

## THE AVAILABILITY OF BANKING SERVICES IN POMORSKIE VOIVODESHIP - THE STATUS AND OPPORTUNITIES FOR FURTHER DEVELOPMENT

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**Abstract:** In the age of globalization the financial services are crucial for the efficient functioning of both businesses, as well as households. The following article presents the diversification of banking services' availability in Pomorskie voivodeship in 2010 and its reasons. The article also discusses the subject of franchise as a way of organizing sales, which could significantly boost the availability of banking services in the examined area. In Poland, the dominant role in the provision of banking services is played by traditional bank branches, even though the electronic distribution channels play an increasingly important role. In Pomorskie voivodeship, for every 10 thousand residents there are 4.7 bank branches on average. The highest value of the indicator was found for municipal districts of the Tricity, the districts of Lębork, Malbork, and Słupsk. The lowest value of index was found for the districts of Bytów, Chojnice, Człuchów, and Sztum. The determining factor in the aspect of distribution of bank branches in Pomorskie voivodeship is the degree of urbanization of each district. The development of franchises in the banking business is an important link in increasing the availability of banking services to people. The main advantage of franchising is the division of costs of establishing the branch between the bank and the franchisee, as well as higher operational efficiency. In addition, the franchise is largely based on smaller branches, the establishing of which is also profitable in smaller towns.

**Key words:** availability, banking services, Pomorskie voivodeship, franchise

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### INTRODUCTION

Services are defined in the literature in various ways (Grönross, 1990) defines a service as an action or series of actions which are more or less intangible in their nature, and which normally take place during the interaction between a client and a customer service representative or between a client and the physical environment of the service provider. In countries with a high level of economic development, the service sector generates the largest share of GDP. In socio-economic geography, the availability of services is an important research issue, since it has a significant impact on business environment and the quality of life of residents in the examined areas.

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Particularly important is the role of financial services, including banking services, in the economy. In the age of globalization they are indeed crucial for the efficient functioning of both businesses, as well as households. What the author defines as banking services is banking activities as defined by Polish law<sup>1</sup>, and consulting services provided for customers of banks.

In this study, the diversification of banking services' availability in Pomorskie voivodeship in 2010 is characterized and its reasons are determined. Moreover, areas for possible further development of banking networks are identified. The article also discusses the subject of franchise as a way of organizing sales, which could significantly boost the availability of banking services in the examined area.

### **MAIN DISTRIBUTION CHANNELS FOR BANKING SERVICES**

Services are delivered to customers through a distribution system, i.e. a set of channels used by a company to distribute a given product category (Pilarczyk and Stefańska, 2006). In the banking business, the dominant role has been played by a model of multi-channel distribution based on the distribution of products through both traditional branch network and electronic channels (Chwirot-Zakrzewska, 2009).

The proceeding development of information technology and the ever wider people's access to the Internet has made electronic channels play an increasingly important role in the distribution of banking services. Nevertheless, in 2009 in Europe, the dominant role in providing banking services still belongs to traditional bank branches.

The sales volume of banking services in branches accounted for as much as 78.4 % of total sales volume. At the same time, the volume of sales conducted through electronic channels accounted for only 7.8 %. The share of electronic distribution channel is likely to increase; however, the leading role is still going to be played by bank branches (Bulgărea, 2010).

In Poland, the dominant role in the provision of banking services is also played by traditional bank branches, even though the electronic distribution channels play an increasingly important role (Chwirot-Zakrzewska, 2009).

This is due to the advisory activities which are performed in bank branches. Customers making their important financial decisions expect not only that banking transactions would be managed efficiently, but also that they would contact bank representatives directly, on the spot. For this reason, the distribution of bank branches in a certain area still plays the leading role in the analysis of availability of banking services.

