

THE ROLE OF THE BANK GUARANTEE FUND IN PROTECTING THE INTERESTS OF THE DEPOSITORIES IN THE POLISH BANKING SYSTEM

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Abstract:

The article presents a short analysis of the banking sector in Poland as well as the tasks, mission and goals of the Bank Guarantee Fund. The analysis of the guaranteed reimbursements paid since February 1995 till January 2016 shows that the banking sector in Poland is quite stable. Between 2002 and 2013 no bank, be it commercial, cooperative or a credit-and-savings union did not file for bankruptcy. The first years of the BGF's activity were particularly difficult – the years 1995 and 1996 when a total of 81 institutions collapsed. However the biggest challenge for the Bank Guarantee Fund was experienced in the last 2 years (2014-2015). In this period record high obligations had to be paid by the BGF after the bankruptcy of SKOK 'Wołomin', SKOK 'Wspólnota' and credit-and-savings unions as well as the cooperative bank called SK Bank. The beginning of 2016 brought another collapse – a much less spectacular than the previous ones, but nonetheless an extension of a dangerous market trend – the bankruptcy of SKOK "Kujawiak" credit-savings union seated in Włocławek. This initiated a subsequent reimbursement of funds by the Bank Guarantee Fund. The situation of the banking sector in Poland is becoming less and less stable, especially in the area of cooperative banks and foremost among the cooperative credit-and-savings unions. One must emphasize that so far the Bank Guarantee Fund has effectively met all of its obligations and it constitutes a real pillar for the security and the stability on the financial market.

Keywords: Bank Guarantee Fund, BFG, protection, guarantee, security, banking system, bank.

1. THE BANKING SYSTEM IN POLAND

The basic problem undertaken in this article is the analysis of the security of the deposits entrusted to banking institutions in Poland. For that purpose the financial guarantee mechanism in the Polish banking system is examined. The article presents legal regulations and practical experiences, which allow one to have confidence that the customers of banks and credit unions can feel safe to entrust their savings in the aforementioned financial institutions. The method of documentation analysis as well as the method of logical inference is used. The author took into consideration the most recent economic data published by the Bank Guarantee Fund and the Financial Supervision Committee, which constituted the base for this analysis. The argument presented by the article is the following: The Bank Guarantee Fund is an institution which effectively secures the interests of the customers of the Polish banking system.

Every country faces an important challenge of maintaining adequate supervision and safety for the national financial system. In Poland, the institutions responsible for this task include: the Polish Financial Supervision Authority, the Insurance Guarantee Fund and Bank Guarantee Fund. The security of financial sector is above all provided by the properly constructed national law.

Bank Guarantee Fund (BGF) constitutes a crucial instrument for the protection of the interests of the depositories in the Polish banking system. It plays an important auxiliary role for banks threatened with bankruptcy, as well as it guarantees the customers, that they will receive their deposits back in case the institution collapses up to a sum of EUR (€) 100 000, expressed in Polish zlotys (PLN).

The banking sector in Poland is considered the largest and most developed sector of the national economy. In 2011, the assets of the sector reached the value of PLN 1.3 trillion (~ EUR 0,29 trillion¹). They were estimated 11.7% higher, compared to the previous year. The sector accounted for 85,2% of Polish GDP, compared to 81,9% in the previous year (Wiktorzak, 2014, p. 17). Such an extensive branch of economy does require special supervision and security. Thus, the depositories, namely the customers of the banking system, must be covered by exceptional protection. The Financial Supervision Commission is among others, one of the most significant control organs for the sector. Financial safety network in Poland, consists of the Ministry of Finance, the National Bank of Poland and Polish Bank Association. The safety of the deposited funds is ensured by the Bank Guarantee Fund (henceforth: BFG), which is the institution analyzed in the following paper. The organization is a significant body of the national financial safety network.

The data indicate a total of over 600 banks operating in the Polish Banking System. (Table 1.).

