

THE IMPACT OF THE COVID-19 PANDEMIC ON THE NON-BANK LOAN MARKET IN POLAND

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Abstract: The article presents the impact of the COVID-19 pandemic on the non-bank loan market in Poland. Data from the Credit Information Bureau for the period 2019-2020 provided to the author, included the number and value of loans granted by lending institutions, broken down into amount ranges (up to PLN 1,000, over PLN 1,000 to up to PLN 5,000, over PLN 5,000). The COVID-19 pandemic had a negative impact on the loan market due to the decline in demand for this type of products and a reduction in lending due to the tightening of anti-usury regulations generally regarding the maximum non-interest cost of credit introduced under the anti-crisis shield. Additionally, lowering the interest rates by the NBP influenced the maximum interest charged by these entities. As a consequence, some entities ceased their activity and some changed their business profile to pawnshops. The following research methods were used in the article: analysis of the available literature, legal acts, and statistical data from BIK.

Keywords: COVID-19 pandemic, non-bank loans, consumer protection.

1. Introduction

The non-bank loan market began to develop dynamically after the financial crisis of 2007-2009, when very restrictive regulations on banking activity were introduced. Loans became increasingly popular, and the current total number of clients in this sector is estimated at approximately 3 million people. Then, as a result of the dynamic development of modern technologies, the segment of on-line loans granted via the Internet or telephone (LenTech) was created. The dangers of the unregulated development of the loan market were noted by the supervisors and the regulators, as a result of which, in 2015, provisions were introduced to protect the clients of loan

institutions, and in 2017 the public register of loan institutions kept by the Polish Financial Supervision Authority (KNF) was launched. Market and regulatory factors led to the reduction of the dynamics in the development of the loan market in Poland, and the COVID-19 pandemic caused its regression. The pandemic, as a shock caused by an external non-financial health factor, affected all spheres of socio-economic life in the form of a coronavirus crisis (Solarz & Waliszewski, 2020).

2. The non-bank loan market before the pandemic and during its initial stage

The loan market entered a recession in 2020, as the value of sales of loans y / y in 2019 was lower than in 2018 (Waliszewski, 2020). As indicated in Figure 1, from 2013 there was a decline in the growth rate of this market from 40% to approximately 10% in 2018, and -5% in 2019, amounting to a loss of over PLN 100 million (activities of credit intermediation companies in 2019 and 2020). The non-bank loan market and the entire credit and financial intermediation sector are among the financial market segments most affected by the coronavirus pandemic and its cascading effects (Solarz & Waliszewski, 2020).

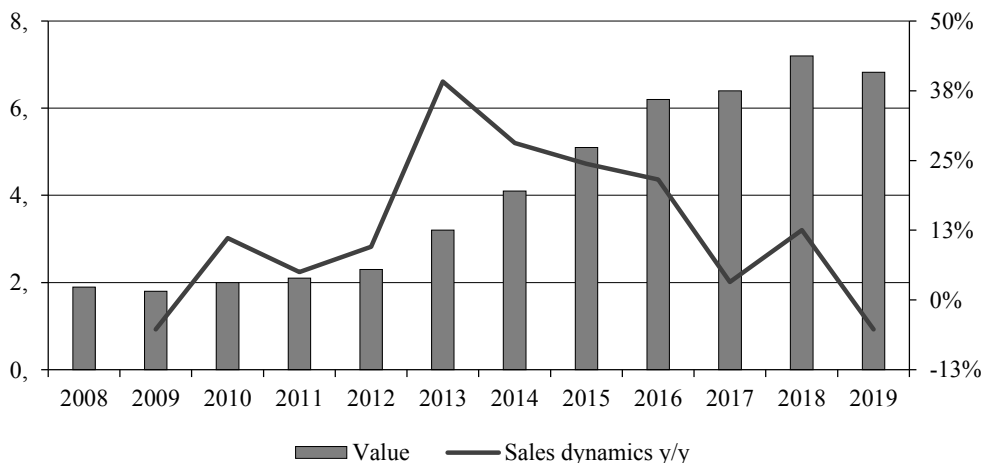


Fig. 1. Annual sales of non-bank loans in Poland in 2008-2019 (PLN billion) and sales dynamics y / y (%)
Source: (Jakubowska-Branicka, Walczak, & Waliszewski, 2020).