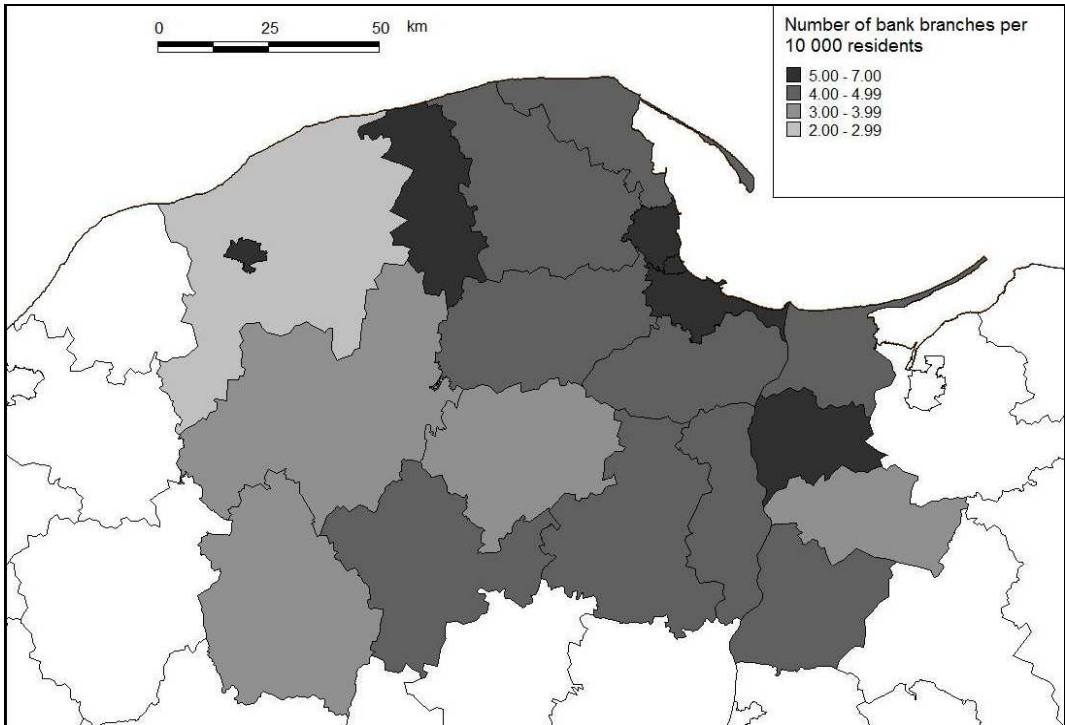
### **THE DISTRIBUTION OF BANK BRANCHES IN POMORSKIE VOIVODESHIP IN 2010**

One of the features of banking system in Poland is the uneven distribution of bank branches. Therefore, there are significant differences in the availability of banking services to residents of each area and in the intensity of competition which each branch has to withstand. In the area of Pomorskie voivodeship, the availability of banking services in each district is also highly diversified (figure 1).

In Pomorskie voivodeship, for every 10 thousand residents there are 4.7 bank branches on average. The highest value of the indicator was found for municipal districts of the Tricity, the districts of Lębork, Malbork, and Słupsk (5 - 7 bank branches for every 10 thousand inhabitants). The lowest value of index (less than 3 branches per 10 thousand inhabitants) was found for the districts of Bytów, Chojnice, Człuchów and Sztum.

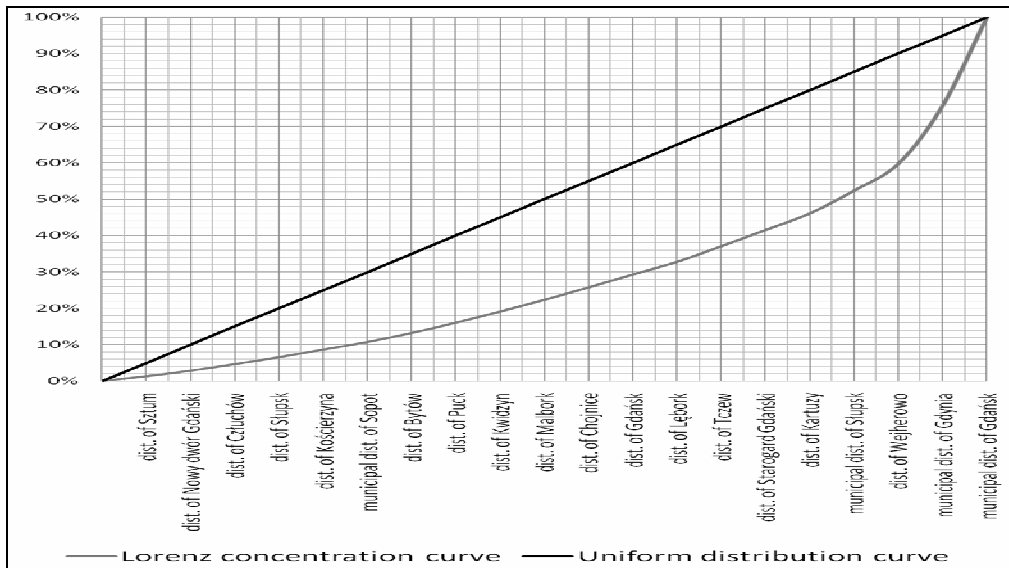
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<sup>1</sup> The bill passed on August 29, 1997 r. – Bank law (Dz. U. of 2002, No 72, item. 665 with further changes) acknowledges such banking activities as: the acceptance of cash deposits paid on demand or at a predefined date, running accounts for such deposits, running other bank accounts, granting credits and cash loans, granting and confirming bank guarantees, opening and confirming letters of credit, issuing bank securities, settling bank accounts holding cash, issuing electronic money instruments, issuing debit cards and managing operations using such cards, operations involving checks and bills of exchange, warrant operations, purchase and sale of receivables, the storage of valuables and securities, provision of safe-deposit boxes, conducting purchase and sale of foreign exchange values, granting and acknowledging sureties, performing commissioned operations related to issuing securities, brokerage in money transfers, and settlements in foreign exchange