Table 1: Banks in Poland, in the years 2007-2011

Specification	Year				
	2007	2008	2009	2010	2011
Total	645	649	643	646	640
Commercial banks	50	52	49	49	47
Branches of credit institutions	14	18	18	21	19
With the majority of Polish capital	10	10	10	10	10
With majority of foreign capital, including:	54	60	57	60	56
100% foreign capital	33	39	37	39	37
Cooperative	581	579	576	576	574

Source: Ostrowska, 2013, p. 13.

Cooperative banks are the primary type of financial institutions that operate in Poland. Commercial banks and credit institutions, especially of a foreign origin, play a more significant role on the domestic market. Crucially, only 10 of the above hold the national status due to their capital interest. The data confirm certain stability of the banking sector in Poland. Changes in number and structure of business entities are in fact cosmetic. All of the institutions, estimated in 2011 at a total of 640, are covered by supervision and guarantees of the national organizations.

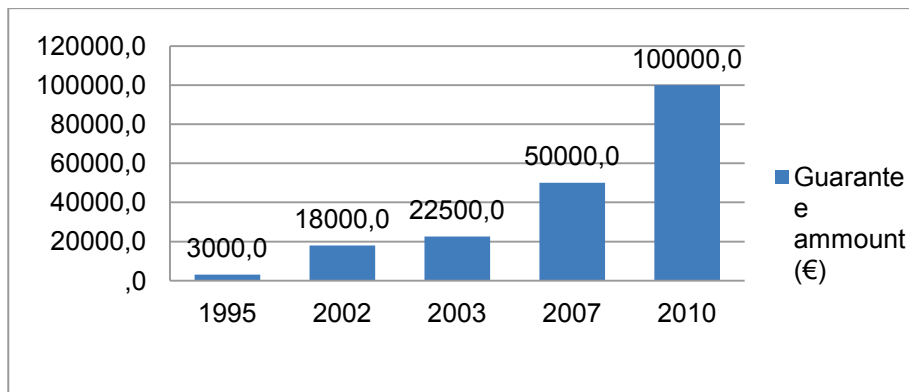
2. TASKS AND OBJECTIVES OF THE BANK GUARANTEE FUND

Bank Guarantee Fund (henceforth: BFG) is the institution responsible for stabilizing the domestic financial system. This organization provides mandatory guarantee and protection for bank deposits in Poland,

¹ Exchange rate of 2016-29-01 according National Bank of Poland (NBP): 1 EUR (€) = 4,44 PLN. This exchange rate is using in the whole article.

supports and provides financial assistance to the entities of the system. All banks operating within Polish territory are mandatory members of the system. The Bank Guarantee Fund has been supervising banks (both commercial and cooperative) since the onset of the programme in 1995, and unions (cooperative, savings and credit unions) since 2013. The primary obligation of this body is the payment of up to €100.000 to every depositor, within 20 working days from the date of the fulfillment of the guarantee conditions (picture 1).

Picture 1: Disbursement limits for the Bank Guarantee Fund



Source: BGF Annual Report, 2014, p. 25 and Zaleska, 2007, p. 77.

In 2014, the Bank Guarantee Fund ensured safety of all deposits in banks and unions in Poland. 38 commercial banks, 565 cooperative banks and 50 cooperative savings and credit unions (also known as SKOK's) were covered by guarantees and security. (BGF Annual Report, 2014, pp. 20-22).

The Bank Guarantee Fund's mission is to contribute to safety of deposits and to prevent bank failures. The functioning of the Banking Guarantee Fund is not only essential for banking and finance customers, but also for the entire national, and to some extent, the international economy. The operation of BFG is therefore in the interests of many parties. Bank Guarantee Fund stabilizes the banking sector and significantly affects the trust of various bodies and authorities, which utilize banking services. The functioning of any banking system in the world is based, in the highest degree, on such values as: safety of deposits, customer trust and loyalty, and the rule of law. The Bank Guarantee Fund is the institution, which largely integrates all the values. It is worth mentioning that the presence of the Bank Guarantee Fund on the Polish market is not an exceptional phenomenon. Similar institutions operate in many other countries in Europe and around the World. (Sura, 2013, p. 140).

