MICROFINANCE CENTRE

THE FINTECH MARKET IN POLAND

THE CURRENT STATE OF THE FINTECH SECTOR AND ITS POTENTIAL TO CONTRIBUTE TO FINANCIAL INCLUSION AND HEALTH

2019

INTRODUCTION

EMERGING FINANCIAL TECHNOLOGY COMPANIES (FINTECHS) ARE RADICALLY CHANGING THE FACE OF THE FINANCE INDUSTRY. FINTECHS OFFER TECHNOLOGY-POWERED SOLUTIONS THAT BETTER ADDRESS CUSTOMER NEEDS AND PREFERENCES BY OFFERING ENHANCED ACCESSIBILITY, CONVENIENCE AND TAILORED PRODUCTS. THIS WILL DISRUPT TRADITIONAL FINANCIAL INSTITUTIONS' BUSINESS PROCESSES, AND REQUIRE THEM TO RAPIDLY EVOLVE TO KEEP PACE WITH THE DYNAMISM OF THE DIGITAL FINANCE INDUSTRY.[1]

Fintech companies can be categorised into the following 12 types, based on the services offered:

1. Debt financing: Lending services without the need for collateral and borrower evaluation
2. Transactional services/currency trading: Similar to that of banks but at a lower cost
3. Payment methods: Electronic means of payment
4. Crowdfunding /crowd lending: Raising funds for the purpose of investment
5. Cryptocurrencies and blockchain: Cryptocurrencies as a digital means of exchange as well as the technology they are based on (blockchain)
6. Insurtech: Companies that apply technology to the insurance sector
7. Online customer identification: To identify people remotely through electronic means
8. Big data: Entities that generate added value with the collection and management of data, and intelligent analysis of data (including Artificial Intelligence) and generation of services using this data
9. Financial infrastructure: Improving existing technology for financial service provision
10. Advice and financial management: Investment advisory services, management services or trading platforms
11. Personal financial management: Comparison websites for financial products, and personal finance optimization services
12. Neobanks and challenger banks: Online, fully-digital (branchless) banks using alternate traditional models, e.g. using smartphone apps for account management, or using social networks to establish relationships with clients.

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1. FINTECH: WHAT'S IN IT FOR FINANCIAL INCLUSION? HTTPS://WWW.AFI-GLOBAL.ORG/BLOG/2017/12/FINTECH-WHATS-IT-FINANCIAL-INCLUSION

FINANCIAL INCLUSION AND FINANCIAL HEALTH THROUGH FINTECH

Fintech refers to the use of software and digital platforms to deliver financial services to consumers (individuals and businesses). These digital tools often disrupt established business models by creating new and efficient means of service delivery, new products, more tailored products, and outreach to untapped markets.[2] The spread of mobile technologies, mobile network coverage, and mobile-based financial services in developing countries represents a game-changer in global financial inclusion efforts.[3] It is also leading to a fundamental re-imagining of the processes and business model of the traditional financial services industry.

Through partnerships with traditional financial institutions, fintechs can scale their technology and access growth capital—while financial institutions can improve product offerings, increase efficiency, and lower costs. These are all goals with special relevance to low-income customers, who look for products that are more convenient, less expensive, and higher quality—making bank-fintech partnerships a crucial strategy for meeting the financial needs of the unbanked and underbanked globally.[4]

According to a 2017 "Financial Stability Implications from FinTech"[5] report by the Financial Stability Board, technology can help provide 'easy-to-understand and convenient services, which tend to lower costs of adoption and lower barriers to access for customers.' The report explains that by improving access to, and convenience of, financial services for individuals and businesses, including small and medium enterprises (SMEs), technology helps promote sustainable economic growth. While technology is expected to have a significant and highly positive impact on financial inclusion and the current financial infrastructure, there are also potential risks. Some of these are 'unfair lending practices related to unmonitored use and analysis of big data and increased systemic vulnerabilities due to threats to cybersecurity.'

Moving forward, the legal and regulatory framework will need to adapt to the fast-changing space to help minimize risks and uncertainty. In order to explore and utilise emerging technologies, legacy financial institutions are organising for innovation. They are developing labs to foster innovation and aggressively partnering with fintechs that offer agility and expertise in technologies that are beyond their own core competencies. When asked why they partner with fintechs to pursue financial inclusion, banks, insurers, and payment companies note that it would take three to four times the resources to develop the same technology in-house, and they appreciated the way fintechs enable them to engage with and learn from new technology in low-risk, low-cost ways. At the same time, there are core activities that financial institutions undertake alone: maintaining relationships with their customers; protecting customer and transaction data; and continuing to use traditional ways of assessing risk. But they are also, through partnerships, learning new ways to leverage data, evaluate risk, and maintain relationships with customers.

At first, experts predicted that fintechs would usurp mainstream finance, a prediction later scaled back to "mere disruption". The increasingly dominant view, however, is that while fintechs will propel advances in the finance industry, they are more likely to become collaborators with astute incumbents rather than direct competitors.

Smart partnerships will power new possibilities, including:

- Gaining access to new market segments
- Creating new offerings for existing customers
- Better data collection, use, and management
- Deepening customer engagement and product usage.