**Figure 1.** The average number of bank branches per 10 thousand residents in Pomorskie voivodeship in 2010 with division by districts

(Source: author's own study based on the contact details of bank branches)

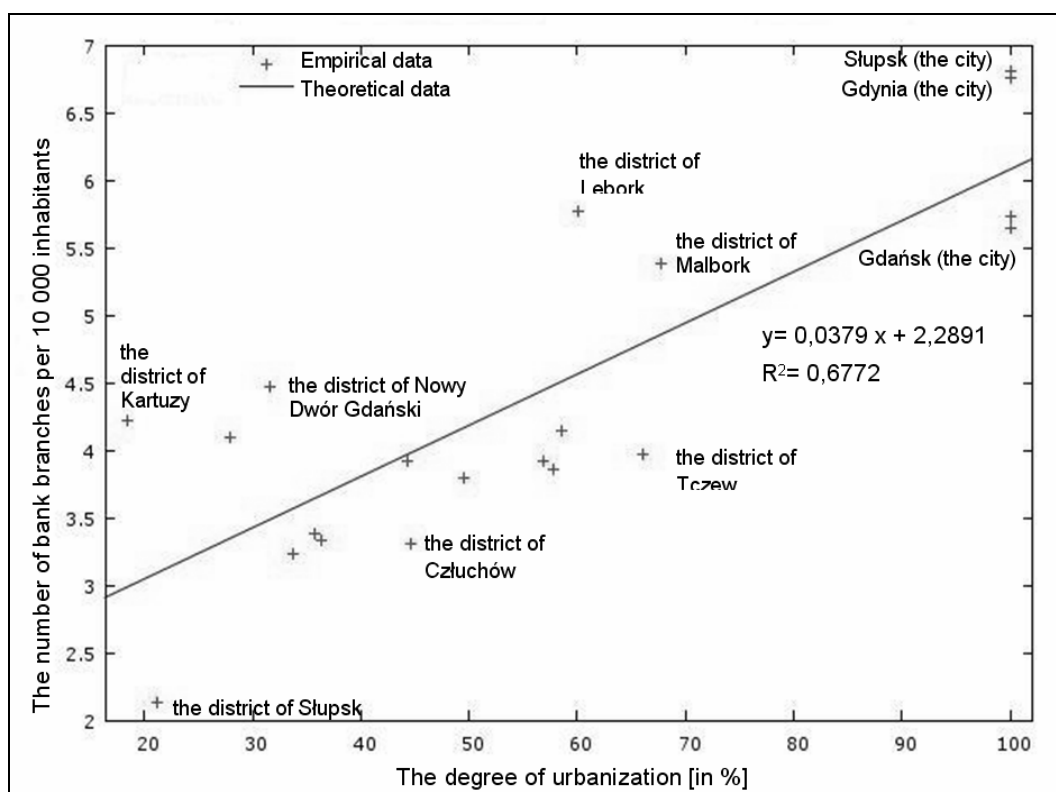


**Figure 2.** Lorenz concentration curve for bank branches in the districts of the Pomorskie voivodeship in 2010

(Source: author's own study)

It should be noted that the average ratio for Poland is 3.9 per 10 thousand residents. In Pomorskie voivodeship for every 10 thousand inhabitants there are more bank branches than in Norway (2.5 branches), Romania (2.9), and Belgium (3.9), but less than in Italy (5.7), France (6.0) and Spain (9.6)<sup>2</sup>. The concentration ratio of bank branches, as calculated from Lorenz concentration curve (figure 2), equals 0.53. The concentration ratio can assume theoretical values within the range (0,1), where 0 means the lack of concentration, and 1 means full concentration (Makać and Urbanek-Krzysztofiak, 2007). In the light of the above, the spatial concentration of bank branches in Pomorskie voivodeship can be considered significant. The concentration curve analysis shows that the highest spatial concentration of bank branches occurs in municipal districts of Gdańsk, Gdynia, Słupsk, and in the district of Wejherowo. In the area of these districts, 46 % of total bank branches are concentrated.

The determining factor in the aspect of distribution of bank branches in Pomorskie voivodeship is the degree of urbanization of each district. Figure 3 depicts the relationship between the number of bank branches per 10 thousand inhabitants and the degree of urbanization of districts in Pomorskie voivodeship. Basing on empirical data, a simple mathematical model was constructed in which the number of bank branches per 10 thousand residents is the dependent variable, while the degree of urbanization is the independent variable. There is a clear linear relationship between variables. The determination coefficient  $R^2$  equals 0.6772, which means that the model explains the variability of the dependent variable in almost 68 %.