3. BGF FUNDING SOURCES

The Polish system of BGF funding is of a hybrid character: ex ante and ex post. The former term can be defined as the payment of obligations from the funds collected in advance, in accordance with the financial plan for each financial year. Ex post is defined as the funds collected after fulfilling the guarantee conditions. The primary funding source for the guarantees is the Guaranteed Deposit Protection Fund. The fund is mandatory for all the banks participating in the system. The amount of the fund is determined by the product of the sum of the accumulated bank deposits. The interest rate is determined by the BFG board (in 2014 - 0,55%). The Guaranteed Deposit Protection Fund is not a financial burden for a bank. It is, therefore, a preventive measure, in accordance with the principle of ex ante. It is worth mentioning that the prevention of bank failures in Poland involves granting term loans from aid fund, which is liable to entities financed by the Bank Guarantee Fund. The scheme for the guarantee disbursements, with reference to the funding sources, is listed below :

Funding of the guarantee bank deposit disbursements::

1. GDPF of the bank with respect to which guarantee condition was fulfilled (ex-post);
2. GDPF of other banks covered by the deposit guarantee scheme (ex-post);
3. the bankruptcy estate recovery funds of banks (ex-ante);
4. assistance fund (ex-ante);
5. other own funds (ex-ante).

The following procedure clarifies that the guarantees are disbursed primarily from mandatory bank guarantee funds and other entities of the banking system. Further obligations are covered from the bankruptcy estate.

Assistance funds and the BGF's own resources are executed only when the obligations are not met. However, this is the last resort. Primarily, the banks are called to the physical implementation of the guarantee. A clear division between the ex-post and ex-ante instruments is visible in this process. Therefore, the Polish guarantee bank deposits funding is of the hybrid character.

However, the scheme is different in terms of SKOK's (unions). Obligations to customers are in the first place covered from the guarantee fund of the unions (ex-ante), then the free resources of the stabilization fund for the National Savings Union (ex-post), and ultimately from the BGF's own funds. Guaranteed deposits for the saving unions are subject to mixed security. The scheme shows similarity to the Deposit Guarantee Funding (BGF Annual Report, 2014, pp. 26-27).

4. BGF REIMBURSEMENTS IN THE YEARS 1995 - 2016

Polish system of funding for the claims of banking customers states that a case is subject to the statute of limitation, after 5 years from the date of suspension of activities of the bank. Deposit disbursements are most frequently realized by the branches of a failing bank, or in other banks covered by prior agreements with the Bank Guarantee Fund. Customers are informed about the fact via national media, BGF hotline, or in bank branches.