According to BIK data, loans were second in terms of drops in sales in the first half of 2020 among all financial products. Only credit cards, which saw a 41.6% decrease from the previous year, recorded lower dynamics. Following the example of the banking sector, loan institutions through their unions (the Polish Association

of Loan Institutions, the Union of Financial Companies, and the Financial Market Development Foundation) have developed recommendations for their members regarding actions towards clients during the pandemic (Table 1).

Table 1. Recommendations of associations of loan institutions in connection with the COVID-19 pandemic

Recommendations of the Polish Association of Loan Institutions	Recommendations of the Union of Financial Companies and the Financial Market Development Foundation
<p>It is recommended to introduce the following mechanism within 7 days from the publication of the recommendation (17/03/2020):</p> <ul style="list-style-type: none"> • The lending institution will make it possible to postpone the repayment date of the loan, all or part of its installments, by the necessary period, appropriate to the original loan date and the situation of the borrower, upon a justified and sufficiently documented request. • The submission and processing of the application for deferment of repayment will be free of charge. • The loan institution will enable the submission of the application, its justification, and documentation by electronic means in a non-formalized manner. • The loan institution will consider the application and provide a reply promptly, taking into account the applicant’s situation and the current and foreseeable economic circumstances. • If the epidemic condition persists after the repayment deferment period, the loan institution will allow you to apply for repayment deferment on unchanged terms. • When examining the application, the loan institution will be guided by the special circumstances and ethical principles described in the Responsible Lending Code of the Polish Association of Loan Institutions. 	<p>Bearing in mind that the business models of lending institutions are varied, and the selection of the appropriate support instrument should depend on the type of financing offered by the entity, the situation, and expectations of the client, we recommend lending institutions implement one or more of the following solutions:</p> <ul style="list-style-type: none"> • Suspension of repayment of principal or principal and interest installments for up to 1 month, depending on the type of product, with the option of extending it for another period. • Postponement of the repayment date of the loan installments and with the possible extension of the period for which the agreement is concluded, appropriate for this postponement. • Lowering the principal and interest installment for a period of up to 2 months, with a possible extension of the period for which the contract is concluded and the possibility of extending it for another period. • Failure to collect, from the date of submitting the application, late payment interest in the event of default in installment payment by the customer for a period agreed with the customer. <p>The above-mentioned activities will be implemented at the request of the customer who, as of February 29, 2020, was not delayed in servicing their loan, justified by the financial situation related to the SARS-CoV-2 coronavirus pandemic and under the law in force in Poland.</p>

Source: own elaboration based on PZIP, ZPF, and FRRF websites.

As part of the anti-crisis shield 3.0 (Ustawa z dnia 14 maja, 2020), at the request of the President of UOKiK, a significant tightening of the applicable anti-usury provisions was introduced and, at the request of the Ministry of Justice, an amendment to Art. 304 of the Criminal Code was made to extend criminal liability

for the usury. The package came into force on 30 May 2020, prohibiting the use of transfer of title as security in contracts with natural persons, the inability to conduct debt enforcement against real estate when the debt is small, and a penalty of up to five years in prison for demanding repayment of a loan granted on conditions exceeding the statutory threshold. The most important change contained in the discussed act concerns a significant reduction of the maximum non-interest costs, which mainly include: commission, preparation fee, compulsory insurance (in practice not used for payday loans), and other required fees. In the case of offers with a repayment period exceeding 30 days, the maximum level of non-interest costs was reduced from 55% to 21%, while payday loans with a repayment period of shorter than 30 days to only 5%. In turn, the sum of the loan costs, regardless of the repayment time, will not be higher than 45%, with the previous limit being 100%. As one can see, the reduction is huge, while it is non-interest costs and not the interest that constitute, or rather constituted the main source of income for loan companies. It should also be noted that as a result of three interest rate cuts as a response to the pandemic, the maximum interest rate on a loan was reduced from 10% to 7.2% per annum. This meant an additional reduction in profits for the lending institutions. It should be pointed out that loan institutions, unlike banks, do not finance themselves with cheap deposits but use funds from owners, loans and financial markets and, among others, from the issue of corporate bonds. The pandemic also affected the debt securities market, which did not reach its prime after the outbreak of the GetBack SA scandal.