2. ACCION: HOW FINANCIAL INSTITUTIONS AND FINTECHS ARE PARTNERING FOR INCLUSION: LESSONS FROM THE FRONTLINES
3. WORLD BANK PRESENTATION: FINTECH AND FINANCIAL INCLUSION
4. ACCION "HOW FINANCIAL INSTITUTIONS AND FINTECHS ARE PARTNERING FOR INCLUSION: LESSONS FROM THE FRONTLINES"
5. "FINANCIAL STABILITY IMPLICATIONS FROM FINTECH. SUPERVISORY AND REGULATORY ISSUES THAT MERIT AUTHORITIES' ATTENTION" FINANCIAL STABILITY BOARD, 2017

Partnerships also drive institution-level innovation. Through partnerships, financial institutions see new horizons of possibility and shift their strategies in response. Institutions that partner with fintechs also improve their own innovation processes, creating new ways to test and learn, try and fail, and speed up the timeframe under which this happens.

FINANCIAL INCLUSION IN POLAND

The level of financial inclusion in Poland is growing year on year. Even though Poland exceeds its regional peers in the number of financially included citizens, it still lags behind the average for other high-income countries. In 2017, 87 per cent of adults (aged 15+) had an account at a financial institution, compared to 65 per cent in the Europe and Central Asia (ECA) region and 94 per cent in high-income countries.[6] Amongst sub-segments of the population, women are typically more financially included (88 per cent) than men,[7] while people out of work are the least included (67 per cent). There is no significant difference in account penetration between rural and urban areas.

The main reported reasons for not having a bank account are lack of money (50 per cent of the unbanked) and or relying on the account of someone else in the family (46 per cent).

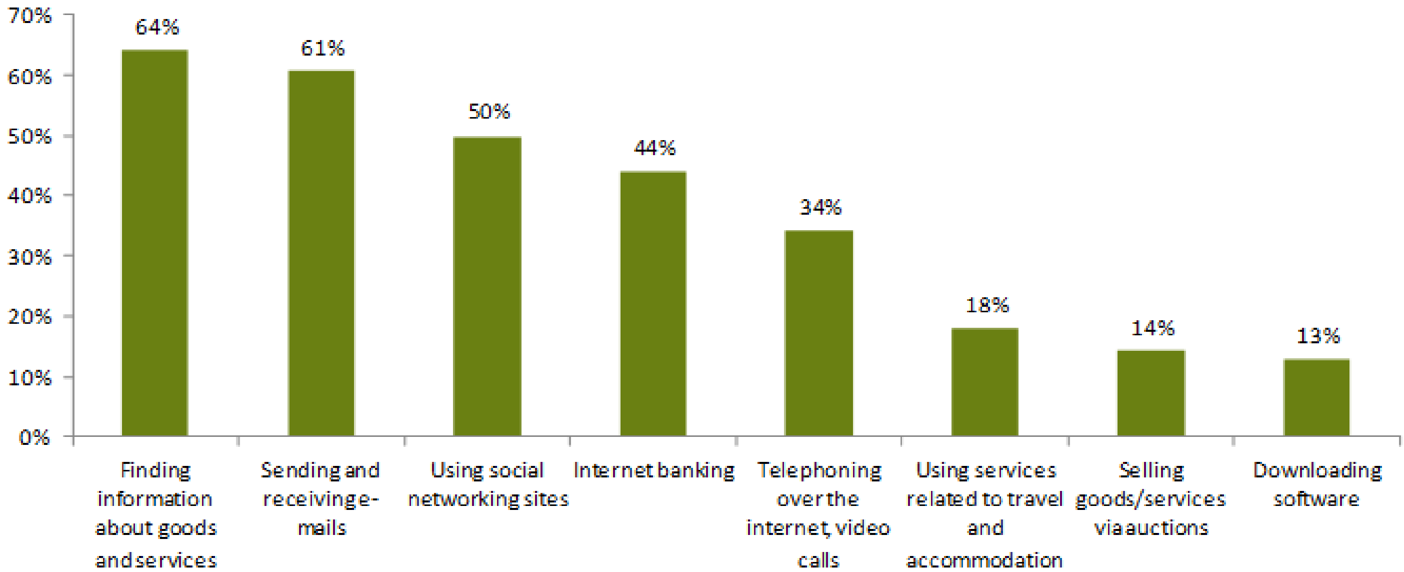
Although Poland lags behind the average for other high-income countries, digital payments are quickly gaining popularity. The percentage of adults who made or received digital payments increased from 63 per cent in 2014 to 82 per cent in 2017. The use of internet banking is high in Poland, and slightly above average for high-income countries (52.4 vs. 51.8 per cent).

Poland also exceeds the average for high-income countries in transfers of wages from private sector to an account (48 per cent of adults in Poland receive wages to an account, compared to 39 per cent in high-income countries). However, transfers of government payments to an account are on a much lower level compared to both high-income countries and its ECA peers (20 per cent in Poland compared to 34 per cent in high-income countries and 29 per cent in ECA).

Compared to high-income counties, Polish adults less often save money (52 per cent in Poland vs. 72 per cent in high-income countries) and less often keep their savings at a financial institution (33 vs. 55 per cent), although a positive saving trend can be observed over time. Similarly, borrowing money is less popular in Poland than in other high-income countries (50 vs. 64 per cent); borrowing from a financial institution or against a credit card is also less common (31 vs. 55 per cent). Please see Annex 1 for more detail.