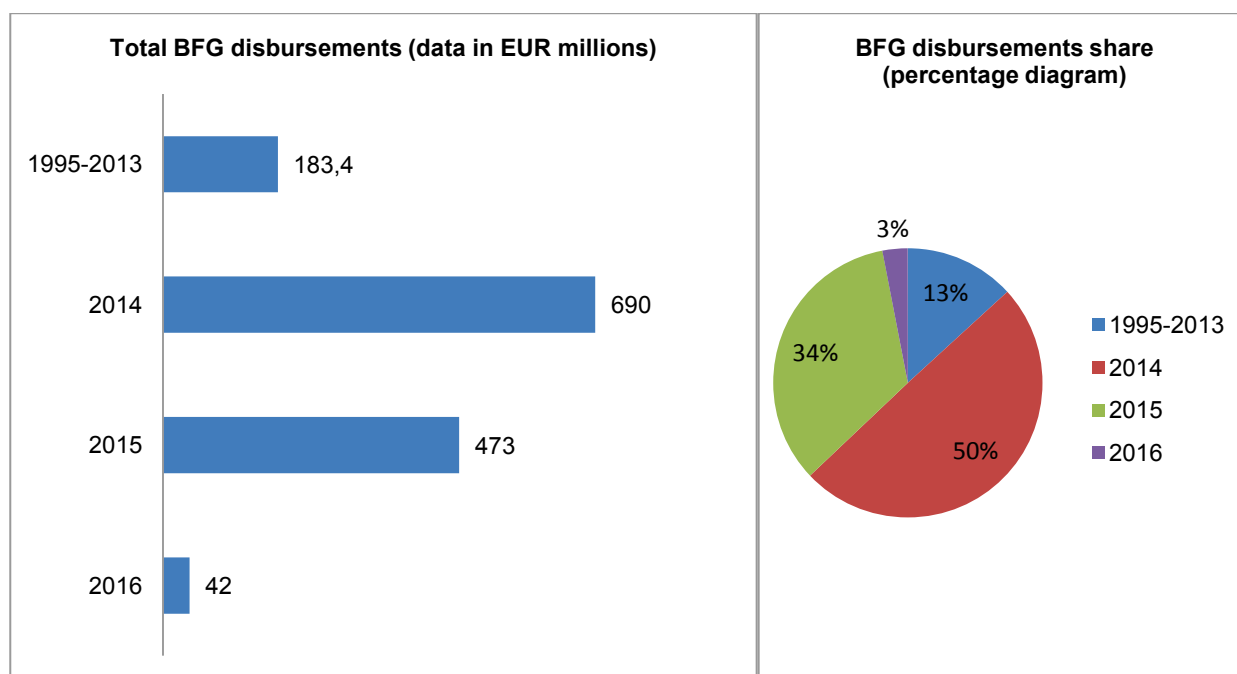
Previous experience from the years 1995-2016 leads to the conclusion that deposits in Polish financial institutions have been kept safe. The data indicate that in the years 1995-2013 guarantee funds were disbursed to 318.8 thousand deponents in 5 commercial banks and 89 cooperative banks, covered by deposit guarantee scheme, for the total of EUR 183.4 million. Record disbursement of SKOK deposits was noted in 2014 after SKOK 'Wspólnota' and SKOK 'Wołomin' failures. The amount of EUR 690 million was allocated for guarantee payments, which constitutes for EUR 0,69 billion. (BGF Annual Report, 2014, p. 28). This operation was the key motivation for the author to focus his attention on the BGF and guarantee funds, and to write this paper. This operation, however, was not the only one of its kind in the Polish banking sector in the last 3 years.

On 30 December 2015 the Co-operative Crafts and Agriculture, under the trade name of 'SK Bank', based in Wołomin, was declared bankrupt. Consequently, the Bank Guarantee Fund executed the payment of guaranteed funds to depositors, through Bank Zachodni WBK SA, in the period November 30, 2015 - January 29, 2016. Customer deposits reached the sum of EUR 473 million (SK Bank).

On 8 January 2016 SKOK 'Kujawiak' was suspended by the Financial Supervision Commission. At the same time it has been decided to file a bankruptcy petition in the court. This institution is therefore, the third union alongside SKOK 'Wspólnota' and SKOK 'Wołomin', which declared insolvency. The obligations of the union are disbursed by the Bank Guarantee Fund through Pekao Bank S.A. from 18 January 2016 to 4 March 2016. According to the Financial Supervision Commission the deposits of the members of SKOK 'Kujawiak' reached the amount of EUR 42 million.

Financial summary of guarantee disbursements in the history of BFG were presented in picture 2.

Picture 2: Total disbursements in the BFG history



Source: The authors own study.

Table 2. presents the number of entities, to which Bank Guarantee Fund guarantee payments were disbursed in the period from February 17, 1995 (the date the BFG act become effective) to 31 January 2016.

Table 2: BFG Deposit guarantee schemes in the period of February 17, 1995 - January 31, 2016

Year	Commercial banks	Cooperative banks	SKOK Credit Union
1995	2	48	No security
1996	1	30	No security
1997	-	6	No security
1998	-	4	No security
1999	1	-	No security
2000	1	-	No security
2001	-	1	No security
2002-2012	-	-	No security
2013	-	-	-
2014	-	-	2
2015	-	1	-
I 2016	-	-	1
Total	5	90	3

Source: own study based on BGF Annual Report, 2014, p. 32 and SK Bank reports, SKOK 'Kujawiak' and the Financial Supervision Commission.

The above data indicate that the biggest challenge for the Bank Guarantee Fund were last two years (2014-2015). In this period the largest amounts were paid to the former customers of the bankrupt unions, in the 20 years in the BGF history. In terms of structural portfolio of the banking sector in Poland the years of 1995-1996 proved to be the most difficult, when the greatest number of commercial and cooperative banks declared bankruptcy. The beginning of 2016 resulted in the collapse of another financial institution (SKOK 'Kujawiak'). Although the fall was defined as less spectacular and costly, compared to previous years, the guarantee deposit scheme reached EUR 42 million.

