Economic situation and the Polish households’ behavior on the financial market

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Abstract
The extent to which households take advantage of financial services depends on many factors – both macroeconomic (the dynamics of the GDP growth, the level of inflation, the unemployment rate, wages, interest rates, the economic situation, the law, etc.) and microeconomic (education, the size of the household and its stage of development, current expenses, the size and structure of financial resources, the place of living, the consumption model, priorities in life, etc.). The aim of this article is to identify the impact of fluctuations in the business situation of the financial sector on the activity of Polish households in the financial market. The analysis includes the following factors influencing the market behaviours of households: financial institution selection factors, communication method between the clients and the financial institution, the rating of the quality of financial services offered. The analysis was conducted in Poland in a long period of time encompassing the years of 1995-2011, i.e. different economic situations. The source base for the empirical analysis was data coming from the quarterly research into the business situation of the financial sector and the annual national monitoring of households concerning the use of financial services. The organiser of both of the aforementioned research studies was the Marketing Research Department at the University of Economics in Poznan (presently, the Services and Market Research Department).

Key words: economic/business situation, household, financial services, market behaviours, factors influencing behaviour

JEL: E32, D12, D14, G32
1. Introduction

Consumer behaviour is a complex process, understood as all activities regarding the acquisition and use of goods and services in order to satisfy needs previously hierarchized by the consumer (Engel, Blacwell, Miniard 1993, p. 4). Kieżel, on the other hand, defines consumer behaviour as a coherent whole of steps, actions, operations related to making choices in the process of satisfying consumer needs under specified social, cultural and economic conditions (Kieżel 2010, p. 58). Consumer behaviour is thus formed on the one hand by the felt needs, and on the other hand by the manner of searching, selecting and using goods and services satisfying those needs.

An important area of consumer activity on the market is their financial behaviour. Behaviour of this type may be defined as a group of actions and operations related to making choices in the process of satisfying financial needs (Smyczek 2007, p. 67). These are, therefore, actions including managing the budget, saving, borrowing, investing, insuring, paying taxes, speculating or managing wealth (Antonides, van Raaij 2003, p. 439). There are four levels of financial behaviour - managing budget and cash, developing and maintaining a financial reserve, financing purchases, and investing and multiplying wealth (Lindqvist 1981, p. 39). Participating on the abovementioned levels of financial behaviour depends primarily on the material status and the size of consumer’s income.

Bywalec has a slightly different understanding of financial behaviour, namely that it is “the whole of people’s (household’s, enterprises’, etc.) attitudes and actions directly relating to the acquisition and allocation of funds. Financial behaviour is a component of economic behaviour, with particular regard to their market and consumer dimension” (Bywalec 2012, p.29). Fatuła, in turn, defines financial behaviour as “all measures taken to satisfy current financial needs: storing, securing, controlling and accessing funds, and fulfilling future goals by taking loans, saving, investing, insuring, and taking advantage of various services offered by relevant financial institutions” (Fatuła 2010, p. 34).

Already the above definitions show that consumer behaviour and consumer activity on the market are determined by many different factors, which leads to great variation. The behaviour of households on the financial service market has been considerably influenced by macroeconomic factors, namely changing dynamics of GDP growth, inflation or unemployment rate (Garczarczyk, Mocek, Olejnik, Skikiewicz 2006, p. 113-121). In the years 1995-2012 Poland’s Gross Domestic Product increased more than four times - from PLN 308 bn to PLN 1595 bn. In this period of time, the unemployment rate fluctuated significantly (from 8.8% to 20.6%), with its value being 14.9% in 1995, and in 2012 reaching a similar level of 13.4%. Also, the inflation rate in the analysed period of time was subject to considerable fluctuations (from 0.8% to
27.8%), with its value being clearly higher in 1995 (27.8%) than in 2012 (3.7%). The behaviour of Polish households on the financial service market has also been affected by factors of microeconomic character, including level of education, age, number of household members, size of income, place of residence, household development phases, etc. (Bywalec 2012, p. 31-58).