3. The number, value and structure of non-bank loans granted in 2020, and comparatively in 2019

In 2020, loan institutions cooperating with BIK S.A. granted over 2 million loans for a total amount of PLN 4.742 billion, which meant a significant decrease compared to 2019. Throughout 2020, loan companies granted fewer loans (-25.4%, and in terms of financing granted this was 33.0% lower than in 2019. In 2020 loan companies cooperating with BI granted:

- 34.3% of the value of loans for the amounts above PLN 5,000, which in terms of numbers, constituted only 8.9% of sales;
- in numerical terms, loans up to PLN 1,000 prevailed, which accounted for 40.7% of the financing granted, and in terms of value, loans for amounts below PLN 1,000 had a 10.6% share in sales. Taking into account the more detailed monthly data, the lowest value of loan sales in terms of value and quantity was recorded in April 2020, i.e. at the very beginning of the pandemic (Figure 2). In the following months the sales of non-bank loans increased, both in terms of quantity and value, but by December 2020 it had not yet returned to the pre-pandemic levels.

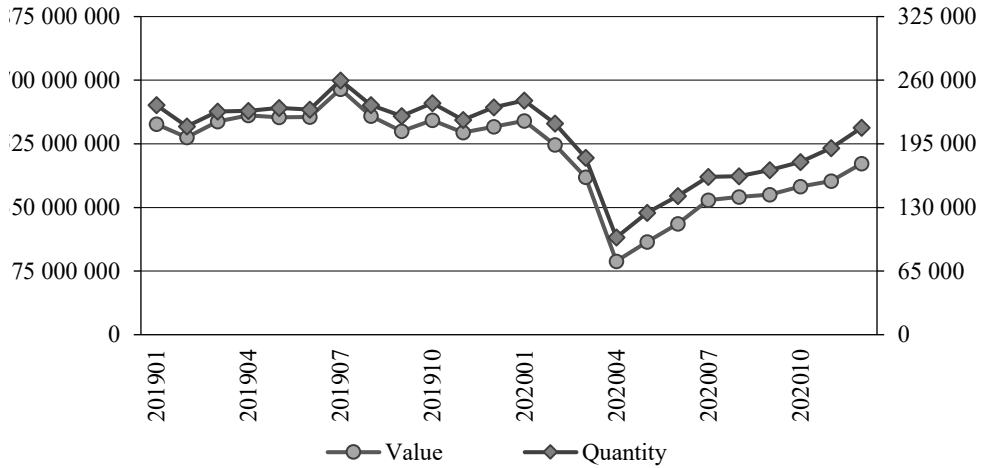


Fig. 2. Value in PLN and the total number of non-bank loans granted

Source: own study based on data from BIK SA.

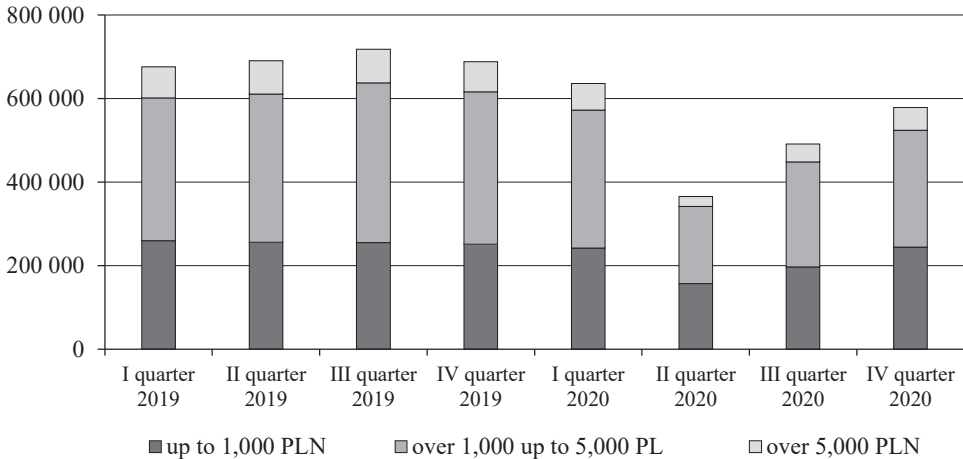


Fig. 3. The number of loans granted in 2019-2020 in terms of amounts (in units)

Source: own study based on data from BIK SA.