6. "THE LITTLE DATA BOOK ON FINANCIAL INCLUSION" GLOBAL FINDEX DATABASE, 2018
7. THE DIFFERENCE BETWEEN THE NATIONAL AVERAGE AND WOMEN SEGMENT IS SMALL AND STATISTICALLY INSIGNIFICANT

FIGURE 1: REASONS FOR INTERNET USE (PER CENT ADULTS 16–74 YEARS OLD)



SOURCE: GUS STATISTICS 2018

THE FINTECH SECTOR IN POLAND

CONDITIONS FOR THE DEVELOPMENT OF THE FINTECH SECTOR IN POLAND

Several factors shape the development of the fintech sector in any country. These include internet access, mobile technology in use and the infrastructure for a cashless economy.

INTERNET

Internet connectivity in Poland is high. In 2018, 84 per cent of households were connected to internet at home, and the vast majority of these were broadband connection. Access to internet was somewhat lower among rural households (82 per cent) and households without children (77 per cent). The main reason cited for not having internet connection was a lack of need.[8]

Although the number of regular internet users[9] in Poland is high (75 per cent of adults)[10] it is below the EU28 average of 81 per cent. The most common reason cited for using of internet over the last three months was finding information about products and services (64 per cent) and using email (61 per cent). Internet banking was used by 44 per cent of adults. Among these, over one-fifth (23 per cent) logged into their internet banking account though a mobile app.[12] Businesses also use internet banking. In the third quarter of 2018, the number of SMEs logging on to internet banking at least once a month reached 1.46m firms.[13]

Research has also revealed that 91 per cent of Poles highly value the level of security of internet and mobile banking transactions.[14]

8. "INFORMATION SOCIETY IN POLAND: RESULTS OF STATISTICAL SURVEYS IN THE YEARS 2014–2018", GUS 2018
9. REGULAR USERS ARE THOSE ACCESSING INTERNET AT LEAST ONCE A WEEK
10. ADULTS BETWEEN 16 AND 74 YEARS OLD
11. SOURCE: EUROSTAT
12. "INFORMATION SOCIETY IN POLAND: RESULTS OF STATISTICAL SURVEYS IN THE YEARS 2014–2018", GUS 2018
13. NETB@NK REPORT. ZBP 3Q 2018
14. RESEARCH CONDUCTED BY KANTAR TNS FOR THE ASSOCIATION OF POLISH BANKS (ZBP)

MOBILE DEVICES

Smartphones are the most popular device for accessing internet (61 per cent of adults), followed by a laptop/tablet (57 per cent).[15]

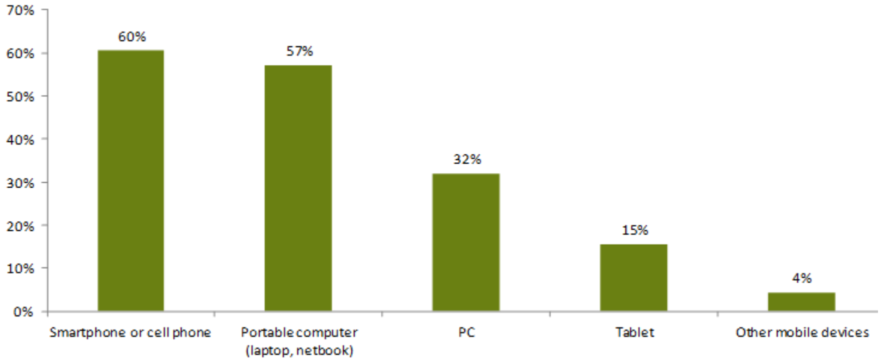
Mobile is emerging as an essential channel for Polish customers. According to the ING International Survey 2015, 60 per cent of smartphone users have either already used mobile banking or expect to use it in future. This is the third highest score in Europe, behind the Netherlands (67 per cent) and the UK (63 per cent), and on a par with Spain. It indicates that mobile banking services have enormous potential for growth in the coming years.[16]

PAYMENT CARDS AND INFRASTRUCTURE FOR CASHLESS ECONOMY

In the third quarter of 2018 the number of plastic cards held by Poles reached 40 million, of which 79 per cent were debit cards. Cashless transactions outstripped cash transactions in terms of number but not in terms of the volume: larger amounts are withdrawn in cash from ATMs compared with the value of cashless payments through POS terminals. Trends in recent years show a tendency towards reducing the number and volume of cash withdrawals and the increase in the share of cashless payments.[17]

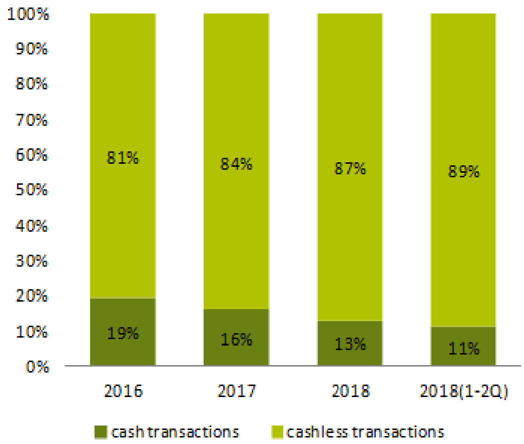
The use of contactless debit cards is an example of high adoption of innovation in the Polish banking sector. Almost 80 per cent of all cards already have this feature in Poland, compared to 54 per cent in the UK. Some banking experts admit that 'the digital maturity of Polish banks and the many interesting solutions offered to their clients may limit the development of non-banking innovators'. To succeed in this challenging market, solutions must be top-notch. As a result, fintech startups may never manage to build a dense network similar to that in the UK.[18]