In previous studies different authors undertook the subject of the influence of both macroeconomic and microeconomic factors on household behaviour on different markets, including financial markets. However, these studies did not analyse the influence of the changes in the economic situation on the activity of households on financial markets, and on the factors shaping this activity. The present paper constitutes an attempt to fill this gap.

The aim of the paper is, therefore, to identify the influence of the economic situation fluctuations in the banking and insurance sector in the years 1995-2011 on the factors shaping the activity of Polish households on the financial service market. The scope of the analyses will address the following issues:

- attitude towards saving;
- factors determining the choice of an insurer or a bank;
- assessment of the reliability of financial companies, the width of offer and the promotion of services;
- assessment of the insurance services’ quality.

The source base for empirical analyses were the results of the quarterly economic situation survey in the insurance and banking sector, and the results of annual Polish-wide monitoring of households on the use of financial services. The organizer of this survey was the Department of Marketing Research of Poznan University of Economics (now the Department of Market Research and Services).

2. The economic situation in the banking and insurance sector in the years 1995-2011

The insurance services sector is, not only in Poland, one of the fastest growing sectors of the economy. In 2011 Polish financial institutions had a total of assets representing the equivalent of approximately 118.5% of GDP. The share of other institutions than banks in these assets amounted to 33.5% of GDP, while in Germany it was 70%, and in Great Britain approximately 220% of GDP.

The financial sector in Poland grew very dynamically, which is reflected in an almost five-fold increase in assets of all financial institutions in the years 1995-2011. By far the biggest dynamics of asset growth was recorded by open pension funds and investment fund companies, whereas insurance companies
recorded relatively lower dynamics (a 27-fold increase). By far the lowest dynamics of asset growth was recorded by banks; however, also in this case, the growth was bigger than this of the whole economy. The above indicators prove the growing importance of the financial sector in Poland.

In the financial sector in Poland the dominant role is played by banks (share in total assets - 71.7%). The consolidation of the sector resulted in the decrease in the number of banks operating in Poland, especially small cooperative banks. The number of commercial banks in the years 1995-2011 fell from 81 to 66, and the number of cooperative banks fell from 1,510 to 574. During the same period, the assets of the financial sector grew from the level of PLN 149 bn to PLN 1,294 bn, which based on the share in Polish GDP amounted to respectively 49% and 85%. Both in terms of the number and the value of assets, banks with the predominance of foreign capital are dominant in Poland; in 2011 the Polish ownership capital amounted to only 35% of the assets value. In that time, the following capitals had the largest share in the Polish banking market (in order): Italian (12.5%), German (10.4%), Dutch (8.8%), American (6.1%), and Spanish (5.7%).

As compared to the banking sector, the insurance sector plays a much smaller role, as the share of this sector’s assets in total assets amounted to merely 8.1% in 2011. Despite its secondary role, a dynamic growth of insurance sector in the years 1995-2011 can be noticed. In this period, the number of companies operating in insurance activity grew from 39 to 61 (including 28 of life insurance companies (sector I), and 33 from non-life insurance companies (sector II). At the same time, there was an over tenfold increase in the insurance premium (from PLN 5.58 bn to PLN 57.13 bn), with the growth dynamics being considerably bigger in sector I (over 17-fold) than in sector II (nearly 7-fold). As a result, there was a change in structure of the premium generated from sector I and II (in 1995 respectively 33% and 67%, and in 2011 - 56% and 44%). Consequently, in the last 16 years there was a significant increase in the share of the generated premium in GDP (from 1.65 to 3.8%). However, it should be noted that despite the increase, the share of the premium in GDP in Poland is significantly lower than in most developed countries. Similarly, the average premium per capita is relatively low in Poland. In the year 2011, the premium per capita in life insurance was PLN 826 (USD 243), while in non-life insurance - PLN 656 (USD 193), in 2007 it was respectively PLN 669 and PLN 478 (USD 268 and USD 191).