After separating the aggregate data into ranges according to the amounts (Figure 3) and value (Figure 4) of loans granted per quarter, more in-depth conclusions about the impact of the COVID-19 pandemic can be drawn. In the first quarter of 2020, a slight decrease in the number of loans granted was noted (675 thousand contracts vs 635 thousand contracts). The worst quarter in terms of sales was the second quarter of 2020, which occurred when it was already obvious that the pandemic was going to reach Poland, and other restrictions were introduced, when the drop was

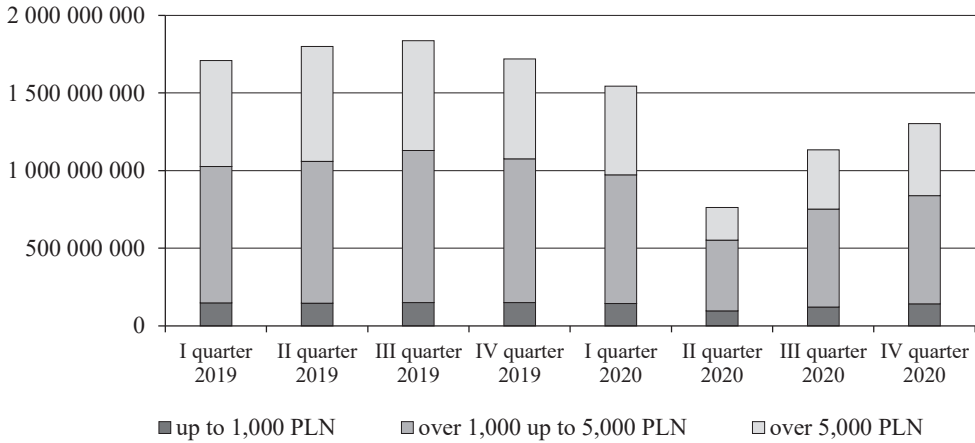


Fig. 4. Value of loans granted in 2019-2020 in amount ranges (in PLN)

Source: own study based on data from BIK SA.

significant (690 thousand contracts vs 365 thousand contracts). In the following quarters of 2020, an increase in the number of contracts was observed, but it was not possible to reach the levels prior to the pandemic (Q4 2020 compared to the previous year: 689 thousand vs. 578 thousand). Taking into account the entire 2020, the largest decrease in the number of contracts was recorded in loans from PLN 1,000 up to PLN 5,000 (nearly 400 thousand contracts) and then in the range of up to PLN 1,000 (over 180 thousand contracts). In the range over PLN 5,000, the reduction in the number of contracts was over 120 thousand.