Recently, however, four SKOK's successfully opposed to failure and were taken over by banks operating in Poland. Those were namely:

- SKOK Św. Jan z Kęt - taken over by Alior Bank S.A. (August 2014);
 - 18 thousand. members;
 - EUR 13,1 mln of deposits;
- SKOK Mikołaj Kopernik - taken over by Pekao S.A. (December 2014);

- 127 thousand. members;
- EUR 99 mln of deposits;
- SKOK Wesola - taken over by PKO BP (August 2015);
 - 63 thousand. members;
 - EUR 140,6 mln of deposits;
- SKOK Cardinal Stefan Wyszyński - taken over by Alior Bank S.A. (July 2016);
 - 34,3 thousand. members;
 - EUR 39,4 mln of deposits

For a long time the cooperative credit unions have been experiencing difficult times. The claim could be supported not only by the examples of credit unions listed in the text. It is also evident in the above transfers to domestic banks, carried out with the support of the Bank Guarantee Fund. Otherwise, an obligation to guarantee the subsequent payments from the Guarantee Fund, for a total amount of about EUR 292,1 million, would be necessary. Another alarming fact is the speculation over the financial health of other banking entities. Deutsche Bank is said to have been experiencing difficulties, the potential failure of which, could lead to negative consequences exceeding current experiences of the Bank Guarantee Fund, the customers, and even the entire financial market in Poland.

5. CONCLUSION

The establishment of Bank Guarantee Fund is considered a rescue programme for banks on the verge of bankruptcy. The BFG meets the interests of multiple parties, not only banks, but above all, customers of banking services in Poland. In the broader context it influences the entire national economy. The BFG performs numerous functions (e.g. informational, educational), among which the aid and guarantee functions are the most important. The former provides help to financial institutions at the risk of insolvency, by loans and favourable guarantees. The latter function is integrally connected with the essence of BFG, which is a guarantor for stability and security of the deposits. According to M. Capiga "deposit guarantee scheme is the most important element in the financial safety net (...) It protects customer savings directly (through the disbursements of guaranteed funds in case of bank failure) and indirectly (by providing financial support to banks at risk of insolvency)" (Capiga, 2011, p. 73).

The analysis of current activity of the Bank Guarantee Fund indicated that the banking sector was relatively stable until 2014. The exception applies to the years 1995 and 1996, when numerous entities declared bankruptcy. The following fact justified the establishment of BFG deposit safety mechanism. In the years 2002-2013 no commercial, nor cooperative banks were declared bankrupt. SKOK credit unions were subject to security since 2013. Unfavourable and dangerous phenomena for the banking sector were present in 2014, when two unions declared bankruptcy. In 2015 SK Bank failure was noted, whereas in January 2016 the third SKOK declared bankruptcy. Bank Guarantee Fund faced a difficult challenge to disburse the guaranteed deposits for the largest scale in its history. In 2014, it was EUR 690 million, a year later another EUR 473 million, and in 2016 nearly EUR 42 million. Latest events on the market cast doubt on the stability of the banking market in Poland. It is worth mentioning that these problems primarily affect cooperative banks and SKOK credit unions.

Trust for the bank is the key value, thanks to which customers decide to entrust their own funds to a particular institution. Bankruptcies of financial entities in Poland, uncommon since 2002, cast doubt on the above mentioned stabilization. Thus, the role of Bank Guarantee Fund is to strengthen customer trust in banks through effective assistance to entities on the verge of failure. The role is executed through reimbursement of guaranteed deposits to the customers of an institution covered with the BGF scheme. It is worth noting that to date, the Bank Guarantee Fund has functioned effectively in Poland. BGF is therefore, a real pillar for security and stability of the financial market. In view of the following findings, it must be concluded that the research hypothesis included in the paper was confirmed. On the basis of the adverse events in the banking sector, it can be stated that BGF complied with its obligations. The institution also proved the status of safeguard for the interests of customers, of the banking system in Poland.

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