In the years 1995-2011 there were considerable fluctuations in economic activity in Poland. Also the economic situation on the domestic financial market was changeable (Figure 1.). A synthetic assessment of the situation on the insurance services market is shown by the PIKU index (Poznański Indeks Koniunktury Ubezpieczeniowej, Eng. Poznan Insurance Business Index) and the PIK BANK index (Poznański Indeks
Koniunktury Bankowej, Eng. Poznan Banking Business Index). They are calculated as weighted arithmetic means of the diagnostic and prognostic simple indicators (Garczarczyk, Mocek, Olejnik, Skikiewicz 2006, p. 76). It is worth noticing that the two discussed financial sectors reacted to the change in the economic situation quite differently. While in good economic situation the results are similar (the A phase), in times of crisis there are some differences. During the crisis of the beginning of the century, banks defended themselves from the crisis for a longer period of time, thus the signals of the downturn appeared in banks much later. The situation looked a little different during the crisis of 2009. Banks were affected by the crisis much faster and stronger (no wonder, as after all they were the perpetrators of the crisis), however, they also dealt with the crisis faster. It is worth noticing that the signals of deterioration were much stronger among banks with foreign capital; in Polish banks the indications were much less pessimistic. These observations lead to the conclusion that the banking sector is in Poland less vulnerable to crises.

Figure 1. The PIKU Index and the PIKBANK Index

Source: data of the Department of Marketing Research of Poznan University of Economics (now the Department of Market and Services Research)

As a result of changeable economic situation, we can distinguish five substages in the financial sector in Poland in the years 1995-2012:

- first stage, to the end of 1996, with increasing pace of growth,
- second stage, from the beginning of 1997 to the second quarter of 2002, with generally decreasing
pace of growth,
- third stage, from the end of 2002 to the end of 2005, again with strong dynamics of growth,
- fourth stage, from the end of 2005 to the middle of 2009, with a prevailing downward trend,
- fifth stage, from the middle of 2009 to the end of 2011, with increasing pace of growth.

In order to analyse the influence of the economic situation in the financial sector on the factors determining the activity of households on the insurance services market, three periods were chosen for further analyses, namely:
- the years 1995-1997, with very good economic situation in the financial sector, and with the upper turning point of the economic situation cycle (the A phase),
- the years 2001-2003, with bad economic situation in the financial sector, and with the lower turning point of the economic situation cycle (the B phase),
- the years 2010-2011, the initial period of recovering from the economic downturn (the C phase).

3. Attitude towards saving

Attitude towards saving is an element in most of the models describing the attitude of households towards money (see Bywalec 2013, p. 24-32). With the plurality of theoretical approaches, there are also different measuring tools; however, the simplest way (from those declarative) is to ask about the attitude towards saving, with answers ranging from “saving is pointless” to “you always have to save”. The attitude towards saving is affected by many personal, environmental and situational determinants, yet it can also be expected that it will be sensitive to the general economic situation on the financial market.

However, the influence of the economic situation on saving behaviour is not unambiguous. According to G. Katona’s research, expecting positive changes in the economy reduces the probability of saving. Good economic situation generates new needs, whose satisfying results in reducing the saving rate. On the other hand, pessimistic attitude is related to a smaller need to have new goods, and an increased saving rate (G. Katona, 1975).

Nevertheless, it should be noted that the latest studies have showed quite different results, indicating the reverse relationship. Households hoping for good economic situation (the economic optimism was studied) save more eagerly than pessimistic households. (J. Rha, C.P. Montalto, S.D. Hanna, 2006) (Y. Yuh and S.D. Hanna, 2010) (S. Białowąs, 2013).

The research revealed that in the phase of good economic situation (the A phase), the majority of Polish households claimed that saving makes sense, but without sacrifice (55%). Every third household is
convinced that one should always save, every eleventh think that saving is pointless.

