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FINANCIAL ADVISORY MARKET IN POLAND IN THE YEARS
2008-2011

ADAM BAREMBRUCH

The aim of the article is to present selected aspects of the development of the financial advisory market in Poland in the years 2008-2011. According to the data issued by the Association of Financial Advisory Companies (Związek Firm Doradztwa Finansowego, ZFDF), recently, the sale of financial products offered by financial advisors has grown rapidly. Particular growth is observed in the case of investment products, whose share increased from 10% in 2008 to 33% in 2011.

Key words: financial intermediation, financial advice, outsourcing, financial services market

1. Introduction

Increased competition in the financial services market, emphasis on costs reduction and deregulation have recently influenced the change of business models and the use of outsourcing by financial institutions in Poland. Banks and insurance companies increasingly commission external entities to perform specified actions for their benefit, including the sale of financial products. This trend in the financial services market has contributed to the rapid increase of significance of indirect distribution channels and to the development of activity of financial intermediaries and advisors.

The aim of the article is to present selected aspects of the development of the financial advisory market in Poland in the years 2008-2011.

1.1 Basic concepts

Currently, there are no binding legal regulations which would univocally specify the legal status of financial intermediaries and advisors, would licence their activity, or would create certain obligatory standards of the services they perform. Neither is there a univocal definition of the concept in the literature; as a result, in practice, several concepts are used interchangeably: financial intermediary, financial agent, financial consultant, financial broker, planner, and financial advisor.

1 The lack of regulations regarding the legal status of financial intermediaries concerns not only Poland, but also many other European countries [1],[3].
In the classic sense, financial intermediary is an institution whose main aim is to balance the demand and supply of financial resources (for details, see Mishkin [4]). According to this definition, financial intermediaries include financial institutions and, first and foremost, banks. A wider meaning of the term „financial intermediary“, based on a semantic analysis of the concept „intermediary“, is an entity whose activity consists in mediating transactions between financial institutions and consumers. Financial intermediaries of this kind do not act as parties to contracts, but only mediate in concluding them [(for details, see Bitz [2]). The article discusses financial intermediaries understood in this sense.

In accordance with the definition of the European Federation of Financial Advisors and Financial Intermediaries (FECIF), an independent advisor is defined as an individual who, not being attached to any supplier, is capable of examining with his/her customer - in complete freedom - the advisability of selecting a particular product or service. An advisor is required to offer absolutely impartial advice, and is remunerated exclusively by his or her client. He/she is to act either as a representative of his/her customer, or as a supplier of a product and/or service. [http://www.fecif.org/]

According to the presented definition, a financial advisor should not be contractually bound to or remunerated by any specific financial institution. In practice, such financial advisors do not exist in Poland. Under the Banking Law Act [7], they can perform intermediary services only on the basis of an agency agreement concluded with a bank; in turn, such an agreement excludes the status of an independent advisor. True independent advisors are also rare in the EU, as, according to the estimates by FECIF, they count for less than 8% of the European financial advisory and intermediary community [http://www.fecif.org/]. In Poland, a financial advisor is understood as a person/entity that offers many financial products and different financial institutions (a multi-agent), as well as provides advisory services to the customers in the field of personal finance management. Another criterion of the recognizability of financial advisory companies is the membership of the Association of Financial Advisory Companies (Związek Firm Doradztwa Finansowego, ZFDF).

1.2 Financial advice in Poland: stages of development and specificity

Financial advisory market in Poland was created through evolution: from credit intermediation, through financial intermediation, to financial advice. The evolution consisted in, among others, the extension of the offer of intermediaries by other financial products, the change of the form of cooperation of intermediaries and financial institutions from single agents to multi-agents (the distinction between single and multi-agents as defined by Wyman [8]) and then, the extension of the scope of provided services by advice and financial planning. This change was connected with the appearance of increasingly complex financial products in offers, with advice presenting more added value in the case of complex financial products than in the case of simple financial products. Currently, financial advice comes down to intermediation in the sale of various products of financial insti-
tutions, and to the help provided to customers with the choice of optimal financial solutions. Companies do not offer their own financial products but specialize in independent financial advice. As already mentioned, the remuneration of financial advisors in Poland is commission-based, which shows the incompleteness of the development of this market. A change of the form of remuneration is an anticipated future stage in the development of the market, which will undoubtedly be connected with the increase of the quality of the provided services. Such a model of activity should rather be defined as advice driven distribution, which is successfully used in the developed countries by companies such as AWD Holding AG, MLP AG, or OVB Holding AG.

The business model of the majority of financial advisors in Poland is based on two main product lines: the offers of loan products and of investment products from several financial institutions. As far as loan products are concerned, advisors help their customers to choose the most beneficial loans, mortgage loans, and refinancing loans, as well as to make choices regarding the currency, the interest rate and the repayment period. They also explain the differences between the offers of particular financial institutions and help to finalize an agreement with a financial institution. As far as investment products are concerned, advisors help to specify the current and future financial needs, to choose the appropriate forms of investing assets, and to prepare a strategy regarding saving or investing sources in investment products, i.e. saving plans, insurance, one-time investment products (shares in investment funds, structured deposits) and deposit products.