FIGURE 2: DEVICES USED TO ACCESS INTERNET IN THE LAST THREE MONTHS (PER CENT OF ADULTS 16–74 YEARS OLD)



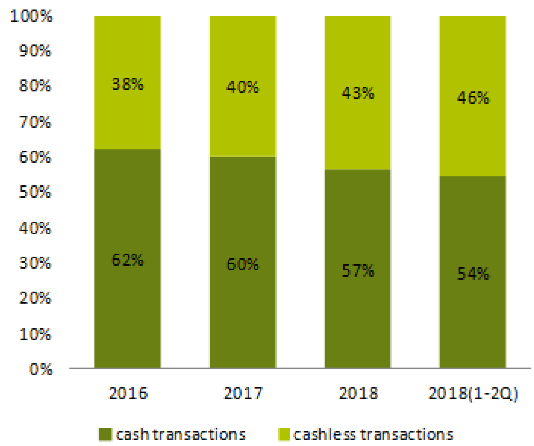
SOURCE: GUS STATISTICS 2018

FIGURE 3: NUMBER OF TRANSACTIONS USING PAYMENT CARDS (PER CENT)



SOURCE: GUS STATISTICS 2018

FIGURE 4: VOLUME OF TRANSACTIONS USING PAYMENT CARDS (PER CENT)



SOURCE: GUS STATISTICS 2018

15. IBID.
16. "FINTECH IN CEE: CHARTING THE COURSE FOR INNOVATION IN FINANCIAL SERVICES TECHNOLOGY", DELOITTE
17. NBP STATISTICS AVAILABLE AT WWW.NBP.PL/HOME.ASPX?F=/SYSTEMPLATNICZY/KARTY_PLATNICZE.HTML
18. "FINTECH IN CEE: CHARTING THE COURSE FOR INNOVATION IN FINANCIAL SERVICES TECHNOLOGY", DELOITTE

OVERVIEW OF THE FINTECH SECTOR IN POLAND

Poland is the biggest fintech market in Central and Eastern Europe, with an estimated value of €856m. Warsaw, home to nearly 45 per cent of start-ups in the country, is also a hub for financial technology in the region.[19]

According to the Polish Fintech Map 2019[20] there are around 190 financial innovation businesses operating in Poland, covering all main segments of the market. Most of the operators, including the most mature companies, operate in the domain of electronic payments and financial platforms; other well-developed areas include financing and financial management (personal and business finance).The strengths of the Polish market include the fact that Poland is the eighth largest economy in the EU and the largest in the CEE. Poland boasts a proven track record of success with fintech and business-to-customer (B2C) software-as-a-solution (SaaS) startups, and can provide access to standard services used globally, and products as well as office spaces with lower prices.

One of Poland's weaknesses is the fact that despite recent changes there is still a gap between the approach of administration and regulators in Poland and their counterparts in leading fintech hubs.

Our conversations with key stakeholders revealed the perception that one factor inhibiting the development of financial innovation is the attitude of the Financial Supervision Authority (KNF) towards new market players. Similar perceptions were found in another recent study:[21] the dominant opinion amongst fintechs is that regulations are created for large companies and are unsuitable for small and dynamic startups, that administrative procedures take too long and there is no dialogue between the regulator and the fintech sector. Only in the recent years, KNF (the supervisory authority) has launched several initiatives to support the development of the fintech sector whilst at the same time ensuring consumer protection. In 2017, KNF launched the Fintech Working Group to identify and remove regulatory barriers to the development of the fintech sector. The Innovation Hub at the national bank (NBP) was created in 2018 to support the innovative companies in understanding the regulations and adjusting to the regulatory requirements. A regulatory sandbox project was initiated in 2017, but will only become operational at the end of 2019.

Additionally, a smaller number of venture capitals and/or equity funds actively invest in the Polish fintech scene than in Germany, France or the United Kingdom. There is no single comprehensive system of support for startups, except for a series of ad hoc and coordinated initiatives.

Some of the initaitves are local, such as the Warsaw Booster:[22] an annual acceleration program for fintech and insurtech startups initiated and funded by the city council of Warsaw. The others, such as VISA Incubator which supports projects contributing to the development of cashless economy, are part of the global network.

19. IBID.
20. "MAPA POLSKIEGOFINTECHU 2019" PREPARED BY FINTECH POLAND FOUNDATION AND CASHLESS.PL
21. "FINTECHOWY GPS.MARZENIA I WYZWANIA POLSKICH FINTECHÓW", STRATOSFERS AND CASHLESS.PL, 2019
22. TO DATE, TWO EVENTS HAVE BEEN HELD: 2018 AND 2019

TYPES OF INSTITUTIONS, EXAMPLES OF SERVICES

To date, there has been no comprehensive study of the fintech sector and its players. In the course of this initial research, the following types and examples of institutions were identified:

CONSUMER FINANCE

The bulk of online credit providers offer short-term consumer loans to individuals. The largest providers are affiliated with the Polish Association of Loan Institutions (PZIP), and manage over 80 per cent (by volume) of online non-bank lending. Major consumer lenders include: Creamfinance, Kasomat, MiniCredit, Nexo, PayPo, RushCash, SMS365, Twisto, Vivus, Zaplo.