On the other hand, in the phase of recovering from economic downturn (the C phase), the conviction of the necessity to save is stronger, yet the differences are relatively small. Sixty per cent of households think that saving is important, but without sacrifice. Thirty-seven per cent of households are convinced that one should always save, and only every thirty-sixth think that saving is pointless. Strengthened conviction of the necessity to save may be explained by fresh experiences of the crisis phase, and the decision to create a security buffer for the future.

4. Criteria of selecting different financial institutions in different phases of the economic situation

One of the key stages of the decision-making process regarding the use of a banking or an insurance service is choosing a company (a bank/an insurer) providing a needed service. Such decisions made by households are affected by many different economic, social, cultural, and psychophysical factors. Also the significance of their impact on the final decision is varied. Among many factors, there are those having a universal character, which are directly related to products offered to households (prices, bills, commissions and interest rates, terms and conditions of the agreement, width of the offer), reputation of the service provider, and the accessibility to the company’s offices (in time and space).

The hierarchy of importance of the five factors when it comes to the households’ decision-making is not the same in different economic conditions. And thus, during periods of prosperity (the A phase) the households claimed that the dominant factor when choosing an insurer was trust towards the insuring company resulting from its reputation (an average of 4.19 points out of 5). Much less important factors when choosing an insurer were: the amount of premiums for the offered insurance products (an average of 2.99 points) and the terms and conditions of the offered insurance products (2.90 points); and relatively the smallest attention was paid to the availability of the offices. The key importance of the trust towards the company is demonstrated by the fact that during periods of prosperity, more than a half of households (53.3%) placed this factor as number one in the hierarchy of importance, while the other two were of primary importance only to, respectively, every fifth-sixth and every eighth-ninth household.

When it comes to choosing a bank in this phase, the clients paid attention especially to the

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1 As for insurance, the hierarchy of importance was studied on a scale from 1 to 5 (points assigned to each criterion, where 1 is not important, and 5 - very important). In turn, when it comes to banks, the hierarchy was studied by forcing to create the hierarchy of three most important criteria. Therefore, in the case of banks, the scale is stretched between 0 (no one pointed the criterion as one of the three most important ones) and 3 - everybody pointed the criterion as the most important one.
credibility/guarantee of the State Treasury (an average of 1.36 out of 3 points). Slightly less significant were: the speed and efficiency of service (0.84) and the accessibility of the bank (0.61). Qualifications and knowledge of staff (0.48), the scope of services (0.47), conditions for being granted a loan (0.46), and the amount of fees and commissions (0.44) were of relatively little significance, whereas the whereabouts of a bank did not influence the choice almost at all (0.05). The frequency of choice also reflects the significance of factors used to choose a bank. Credibility proved the most important for half of the households, every third household pointed the speed of service as the most important criterion.

Figure 2. Criteria of choosing an insurance company by households depending on the phase of the economic situation

Source: data of the Department of Marketing Research of Poznan University of Economics (now the Department of Market and Services Research)
In times of economic downturn (the B phase), on the other hand, households considered mainly factors of economic nature when choosing an insurer. Indisputably the most important factor for households was the amount of insurance premiums (an average of 3.42 points), and clearly the second most important criterion were the conditions of the offered insurance products, which determined the scope of insurance coverage and the consequent obligations of the insurer (2.85 points). Trust towards the insurance provider was only the third most important criterion in the hierarchy (2.68 points). Clear decrease of this factor’s significance in times of economic downturn has been indicated by much lower than during times of prosperity percentage of households considering trust to two main factors determining their choice (respectively 44.2% and 75.8%).

During economic downturn the role of the bank’s credibility fell slightly (1.21 point); however it was still the most important criterion. On the other hand, the role of bank’s accessibility increased (1.11). The speed and efficiency of service ranked third (0.98), which is a similar result to this of good economic situation. Similarly to the insurance sector, the rise of significance of the economic factor - fees and commissions - can be observed (0.90 point). Less important criteria of choice were: the scope of services (0.40), conditions for being granted a loan (0.39) and the qualifications of the staff (0.27).