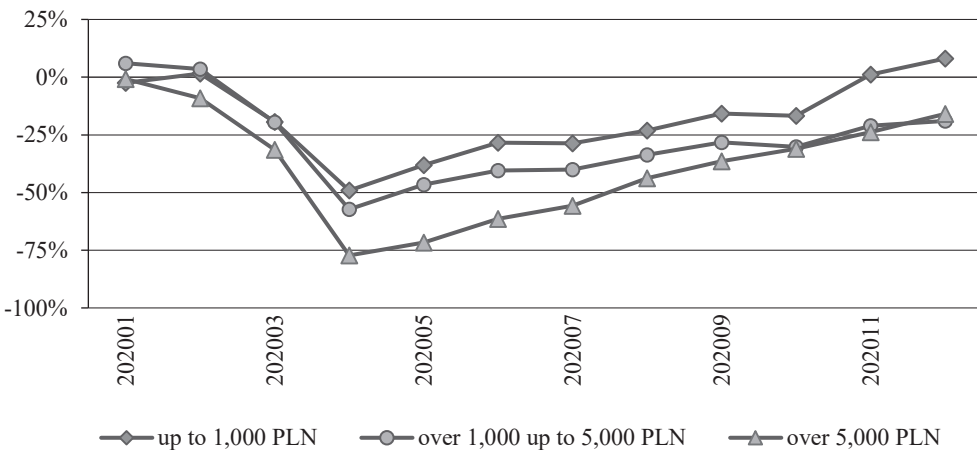


Fig. 5. Growth in the number of loan agreements y/y in terms of amounts (%)

Source: own study based on data from BIK SA.

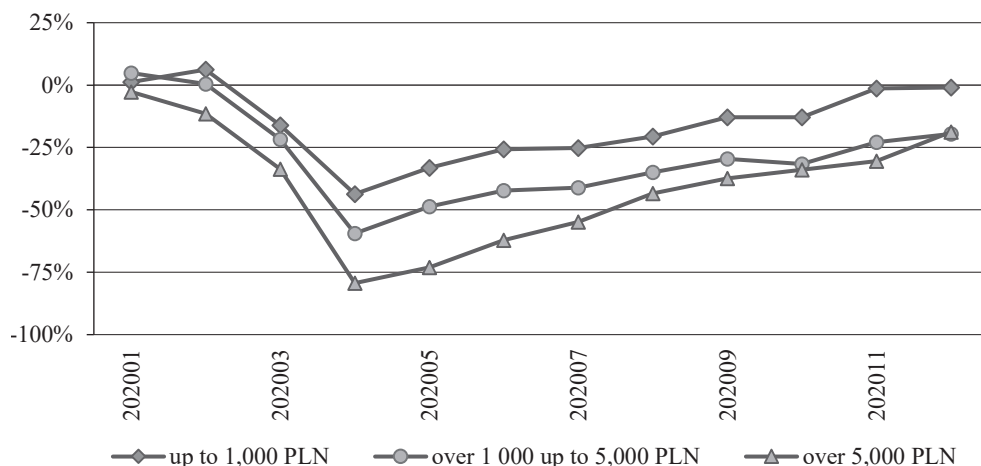


Fig. 6. Growth in the value of loan agreements y/y in terms of amounts (in %)

Source: own study based on data from BIK SA.

In the first quarter of 2020, the impact of the pandemic was already visible, but the decrease in loan sales compared to 2019 was relatively small (PLN 1.7 billion vs PLN 1.5 billion). The real market collapse came in the second quarter of 2020, where the decrease from 2019 was over PLN 1 billion (PLN 1.7 billion vs PLN 0.76 billion). In the following quarters of 2020, the decrease in the value of loans granted compared to 2019 amounted to PLN 0.7 billion in Q3 and PLN 0.42 billion in Q4. Taking into account the loan ranges, the largest loss in sales for 2020 compared to 2019 was for loans exceeding 5 thousand PLN and amounted to PLN 1.15 billion, followed by the range of PLN 1,000 up to PLN 5,000 amounting to over PLN 1 billion, and the smallest loans up to PLN 1,000 amounting to over PLN 91 million. Loans from all amount ranges, both in terms of numbers (Figure 5) and value (Figure 6), recorded negative growth:

- the highest negative loss in terms of numbers and value in 2020 compared to 2019 was recorded for loans exceeding PLN 5,000, respectively: (-39.9%) and (-41.7%);
- the lowest negative dynamics in terms of numbers and value in 2020 compared to 2019 was recorded for loans up to PLN 1,000, respectively: (-17.5%) and (-15.1%).

