracting entities. They are the flywheel of the local economy. A sensible market share in terms of Employee Capital Plans for local government entities would provide our TFI (Investment Fund) with fuel for many years to come. The question whether we will be capable of achieving that objective remains open...

Considering the significant shares related to loans and deposits that we enjoy in certain segments of the market, we also need to assume a similar position as far as selling other products to customers from the same segments is concerned. This is of utmost importance for the Group and for the cooperative banking sector.

And we are successful in this field. **Law- and decision-makers need to be reminded that the cooperative banking sector offers great economic value and is a strategic resource of the country.** A resource that is comparable to that of the most developed European countries (Germany, France, the Netherlands or Austria). As far as the former centrally planned economies are concerned, survival and growth of the cooperative banking sector are a Polish specialty! Much remains to be done, however, in order to ensure that Polish cooperative banks enjoy a position that is similar to that of their German or Austrian counterparts. We need a more community-oriented approach and a joint, praxeological effort. Activities taken under the pressure of a crisis situation prove that this is possible.

- What other activities should be undertaken by cooperative banks in order to minimize the economic outcomes of the current crisis?

It depends on the time frame. In the short term, it is important to **stabilize the profit and loss account in an environment in which interest rates are close to zero.** Quick and decisive actions are needed here. We need to follow in the footsteps of the largest deposit banks that determine the price of money on the market. According to our research, we have here - as a sector - some space in which we can act.

Another issue that is of utmost importance at the moment is **to effectively support our customers. We need to take a pro-active stance and assist them in applying for all types of relief measures that are available.** The manner in which we handle the demand for entrepreneur stimuli not only shows how much we care about maintaining our customer base, but is a specific “war for customers”. A company or an entrepreneur that receive some assistance from their bank will remember that for a long time! The opposite is true as well: a customer that feels neglected by its bank will simply vote using their feet.

I think that the Group of Cooperative Banks Bank Polskiej Spółdzielczości (BPS Group)¹, including the associating bank and BPS Institutional Protection System (BPS IPS), are doing a very good job here, especially as far as the procedures and technological

¹ <https://www.bankbps.pl/english>



solutions are concerned. They introduced a loan-repayment moratorium, opened a web portal with information about various types of assistance available to BPS Group customers, and provided a platform for applying for funds offered by state PFR² (Polish Development Fund). All that shows that when in need, we can act not only rationally, but also very efficiently! I am glad that all associated cooperative banks are actively participating in those undertakings. That is how critical mass is created and how the image of cooperative banking is boosted in the eyes of the public, decision-makers and the rest of the banking sector. We often fail to appreciate how important all that is. And this is a separate issue. My position is very clear: some of our joint projects should not depend on the will of a particular bank. This is anarchy. Operating under the name of a “cooperative bank” and under a single logo, we should all meet the standards that have been agreed upon. There is room for differences, but there should be a minimum requirement, a reference point in place. Otherwise, we will never shake off general opinions stating that “cooperative banks do not participate in this” or that “cooperative banks fail to offer that”. We all need to understand that such an approach shown by some banks (luckily, just a few of them) undermines the great effort and achievements of the hundreds hard-working people involved in that process. This should not be allowed and tolerated as a manifestation of improperly interpreted freedom. This is piggybacking - something that we all pay for in the end.

Wide-scale use of guarantees provided by Bank Gospodarstwa Krajowego – BGK³ (state development bank) is another issue that needs to be taken into consideration. First of all, the guarantees mitigate risks borne by individual debtors. Secondly, they also serve as a shield protecting against solvency ratio threats. We should all be imaginative enough to know that those ratios may be put to a test should the most Cassandrian prophecies about the extent of the recession materialize. And thirdly, they are of systemic importance for cooperative banks. As far as the distribution of BGK guarantees is concerned, cooperative banks should enjoy a share that is similar to their participation in the SME market. Any other results are simply irrational.

- There is an old proverb saying that we are stronger when acting as a group. The Covid-19 crisis is a time at which cooperative banks should be united. They should be acting in a more coordinated manner. That is what you are calling for. Are cooperative banks capable of overcoming their previous resistance against broadly understood integration?

We shall see. I am an optimist and I do notice that things are gaining momentum as far as integration is concerned. That's what I want to believe. The state of emergency has shown that only when acting as a group, may we be a serious partner when it comes to such assistance-related campaigns as the “Financial Shield” provided by PFR. Upon reflection, we come to the conclusion that problems anticipated in connection with the coronavirus crisis may be easier to overcome if we operate as a Group. That boosts mutual understanding. We also need to bear in mind, however, that the foundations will remain the same, unless we facilitate the process. Integration will not succeed if we fail to place an emphasis on other issues in the public debate within the sector of cooperative banks. I know a lot of people who think in the same way and express similar views during background talks. Public meetings, in the meantime, have often been dominated by views supporting outward trends.