A similar hierarchy of the abovementioned features could be observed when it comes to households making decisions in times of recovery in the insurance sector after a previous relatively bad economic condition (the C phase). However, it should be noted that already at the beginning of the upward trend in
the sector, households were guided to a much greater extent than during the bad economic situation by the
terms and conditions of the provided insurance services (an average of 3.19 points), and credibility (3.14
points), and at the same time they paid even less attention to the full scope of the provided services (2.12
points), and to the size of the branch network, their location and opening time (1.82).

In the case of choosing a bank during the recovery phase, the economic factors gained even more
importance. The amount of fees and commissions became the most important criterion (1.31 point),
pointed by 58% households. The following three criteria also changed their previous hierarchy; the
accessibility of the bank was ranked second (1.06), credibility - third (1.05), and the speed and efficiency of
service - fourth (0.98). The conditions for obtaining a loan proved a relatively less important criterion in this
phase (0.24).

5. The assessment of banks and insurers’ activity and the financial economic situation

Because of the importance of financial services, households observe and evaluate the activity of banks
and insurers all the time. The subject of observations and evaluations made by households are different,
more or less aggregated features of financial services providers. One of the most important features of a
definitely multidimensional character from the point of view of households is credibility, which translates
into giving them less or more trust. A second very important and continuously evaluated feature of a
similarly complex character is the quality of the provided services. And one of the significant features
belonging to the group of more uniform and detailed elements of financial institutions activity is the width
of their offer. Its importance for households results from the fact that this the feature mostly deciding about
the possibility to satisfy varied and, not seldom, not very common needs of a financial character. Also
promotional and advertising activities of the services belong to another feature characterising a relatively
uniform element. There activities are of importance to many households because of the informative function
they perform, which is especially significant in the situation of low financial awareness.

Generally speaking, changes in the levels of credibility of the insurance companies operating on the
Polish insurance market in different conditions of the economic situation of the insurance sector are not the
same. The analysis of opinions on the direction of the trends observed by the households, which were
expressed using a three-step scale (deterioration, no changes, improvement) shows that in the prosperity
phase (the A phase) the credibility of the insurers and trust toward them increased fairly significantly
(balance of +16 points). Improvement in this area was indicated by over a fourth household, whereas
deterioration was noted only by every tenth. In the case of banks, the level of trust increased significantly
more in this phase - the balance is +43 points, the increase in credibility of banking institutions was pointed by every second household.

In the economic downturn phase (the B phase) the situation was relatively worse. Although also in this period an improvement in this particular feature of the insurance companies was noted, the scale of the recorded improvement was only a slight one (balance of +5). In turn, in the recovery phase (the C phase), there was also a slight but absolute deterioration of the insurance companies’ credibility (negative balance of -5). In was in this period that the households pointed rather to deterioration than to improvement of this important for the insurance companies’ clients feature. One could think that the above downward trend constituted to a great extent an aftermath of the earlier period of economic downturn and a relatively short time from this unfavourable for the households state of the economy.

In the case of banks, during the economic downturn the credibility would still improve, but the scale of the improvement was, similarly to the insurance sector, considerably weaker (a balance of +17). On the other hand, in the recovery phase (the C phase), the situation was bad, and both the increase and decrease in credibility was indicated by a similar percentage of households (the negative balance of -2).

**Figure 4. Clients’ assessment of changes in the insurance services market depending on the phase of the economic situation**

Source: data of the Department of Marketing Research of Poznan University of Economics (now the Department of Market and Services Research)
The existence of dependencies between the changes in banks and insurers’ credibility as perceived by households and the economic situation in the insurance sector is also indicated by the value of the correlation coefficient between the two variables. This coefficient was 0.634 for the insurance sector, and 0.594 for the banking sector.