4. Economic assessment of the impact of the pandemic on the non-bank loan market in Poland

As the analyses show, the general macroeconomic and income situation of clients, combined with regulatory changes caused a drastic contraction in the non-bank loan industry. The recession, i.e. the negative sales dynamics of consumer loans, could already be noticed in 2019 compared to 2018 (Waliszewski, 2020). This was related to, among others, with regulatory changes made in 2015 and 2016 (Gemzik-Salwach, 2020; Kurzępa-Depo & Gemzik-Salwach, 2018a, 2018b). The response of the non-bank loan sector to the changed operating conditions caused by the COVID-19 pandemic was the result of the following factors of a demand/supply and business nature:

1. Drastic reduction in profitability of low-value and short-term loans, where non-interest-rate costs were the primary source of profit.
2. Limitation of profit for loans with longer maturities due to the reduction of the reference rate by the central bank.
3. Suspension of receipt of new applications by loan institutions.
4. Significant reduction in the number of loan inquiries from customers.
5. Increasing the level of rejected applications due to the increase in the cost of the loan risk.
6. Limiting the financing of lending institutions from the capital market through corporate bonds.
7. Withdrawal of foreign entities from the market and suspension of activities by smaller lending institutions as their operations have become unprofitable.
8. The need for lending institutions to return part of the commission on loans repaid early as a result of the so-called “small judgment” of the Court of Justice of the EU.

The anti-usury regulations in the anti-crisis shield 3.0, enforced one year after their introduction (they were finally extended until the end of June 2021), were intended to protect consumers during the coronavirus crisis, but in practice made credits and loans more difficult to obtain, especially those who earn the least and have no chance of obtaining a bank loan and are new borrowers. This resulted in the use of ‘underground lending’ and pawnshops, where legal regulations and restrictions on interest and non-interest costs do not apply. In the future this may result in depriving households from equipment pledged in pawnshops, as well as the risk of the emergence and growth of a credit spiral, which in turn can lead to household insolvency. It should be added that, in general, the services of lending institutions are used by people with low incomes, those cascading excluded, and with low economic and financial knowledge (Jakubowska-Branicka, Waliszewski & Woźniak, 2020). Since July 2020, a slight rebound in the non-bank loan market has been observed. The Financial Market Development Foundation asked respondents to the survey for their assessment of government regulations restricting loans and credits, and 48% found them unfavourable. In turn, 66% of the respondents claim that the government, even in a difficult economic and social situation, should not prevent Poles from borrowing money from legal sources, i.e. banks, credit unions and loan companies.

5. Conclusion

The COVID-19 pandemic has significantly limited the non-bank loan sector in Poland, which entered a recession in 2020, and saw negative sales numbers when compared to 2019. Increasing uncertainty in households, the tightening of anti-usury regulations, and the lowering of maximum interest rates resulted in limiting the activity of lending institutions. This was also linked with the difficulty of obtaining sources of financing for loans, not financed from deposits as in the case of banks. It is expected that in the post-pandemic period, the non-bank loan market will recover as it fills the market gap in financial products in the short term, and slowly lowers the amounts.

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WPLYW PANDEMII COVID-19 NA RYNEK POŻYCZEK POZABANKOWYCH W POLSCE

Streszczenie: Celem artykułu jest przedstawienie wpływu pandemii COVID-19 na rynek pożyczek pozabankowych w Polsce. Wykorzystano udostępnione autorowi dane Biura Informacji Kredytowej artykułu za lata 2019-2020 dotyczące ilości i wartości udzielonych pożyczek przez instytucje pożyczkowe w podziale na przedziały kwotowe (do 1 tys. zł, pow. 1 tys. do 5 tys. zł, pow. 5 tys. zł). Pandemia COVID-19 wywarła negatywny wpływ na rynek pożyczkowy ze względu na spadek popytu na tego typu produkty oraz ograniczenie akcji pożyczkowej spowodowanej zaostreżeniem przepisów antylichwiarskich w zakresie maksymalnego pozaodsetkowego kosztu kredytu wprowadzonych w ramach tarczy antykrzysowej. Dodatkowo obniżanie stóp procentowych przez NBP wpłynęło na maksymalne odsetki pobierane przez te podmioty. W konsekwencji część podmiotów zaprzestała działalności, część zmieniła profil działalności na lombardy. W artykule wykorzystano następujące dane badawcze: analizę dostępnej literatury i aktów prawnych oraz danych statystycznych z BIK.

Słowa kluczowe: pandemia COVID-19, pożyczki pozabankowe, ochrona konsumenta.