BUSINESS FINANCING

Several fintechs provide financing for micro and small businesses. Loan products for businesses are provided by: Kredytmarket, iwoca, MyPlacimy. Factoring services are available from Brutto, Fandla, invipay, Finiata, Faktorama, which help SMEs obtain funding secured with future cash flows.

DIGITAL AND MOBILE PAYMENTS

Payment services are the second largest destination for investment in the fintech industry in terms of financing (after credit). This segment enjoyed 29 per cent of all investments in the fintech sector between 2010 and 2016. The biggest players in this category include: Billon, BillTech, Blik, Blue Media, CallPay, CashBill, DotPay/eCard, GoPay, MCX Systems, mPay, Paylane, Payarto, PayU, Przelewy24 (Dialcom24), SkyCash, Straal, Tpay.com, uPaid.

CURRENCY TRADING

Online currency exchange is a well-developed segment of fintech in Poland. The examples include: Cinkciarz, Currency One, FXManago, Kantoria, Payholding, Walutobox, Walutomat, Xchanger.

CROWDFUNDING AND PEER-TO-PEER (P2P) LENDING

Next in the Polish fintech environment is the crowdfunding and P2P lending sector. Charity collections, social loans,[23] P2P currency exchange and public financial support of business ventures are included in this segment of the Polish fintech market. Delivering a wide range of products ensures gaps in the market can be filled and funding is easier to come by. Polish companies at the forefront of crowdfunding and P2P lending are: Beesfund, eMonero, Finansowo.pl, Kredytmarket.

CRYPTOCURRENCIES

One of the fastest-growing sectors in the Polish fintech market is based on blockchain technology and cryptocurrencies. Virtual currencies and distributed data structures appear to be shaking up traditional markets. Polish startups at the forefront of blockchain and cryptotechnology are: BitBay, BitMarket, BitMaszyna, BitPay and InPay. They facilitate trading cryptocurrencies.

PERSONAL MANAGEMENT

One of the most promising segments in fintech are solutions helping individuals manage their savings and/or financial commitments. The default route to market for companies specialized in this kind of technology is through partnership with a large bank. In Poland, there are only a few fintech entities concentrating on personal finance management. A few worth mentioning are: iWisher, Kontomierz, Moneyfriend.

IT SERVICES

The fintech companies that provide B2B services to traditional financial sector companies (banks, non-bank financial institutions) supply them with software and hardware solutions (i.e. providing and servicing payment card readers) for both front-end and back-end operations. Examples include: efigence, nudelta, finanTEQ.

23. SOCIAL LOAN: A CONTRACT BETWEEN TWO INDIVIDUALS WITHOUT INTERMEDIATION OF A FINANCIAL INSTITUTION

FINTECHS' PERSPECTIVE ON FINANCIAL INCLUSION IN POLAND

WE INTERVIEWED FINTECHS REPRESENTING VARIOUS BUSINESS MODELS AND FOCUSING ON DIFFERENT CUSTOMER SEGMENTS. THE PERSPECTIVE PRESENTED HERE IS A SYNTHESIS OF ALL OUR CONVERSATIONS AND SHOULD NOT BE CONSIDERED A DIRECT REPRESENTATION OF THE POINT OF VIEW OF ANY ONE OF THE PARTICIPANTS IN PARTICULAR.

PARTICIPANTS IN THE STUDY

We interviewed the following institutions:

Akredo: Offers cash and consolidation loans for individual customers using a simple online process to collect and compare offers from up to 12 banks and 4 non-banking lenders.

Carsmile: Provides leasing and long-term car rental with fully digital, online approvals and documentation.

Brutto: Offers companies financing of their invoices, with application processes starting within the invoicing platform and a near-instant decision process.

myPlacimy: Provides financing of purchases made by micro and small companies in online stores.

kredytmarket: Offers loans to entrepreneurs using a quick and fully digital process.

Narodowy Fundusz Gwarancyjny (NFG): Offers invoice financing for micro and small enterprises, with a fully online, 24/7 process.

Limitless: Cooperates with banks to offer tailored saving and investment products for milllennials.

Straal: Offers a full suite of payment solutions for e-commerce.

Nethone: Creates advanced, AI-driven predictive intelligence and fraud prevention solutions.

Codilime/Deepsense: Software development and advanced machine learning services.

Innect: Offers in-depth, live benchmarking of products on the financial market.

Efigence: Specializes in designing customer experiences, delivering and implementing innovative technologies for financial services.

These fintechs provide services in three areas: financing, financial management and IT services. They target individuals, entrepreneurs and financial institutions.

CURRENT SITUATION IN THE FINANCIAL SERVICES MARKET

Poland has a well-developed financial services market, with a wide range of products addressing most customer needs. However, while it is relatively easy to access products such as financing, accessing products with the right quality and price can be more challenging. In particular, three segments face this challenge:

Micro companies or entrepreneurs often struggle to access the right products. They are either forced to use products designed for individual clients (such as credit cards or cash loans) or SMEs (factoring, credit lines)—which might be too complex or expensive for their needs. This also applies to transactional products such as cash management or payment solutions. The credit application paperwork can be overwhelming for micro companies and stop them from even applying for financing from traditional institutions. When they do apply: at the risk assessment phase, banks have to follow strict rules and procedures, often designed with larger customers in mind. In practice, this has the effect of limiting access to financing for microentrepreneurs. This is even more so for new entrepreneurs (with less than 12 months operating history).