It proves the existence of a statistically significant (at the level of $\alpha=0.05$) correlation between the assessment of credibility of the financial institutions and the economic situation. This is a positive correlation, which means that, generally speaking, along with the improvement of the economic situation, there is an increase in the credibility and trust of the households towards the institutions, while in the case of deterioration of the situation in the sector, the level of credibility (as perceived by the households) of the companies operating on the financial market also decreases.

There is, however, no significant correlation between the economic situation in the banking and insurance sector, and the assessment of the changes recorded by the households regarding the width of the offer and the promotion and advertising of the insurance services. Both in the good and bad economy phase, there was a significant improvement of the situation in both sectors, and the differences between the assessments of the level of improvement are minimal.

Source: data of the Department of Marketing Research of Poznan University of Economics (now the Department of Market and Services Research)
Figure 6. Clients’ assessment of the quality of insurance services and the economic situation in the insurance sector in Poland

Source: data of the Department of Marketing Research of Poznan University of Economics (now the Department of Market and Services Research)

Figure 7. Clients’ assessment of the quality of banking services and the economic situation in the insurance sector in Poland

Source: data of the Department of Marketing Research of Poznan University of Economics (now the Department of Market and Services Research)
The assessment of the quality of services provided by the financial institutions is related to the changes in the economic situation to a relatively smaller extent. One could think that it results from the multidimensional character of the category of service quality, and in the case of insurance also from relatively rare procedures regarding the course and the consequences of settling all claims. Despite that, by analysing the level of assessment performed by the households on the quality of financial services measured in a 5-step scale ranging from 1 (the lowest rank) to 5 (the highest rank) in different phases of the economic situation (A, B, C), the existence of clear regularities which require emphasis can be identified.

It turns out that, generally speaking, according to households, in times of good economic situation (the A phase), the quality of provided banking and insurance services was higher than in times of the economic downturn (the B phase). And so, in times of prosperity the average quality assessment was at the level of 3.84-3.90 points for the insurance sector, and 3.97-4.06 for the banking sector, in times of the economic downturn the assessment was respectively 3.80-3.81 points, and 3.82-3.83 points. The regularity saying that better economic situation is accompanied by a higher quality of financial services is also confirmed in the case of the recovery phase (the average assessment is over 3.83 for insurance and 3.99 for banks).

Another regularity worth underlining is the fact that both in times of prosperity (A) and in the recovery phase (C), the quality of services was assessed relatively higher in the final year of the phase than at the beginning, whereas in the economic downturn phase (B) the direction of the assessment change was reversed (it was higher at the beginning of the phase, and lower at the end). At the same time, it should be noted that the observed trends different during the good and bad economic situation phases regarding the assessment of the quality of insurance services did not expire with the phases ending but later - after a year and after two years, respectively. It means that significant changes in the level of the quality of services provided by financial institutions accompanying the changes in the economic situation in the sector seem to be perceived by households with a certain delay.
6. Conclusions

In the light of the conducted analysis it can be stated that the impact of the economic situation changes in the insurance sector on the behaviour of households on this market is not unambiguous. It is clear with regard to some factors, but at the same time it is difficult to confirm this relation to others.

The impact is visible in the case of the choice of an insurance company - during times of prosperity clients mainly use the criterion of trust towards the insurer, while during economic downturn the main criterion are economic factors (the price of the service, terms and conditions of the insurance). A similar relation can be observed in the case of banks - with the economic situation deteriorating, the role of credibility, and the role of fees and commissions increases. What is interesting, the significance of the economic aspects increases even more in the economic downturn recovery phase, with the most important criterion being fees and commissions.

The influence of the state of the economy in the insurance sector on the attitude towards saving, and on the clients’ assessment of the changes in the insurance service market regarding the width of offer and the promotion of services was not observed. Such influence is, however, visible in the case of the assessment of changes in credibility of the insurance companies (better economic situation - a more optimistic assessment).

The relation between the economic situation and the assessment of the level of services provided by banks and insurance companies is, however, significant. The better the economic situation is, the better the assessment; whereas the deterioration of the economic situation results in worse ratings of the services quality.
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