It needs to be stated clearly that there are both horizontal and vertical integration processes within the cooperative banking sector. Some cooperative banks join their forces,

² <https://pfr.pl/en/>

³ <https://www.en.bgk.pl/our-bank/>



but cooperation between the associated banks and the associating bank is becoming tighter as well. This has been and still is the case in all those countries in which cooperative banking is still meaningful today. In Germany, cooperative banks enjoy a 30% market share. The sector has great infrastructure offered by the associating bank, its IT company and product-specific entities. The entire industry uses a single system. Despite such advanced vertical integration, horizontal integration continues as well. In 2004 there were over 1,400 cooperative banks in Germany. Less than 800 exist today. These are the facts. This process is impacted by globalization, regulatory pressure, concentration taking place in the sectors served by the banks, the resulting portfolio concentration, and by digital advances.

It needs to be stated clearly that **certain shifts and adjustments are possible when considering both vertical and horizontal integration. The better the vertical processes are organized, the less pronounced the need for horizontal integration, i.e. mergers, will be.** The economic parameters of the associated banks will improve too, just as will their market/product-related tools. The opposite is true as well. The less integrated the vertical processes are, the more acute the pressure to merge will be. These are the facts. You may be whispering reality, but that will not lead you anywhere! So, the conclusion is that the strongest supporters of the independence of individual banks should be also preaching the need for strong and efficient associating banks. It is not always the case, which is rather strange.

- Should any conclusions drawn from the pandemic be taken advantage of in the newly created strategies of the banks? If so, to what extent? Do you think that customer service-related experience gathered in those difficult times will help the banks change their technologies, tools, working methods and habits?

I have already mentioned a number of things that should be continued after the crisis ends. There are many signs showing that **technological developments are speeding up.** This is very much true. **Many of us notice that our organizations have become simpler and that we were previously dealing with numerous, surplus burdens in the everyday activity of our companies (e.g. excessive number of e-mails).** Why were we doing that and who was supposed to benefit from those complications? Right now, some of those activities are suspended and it turns out that businesses are doing well without them. The thing is that we tend to emphasize, in our observations, issues that depend largely on our background. Other issues will be noticed first by a financial mathematician, other by an IT expert and other by a technocratic manager. **I am a fan of social science, so let me stress once again that in my dreams, the crisis leaves us with a stronger feeling of unity within the sector.** We need to become aware of the interdependencies between us and of the fact that we need to take care of our well-being and of our fate together. Let this be the foundation on which a stronger Group and a stronger market position will be built.

The webinars organized by our association are one of the fine examples of the novelties brought by the coronavirus. First of all, they enable a virtually unlimited number of people from our organizations to expand their knowledge, reaching directly to the source. Second of all, they allow us to get to know the people from the associating bank and IPS. The distance between people from our banks and those from the associating bank (BPS) and IPS BPS is shrinking. I can see that in Ostrów Mazowiecka too. My employees know the people from BPS, they can give them a call and address them on the first name basis. Sometimes, we are not aware of how much that brings us closer and how much more efficient our organizations have become. Thirdly, the



webinars reinforce the identity of the Group. They allow the employees of the associated banks to feel a part of it as well. This is of utmost importance!!!

What is your opinion on the manner in which the traditional relational banking model, based mainly on physical proximity, deals with the outstanding pace of growth of digital proximity that is becoming more prominent these days, not only in the world of banking?

I continue to be moderately optimistic. **We need to adapt to the new technologies and stay in the game. However, it is not the case that the entire society is looking forward to abandoning personal relations altogether.** We need to remember about the huge *silver economy* sector that continues to grow all the time. Those people are longing to go shopping, visit a hairdresser's, a bakery, a doctor or a bank. Not because they are unable to use any mobile channels. They need those visits due to social and mental reasons. Let us remember that our life is divided into several phases: we learn, marry, bring up our children, build our houses and take care of our professional careers. All that requires us to spend huge amounts of energy. That is why we want everything to be available instantaneously, intuitively, remotely and digitally. This is natural. But then, a moment comes when the kids have left home, grandchildren visit us once per month or live abroad, we are retired and no longer get invitations to different events. Your calendar becomes empty and you start to actively look to meet other people and to interact socially. A couple days ago I read a long interview with professor Adam Strzembosz who is 90 years old. He said that he is still in a good shape thanks to his daily rituals. These are the little things, such as your morning coffee, a walk, reading your favorite newspaper, visiting a cafe, paying you bills.

That is why **a smart organization needs to base its approach to the technological changes you are asking about on two pillars: remote and digital service, but also on personal, relational service...** We also need to remember that the current pace of technological change worries a lot of people. The questions they raise are not unsupported. Some of the best questions are asked by Yuval Noah Harari in his erudite book "21 Lessons for the 21st Century". As local banks, we may be a factor that allows people to become familiar with the quick changes...