Individual customers face a different challenge. There are many tailored financial products on the market but pricing is the main obstacle. Customers with poor credit history or irregular earnings often face interest rates which tip them into debt traps and decrease their financial health. Less-affluent segments also face difficulties finding relevant saving/investment products; term deposits offer very low interest rates and more-advanced products are often beyond their reach.

Micro farmers: While there are more than 700,000 small farms (less than five hectares)[24] in Poland this segment has not yet been targeted by the fintechs we interviewed. Aside from product quality and availability, interviewees pointed out another challenge on the market. Vulnerable segments, especially entrepreneurs, rarely trust traditional financial institutions either because they had bad experiences in the past or know someone who did. As a consequence, they do not use even those products that are available to them. These "self-excluded" customers use only the bare minimum of products required to operate (e.g. a current account), preferring to limit their relationship with the financial sector. This presents a challenge that is structurally different from those previously described, as it cannot be addressed by simply offering better solutions. It requires a fundamentally different approach to client acquisition and relationships on the part of financial service providers (traditional or otherwise).

FINTECH PRODUCT AND SEGMENT FOCUS

While fintechs do not deliberately set out to target "underserved" or "at risk" customers, they do end up serving these underbanked groups as they find their niches on the market.

Fintechs view micro companies (defined as having fewer than 10 employees), especially self-employed people, as being easy to reach yet misunderstood by banks, and therefore deliberately target this segment. This might be based on a certain level of empathy: many fintechs were micro companies themselves in the not-too-distant past.

On the financing side, entrepreneurs are also more able to absorb higher costs than individual customers. As financing is not for consumption but rather for business growth, even higher-than-average interest rates can be used in a healthy way supporting the company and not drowning it in debt.[25] However even in the "micro" segment, most fintechs require at least six months' trading history, unless physical collateral (e.g. leased car or a purchased asset) is available.

On the other hand, fintechs view individual customers who are unserved by their own bank as highly risky, given that their own bank knows the most about them and still refuses to extend credit. As a result, fintechs in Poland either offer a digital version of short term payday loans or prefer to act as an intermediary/marketplace for customers searching for the right product without taking the risk.

In terms of product characteristics, fintechs often offer simpler digital processes (including contract signing). As fintechs (as unregulated entities) have much more freedom and flexibility regarding product processes they leverage that to offer faster and smoother customer experience. This goes both for lending and transactional products.

> "People will always find financing, before online payday loans they went to pawn shops.

> "Entrepreneurs with bad experiences stay away from banking products.

> "We understand the client better: we were a micro company recently.

> "Our product is fast, simple and 100 per cent online.

24. GUS, 2017
25. Fintechs provide more expensive loans than banks for two reasons: (i) they serve risky clients and need to cover losses from revenues (consumer lenders in particular) and (ii) they lack access to low-interest capital because they can't mobilise savings, a cheaper source of loan funds.

FIGURE 4: PARTICIPANTS OF THE STUDY BY TARGET GROUP AND PRODUCT TYPE

	Individuals	Entrepreneurs	Financial institutions
Financing	akredo, carsmile	BRUTTO,-, kredytmarket, MY PŁACIMY, NFG NARODOWY FUNDUSZ GWARANCYJNY	
Finance management and services	limitless	straal	
IT services		Nethone	deepsense.ai, efigence, innect

IMPACT ON FINANCIAL INCLUSION AND HEALTH

Fintechs' impact on financial inclusion and health can be divided into three types. The most direct impact is offering new products to customers. This includes:

- Lending products using new, advanced algorithms to better select customers and streamline and optimize processes which allow them to drive price and time down for everyone.
- New products in personal finance management providing automated advisory which was previously not available for lower segments of the market.

A more indirect impact is created when fintechs partner with traditional institutions to help them improve their services. This includes:

- Providing a better customer experience
- Improving existing scoring/decision engines
- Creating value added services for financial institutions (e.g. fraud prevention) as well as customers (e.g. payment analytics).

Thirdly, and more broadly, simply by existing on the market, fintechs put pressure on mainstream players to improve their own products. Marketplace and comparison solutions increase transparency, provide better access to products and highlight overly-expensive offers thus creating pressure on all players and improving efficiency of the market.

> “WE FINANCE CUSTOMERS WHO ARE REJECTED BY BANKS BECAUSE WE LOOK AT DIFFERENT THINGS.

> “THANKS TO US THE BANK CAN OFFER A NEW PRODUCT—AND THEY KNOW HOW TO SELL IT.

PARTNERSHIPS BETWEEN FINTECHS AND TRADITIONAL FINANCIAL SECTOR PLAYERS

While many studies report a struggle between fintechs and traditional financial institutions, our conversations revealed that in Poland, fintechs have no desire to replace traditional institutions, as they are either competing for very narrow niches or collaborating with traditional players.

On one hand, fintechs are not limited by regulatory requirements, allowing them to take decisions and expand their offering more quickly than traditional institutions can. On the other, higher financing costs mean that fintechs cannot (and therefore do not want to) compete head-to-head with banks on loan products. They would rather view them as partners, and providers of financing, and in many cases as customers.