The distribution of products takes place through sales offices located in the largest cities in the whole of Poland, and through the network of the so-called mobile advisors. Mobile advisors constitute an additional distribution channel that allows for a direct contact with customers living in smaller towns. Internet platforms, offering loan products, deposit products, credit cards and bank accounts, are becoming an increasingly important distribution channel. The advantage of such a distribution channel over others is that the process of offering products is simple and cheap. The disadvantage, on the other hand, is that it is difficult to sell complex products through such a channel.

The lack of accurate statistics concerning this market is a basic problem related to the analysis of the financial advisory market in Poland and in other EU countries. This situation results mainly from the lack of an unambiguous definition of the financial advisor and, in connection with this, from the ignoring of these entities in obligatory statistics. It happens relatively often that financial intermediaries are treated in statistics equally as loan companies, which, in the author's opinion, is not correct. Loan companies are not intermediaries sensu stricto, since they grant loans from their own funds rather than mediate transactions between a customer and a financial institution. The main source of information indirectly related to the financial advisory market in Poland are regular reports of the Central Statistical Office (Główny Urząd Statystyczny, GUS) and of the Conference of Financial Enterprises (Konferencja Przedsiębiorstw Finansowych, KPF). Only the data issued by the Association of Financial Advisory Companies (Związek Firm Doradztwa Finansowego, ZFDF) refer strictly to the financial advisory market and it is mainly on them.
1.3 Tendencies in the financial advisory market in Poland

An analysis of the data published by companies dealing with financial advice and by the Association of Financial Advisory Companies (ZFDF) shows several clearly observable tendencies in the market.

Firstly, increase in the volume of products sold by financial advisors can be observed. Figure 1 below presents the sales value of mortgage loans and investment products by companies associated in the Association of Financial Advisory Companies (ZFDF) (in bn of PLN). As presented in the Figure, in the years 2008-2011, the sales value of loans systematically grew from the level of PLN 11.82 bn in 2008 to PLN 16.9 bn in 2011. The average annual growth rate of loan sales amounted to approximately 12.7% per year. At the same time, the value of household debt in respect to mortgage loans (in PLN and in foreign currencies) in Poland increased from PLN 129.9 bn to PLN 314 bn. Even greater changes in sales can be noted in the case of investment products, where sales increased from PLN 1.64 bn in 2008 to PLN 8.31 bn in 2011 (the growth rate: about 70% annually).

A change in the structure of the sold products shows clear changes in the financial advisory market. According to Figure 2, the share of investment products in sales increased from 10% in 2008 to 33% in 2011. At the same time, the sales of loan products decreased from 90% in 2008 to 67% in 2011.

Figure 1 The sales value of mortgage loans and investment products sold by companies associated in the Association of Financial Advisory Companies (ZFDF) (in billions of PLN)

Resource: Own elaboration on the basis of the data of the Association of Financial Advisory Companies (ZFDF) [6] and the National Bank of Poland (NBP) [http://nbp.pl/]
In addition, very high concentration can be noticed in the financial advisory market in Poland. The data of the Association of Financial Advisory Companies (ZFDF) seem to suggest that Open Finance S.A. is an indisputable leader in the sales of both loans and investment products. The share of this company in the whole of the investment products sold by companies associated in the Association of Financial Advisory Companies (ZFDF) grew very rapidly from 64% in 2008 to as much as 95% in 2011. In the case of loans, the share of this company is also considerable. However, it is systematically decreasing at the expense of investment products (a decrease from 48% in 2008 to 41% in 2011).

The Polish model of financial advice assumes that the customer does not bear any costs related to financial advisory services and that financial advisors are remunerated by the financial institutions whose products they sell. Unfortunately, the Association of Financial Advisory Companies (ZFDF) does not publish information on the revenues generated by financial advisors for the sale of financial products. On the basis of the prospectus of Open Finance SA, a financial advisory company listed on the Warsaw Stock Exchange, the author has estimated the amount of that commission as the relation of sales revenues to the value of products sold. According to the data presented in Figure 3, the weighted average fee, expressed as a percentage, rose from 2.45% in 2008 to 2.65% in 2011. This change resulted primarily from an increase in commission for selling loan products, which increased from 2.2% in 2008 to 3.36% in 2011. This can result from the tightening of granting loans procedures, and hence from an increase in the volume of work required to sell a loan. On the other hand, in the case of investment products, the decrease from 3.39% to 2.03% is probably caused by the increased competition in this segment of the market. The majority of financial advisors increasingly place emphasis on the sale of investment products at the cost of loan products.

**Figure 2** The structure of products sold by companies associated in the Association of Financial Advisory Companies (ZFDF) (in %)

Resource: Own elaboration on the basis of the data of the Association of Financial Advisory Companies (ZFDF) [6]
According to the author, it should be supposed that commission received by financial advisors in other companies is on the same or on a slightly lower level. What supports this interpretation is the fact that financial institutions try to offer remuneration on a comparable level to financial intermediaries in order to avoid the preference of products of any particular company and so as not to lead to unhealthy competition in this field.

1.4 Conclusion

The financial advisory market in Poland is not yet a mature market, but it certainly develops very rapidly. Unfortunately, the growth in sales of financial products is not accompanied by adequate improvement of the quality of the services provided. The phenomenon of moral hazard can be observed in the market, which results mainly from the commission-based remuneration of advisors. The change of the remuneration system and relevant regulations regarding the licensing and supervision of financial advisors will probably be the most important challenges for the market in the coming years.

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