It is obvious that the least complicated positions will be phased out in banks, as simpler activities are already being taken over by machines. But banks will always need smart, intelligent people capable of relying on various areas of knowledge. This is evidenced by the coronavirus crisis and by the introduction of the loan repayment moratorium or of the PFR Financial Shield. It took the BPS Group and the second Polish association of cooperative banks SGB-Cooperative Banking Group⁴ two weeks to make all legal, procedural and IT-related arrangements. A web portal offering all assistance-related tools and knowledge was launched. Webinars for the majority of employees of the associated banks have been conducted. Customers have been informed and the process of collecting applications was launched. In the meantime, hundreds of smaller and bigger problems were solved. The results? Over 2,000 businesses (customers of BPS Group) have submitted (in a few days between April 30 and May 5, 2020) their applications to PFR and have received PLN 250m in funding! The demand for human intelligence and willingness to act has not decreased. The challenges we are facing are all that is changing. Regardless of the world that we live in, good organizations always combine

⁴ <https://www.sgb.pl/about-sgb-group/>



three things: knowledge, continuous education and commitment. The same applies to a single cooperative bank and the entire BPS Group.

There is one more thing that may underline the relational nature of cooperative banks, giving them another chance to thrive. I am talking here about a shift toward their local nature, ecology and subsidiarity. We keep reading about those things all the time, as we live in the times of a pandemic and it has occurred to us that the model of growth and globalization were were pursuing has its limitations... we understand that the majority of issues have to be dealt with on a local and regional level, with the individual stakeholders cooperating globally and within the framework of such organizations as the European Union.

A claim stating that these trends are mutually exclusive is false! We are aware that we have already strained natural and social ecosystems to their limit. Such a way of thinking is becoming more popular during the coronavirus pandemic. But it had been surfacing slowly for many years before as well. We only need to check the works of such authors as Naomi Klein or Benjamin Barber and his book titled "If Mayors ruled the World".

Stiglitz or Jeremy Rifkin ("The European Dream") also wrote about a more human economic model many years ago. The same approach is also shared by Edwin Bendyk - the author of "In Poland, Meaning Everywhere". **The model of local banking is a perfect fit for the ideological mega trends promoted by those authors. We need to align with those trends as well. We must not negate globalization, but focus on correcting its side effects.**

The fact that those trends are gaining in strength must not calm us down, as we must understand that those trends will be taking place in parallel to globalization and consolidation, and that they will not relieve us from the duty of adapting the economic aspects of our activity to competition with the big players. Let me repeat once again: close cooperation, sharing costs and avoiding their duplication may improve our economic parameters and save the model that is based on local and close relations with our environment. **One thing is certain: in order to be a part of the transformation, we need to continuously educate our human resources. That is where it all begins...**

- As far as the current situation is concerned - what assistance does the Cooperative Bank in Ostrów Mazowiecka offer to its customers and to the local community?

We are offering all the support I mentioned above. **Most importantly, we are operating as an element of the BPS Group and we share our experience under its logo. From the first day on which it became apparent that the economic lockdown will cause serious disturbance to our customers, we committed ourselves and fully implemented the loan repayment moratorium requested by the Association of Polish Banks in collaboration with the National Association of Cooperative Banks (KZBS – Krajowy Związek Banków Spółdzielczych⁵). We were very quick in implementing the procedures and systems needed to enable our customers to submit applications for economic support and annexes to loan agreements. Several days after the publication of Announcement No. 1 by the Association of Polish Banks, we commenced the process of deferring the repayment of loans via our online banking systems. By the end of April, we received over 200 requests and deferred the payment of PLN 5.5m in loans. There were voices saying that we acted too quick, but the weeks that**

⁵ https://kzbs.pl/about_us.html



followed showed that everybody has to participate in this process and that it is better to be prepared beforehand. And we always have to bear in mind that there are market- or sector-specific standards in place. By deciding not to follow them, we would find ourselves in a difficult position, giving ground to those who tend to categorize cooperative banking as being inferior. We need to bear that in mind, but I am by no means saying that the “grace period” should be awarded to everyone, *ex officio!* This is not true. But a situation in which a customer is informed that their bank does not participate in the system is absolutely unacceptable. Such an approach harms not only that particular bank, but all those who operate under the same logo and under the “Bank Spółdzielczy” brand.

As far as other activities are concerned, we support the hospitals in Ostrów, Ostrołęka, Wyszaków and Wołomin. So far, we have earmarked PLN 120,000 for that purpose from our own funds, and PLN 20,000 we raised among our employees. We are continuously keeping our customers informed about all forms of support they are eligible for.



The National Association of Cooperative Banks represents interests of Polish cooperative banks - members of the Association.

It is an official representative of the industry towards the state authorities and administration. It also represents cooperative banks in contacts and cooperation with the foreign cooperative bank industry. It significantly contributes to the development of a legal and regulatory environment friendly to cooperative banks, playing an indirect part in optimizing terms of service for members and clients of cooperative banks in their local communities.