What's more: in many cases, fintechs were founded by people with experience in traditional financial institutions, a fact that fosters informal, personal exchange of information and ideas. Even when there is no operational collaboration, fintechs stay in touch with commercial banks on a regular basis.

That is not the case where community-based cooperative banks are concerned: these are players that traditionally focus on the underbanked segment of society (ostensibly the same target market as fintechs). Yet these are below the radar for most fintechs—lacking as they do the scale required to benefit from efficiency improvements brought by fintechs, or the funds to invest in digital solutions in the first place. At the same time, in areas such as understanding clients' environment and relationships, cooperative banks take similar approach to fintechs, which would indicate space for potential cooperation in future. Another practical barrier is geographical: most fintechs originate from large agglomerations, meaning they naturally focus on urban clients who are better-understood and more easily-reached by fintechs.

OPPORTUNITIES FOR FURTHERING FINANCIAL INCLUSION IN POLAND

ADOPTION OF FINTECH SOLUTIONS BY TRADITIONAL PLAYERS

The current Polish market is characterized by a positive attitude on the part of banks towards fintech companies, and a mutual desire to collaborate. While they also directly target their services to the consumer market, Polish fintechs are primarily focused on collaboration with banks they recognize the need for cooperation and mutual benefits resulting from it. Cooperation is necessary for fintechs to reach scale. As banks have a large customer base, fintechs can benefit by having access to a large market. There is also an issue of trust. Banks are seen as trustworthy by Polish society, unlike other types of companies which are potential or current providers of financial services.[26] Partnering with banks helps fintechs reach out to potential clients without incurring marketing costs and investing in reputation-building. Banks, on the other hand, can benefit by offering their clients new types of services or new type of experience.

Several banks already cooperate with fintechs in various ways, ranging from cooperation contracts with providers of technological solutions to innovation labs, direct investment or acceleration programmes. The largest Polish bank, PKO BP, runs an acceleration program called "Let's Fintech with PKO BP".

Another large bank, Pekao, runs an innovation lab in which new solutions in the area of biometrics and artificial intelligence, are being developed and tested by fintechs and start-ups. Pekao also organised a series of hackathons where young people receive assistance from mentors in developing software solutions.

26. 73 PER CENT OF ADULTS (AGE 18–65) TRUST BANKS, WHILE 45 PER CENT TRUST TELECOMS AND 44 PER CENT TRUST BIGTECH COMPANIES SUCH AS APPLE OF FACEBOOK. ONLY 13 PER CENT TRUST CONSUMER LOAN COMPANIES, ACCORDING TO THE REPORT "PODEJŚCIE POLAKÓW DO FINTECHU", BLUEMEDIA 2018

> “WE NEED TO EDUCATE THE CUSTOMER SO THEY UNDERSTAND THAT EVERYTHING CAN BE DONE ONLINE.

> “WE NEED TO GET MORE SCALE, MORE CUSTOMERS, MORE INTEGRATION.

The majority of Polish banks compare favourably to their European counterparts in terms of their use of cutting-edge digital solutions. In particular: their card, online, and mobile payment technology is very advanced, and can be held up as an example to Western European countries. For instance, the Elixir interbank settlement introduced in 1996 was one of the first such systems in Europe. It enabled the introduction of a range of new products, such as convenient PayByLink transfers that are currently the most popular method for online payments. Another example is BLIK: system for instant mobile payments operating in Poland since 2015.

There is no longer a clear distinction between “fintech” and “banks”— increasing sector stakeholders refer to “fintech banks” or “fintech in banks”, and the most innovative banks consider themselves to be a part of the fintech sector, and vice versa.[27]

PERSPECTIVE ON THE DEVELOPMENT OF THE FINTECH LANDSCAPE IN POLAND

Although in its infancy, the fintech sector – dynamic and disruptive – garner lot of attention from all sides: banks, policy makers, the public. Its overall market share is marginal in most product categories, and its long-term impact on the market and customers is yet to be seen. Presently, the majority of fintechs are focused on three things: scale, products and partners.

Scale is considered a must-have by the vast majority of fintechs. They operate in niche product segments, betting on their ability to optimize processes and gather momentum for growth. This also means that we will likely see a wave of winner-takes-all battles where many similar fintechs fight for domination of a specific niche.

Therefore, continued product development is also a must. Most fintechs have few products (often only one) and don’t plan to diversify; they aim to spend their time and resources on doing one thing very well.

Last but not least, as mentioned earlier, fintechs see a need to build a network of partners to gain access to cheaper financing and leverage the scale of other players on the market to build their own.

NEW AREAS FOR FINTECH EXPANSION AND COOPERATION

Based on our study, we have identified three areas worth exploring from the perspective of future fintech expansion: the Payments Service Directive 2 (PSD2), the micro-farmer segment, and collaboration with institutions traditionally focusing on underbanked segments. All of these areas will potentially have a positive impact on financial health and inclusion, especially the latter two.

The EU Revised Payment Services Directive (PSD2) came into force in

27. “FINTECH IN POLAND: BARRIERS AND OPPORTUNITIES”, FINTECH POLAND, OBSERWATORIUM.BIZ, CENTRUM PRAWA NOWYCH TECHNOLOGII, 2016

Poland in September 2019. PSD2 regulations require banks to share their data with approved third parties: fintech companies, alternative technology firms, smaller and newer banks, as well as some retail organisations. It brings significant new opportunities to the fintech sector: opening doors to customer data, and facilitating the exchange of information through standardisation. While many fintechs already use solutions similar to the ones enforced by PSD2, the implementation of a new directive will make it easier to scale and lower the operational cost required to build these solutions. Thanks to PSD2, fintechs will be able to access their clients' bank transaction data to offer new products and services. For instance, fintechs will be able to provide personalised financial management advice that takes into account information from bank statements. Fintechs operating in the area of payments will be able to initiate payments directly from the customer's bank account.

As mentioned, micro-farmers represent a large and potentially attractive segment. While there are a lot of advanced technological solutions offered to farmers from the agri-tech sector, fintechs are largely absent from this segment. One way to gain a foothold here is via collaboration with players actively targeting these segments that have close, long-standing relationships and a deep understanding of customer needs. While it is true that a single cooperative bank often lacks enough scale to merit considering a partnership with a fintech, it is possible to imagine platform solutions developed by fintechs that could be made available to multiple coop banks at once (and potentially commercial banks as well) to allow them to offer additional services.

ROLE OF FACILITATORS IN DRIVING IMPACT ON FINANCIAL INCLUSION AND HEALTH

As yet, there is no institution in Poland working towards improving financial inclusion and health that could bring together local financial sector players. Existing associations, such as the Association of Polish Banks (ZBP), the Polish Association of Loan Funds (PZFP) – representing traditional players – or the Polish Alliance of Loan Companies (PZIP) and the Polish Crowdfunding Society (PTC) are each active among one type of institution. While each actor on its own may be contributing to increased financial inclusion and health, there is little, if any, coordination of efforts between actors. Neither is there an association that unites all fintech companies in Poland into one network.

As such, we see a strong need for a professional body that could engage all types of stakeholders in activities related to financial inclusion and health, and which will create opportunities for cooperation of different types of stakeholders. A facilitator of this dialogue is needed.

ANNEX 1: FINANCIAL INCLUSION INDICATORS FOR POLAND

Europe & Central Asia: Poland, 2017 year	High Income		
Population, age 15+ (millions) **32.3**	GNI per capita (USD) **12,680**		
	Poland	**Europe & Central Asia**	**High income**
Account (per cent age 15+)			
All adults, 2017	86.7	65.3	93.7
All adults, 2014	77.9	57.8	92.8
All adults, 2011	70.2	44.8	88.3
Financial Institution account (per cent age 15+)			
All adults, 2017	86.7	65.1	93.7
All adults. 2014	77.9	57.8	92.8
All adults, 2011	70.2	44.8	88.3
Mobile money account (per cent age 15+)			
All adults, 2017	...	3.2	...
All adults, 2014	...	0.2	...
Account, by individual characteristics (per cent age 15+)			
Women	88.0	62.5	92.9
Adults belonging to the poorest 40 per cent	84.2	56.3	90.0
Adults out of the labour force	67.1	52.8	89.9
Adults living in rural areas	86.6	61.7	93.7
Digital payments in the past year (per cent age 15+)			
Made or received digital payments, 2017	81.9	60.4	90.5
Made or received digital payments, 2014	62.5	46.1	86.4
Used an account to pay utility bills	50.1	23.0	59.7
Used an account to receive private sector wages	47.5	21.2	38.9
Used an account to receive government payments	19.6	28.8	34.3
Used the internet to pay bills or to buy something online	64.6	30.6	67.6
Used a mobile phone or the internet to access an account	52.4	23.1	51.8
Used a debit or credit card to make a purchase	73.7	38.5	80.1
Inactive account In the past year (per cent age 15+)			
No deposit and no withdrawal from an account	2.4	6.6	3.8
No deposit and no withdrawal from a financial institution account	2.4	6.7	3.8
Domestic remittances In the past year (per cent age 15+)			
Sent or received domestic remittances through an account	17.4	12.8	...
Sent or received domestic remittances through an OTC service	1.9	7.0	...
Sent or received domestic remittances through cash only	4.3	8.0	...
Saving In the past year (per cent age 15+)			
Saved at a financial institution, 2017	32.6	14.4	54.8
Saved at a financial institution, 2014	20.8	11.0	49.6
Saved using a savings club or person outside the family	3.9	5.0	...
Saved any money	51.9	37.0	71.4
Saved for old age	20.1	15.0	43.9
Credit In the past year (per cent age 15+)			
Borrowed from a financial institution or used a credit card, 2017	30.5	24.2	55.1
Borrowed from a financial institution or used a credit card, 2014	26.8	22.3	51.9
Borrowed from family or friends	25.1	24.5	13.3
Borrowed any money	50.4	44.0	64.4
Outstanding housing loan	15.4	11.6	26.6

SOURCE: THE LITTLE DATA BOOK ON FINANCIAL INCLUSION, 2018

MICROFINANCE CENTRE

MetLife Foundation

THE MICROFINANCE CENTRE IS A SOCIAL FINANCE NETWORK THAT PROMOTES FAIRNESS, INCLUSION, EQUALITY AND RESPONSIBLE SERVICE.

We unite 113 organisations (including 77 microfinance institutions) across 36 countries of Europe, Central Asia and beyond, who together deliver responsible microfinance services to almost 2,000,000 low-income clients.

Our mission is to empower individuals and sustain communities through innovative social finance and microfinance.

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