**Figure 3.** The relationship between the number of bank branches per 10 thousand inhabitants and the degree of urbanization in the districts of Pomorskie voivodeship in 2010.  
(Source: author's own study)

<sup>2</sup> The author's own calculations based on report *EU Banking Sector – Facts and Figures*, 2010, European Banking Federation.

The justification of such a strong influence of the degree of the districts' urbanization on the density of bank branches must be sought in the way of services distribution by banks operating in Poland. Until the end of the XX century large bank branches played the most significant role in the distribution of banking services. Running such branches is associated with high costs, and thus to achieve profitability they need to have an adequately high turnover, which can only be secured in larger towns. Large bank branches still play a significant role in the distribution of banking services. However, it decreases steadily in favour of smaller branches, whose location in smaller towns has already become profitable.

The largest positive deviation of empirical data from the theoretical data as calculated on the basis of the model was observed for the district of Kartuzy, Lębork and the municipal district of Słupsk. On the other hand, the largest negative deviations are typical for the district of Słupsk, Tczew and Człuchów. By comparing this information with figure 1, the considerable importance of bank branches located in Słupsk can be noticed in terms of provision of banking services to residents of the whole districts of Słupsk and Lębork. Analogically, bank branches located in the Tricity are of similar importance to inhabitants of the district of Tczew, and bank branches located in district of Malbork - to inhabitants of the district of Sztum.

In the course of this research, the impact of residents' income size on the concentration of bank branches in each district was also estimated. With the aim to do it, the previously constructed model was enhanced with another independent variable, "the average monthly income per capita in zł". It turned out that in the new model the determination coefficient  $R^2$  equals 0.6773. It means that this model explains the variability of bank branches per 10 thousand inhabitants only by 0.01 % better than the previous model, based only on one variable.

This has become the basis for formulating a hypothesis that the variable, "the average monthly income per capita in zł", is not statistically significant. The verification of this hypothesis performed by using Student's t-test (at the significance level  $\alpha = 0.01$ ) did not give reason for its rejection. Income is therefore a factor which has not been directly taken into consideration while deciding about the location of bank branches yet. The average monthly income, however, is strongly positively correlated with the degree of urbanization of each district (Pearson's linear correlation coefficient  $R = 0.75$ ).

Since the demand for banking services depends on people's income, the districts with a low number of bank branches per 10 thousand residents and with relatively high average income per capita could be the areas of potential further development of distribution networks of banking services. These are primarily districts of Słupsk, Bytów, Sztum and Kościerzyna. At the same time, districts with a high number of bank branches per 10 thousand inhabitants and low average income per capita are the areas with lower potential for development of networks of bank branches. These include the city of Słupsk, and the districts of Malbork and Lębork.

## **FRANCHISE AS A WAY OF INCREASING THE AVAILABILITY OF BANKING SERVICES**

Franchise is a specific method of organizing sales of goods and services (Stawicka, 2009) defines franchise as a long term, chargeable permission granted to a franchisee, a licence, and consent to offer products or services on behalf of the franchisor and to use its trade name, trademark, logo, as well as to apply the prices of products assumed by the franchisor.

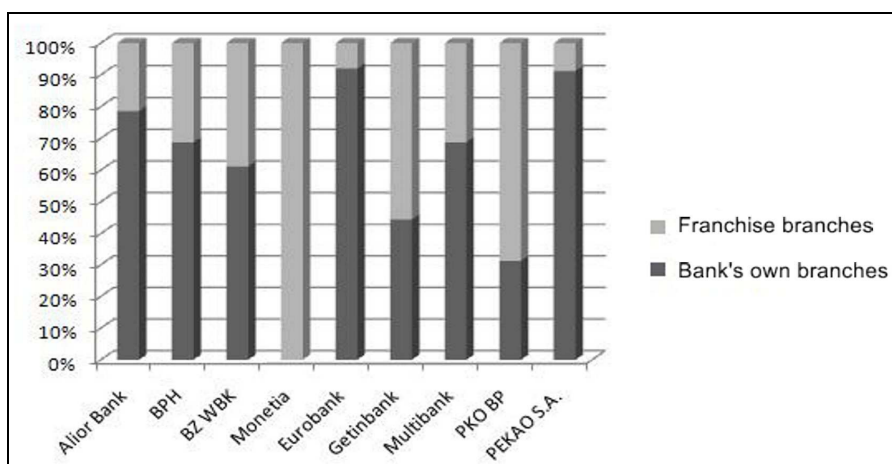
One type of business in which franchise networks develop dynamically is the banking business. The use of franchise in the banking business brings several benefits for both the franchisor and the franchisee. A significant role belongs here to the method of financing the expansion of branch network. The bank incurs lower costs, since it uses - as a large part - the franchisee's capital. In this way, the bank obtains the possibility of expansion to local markets, where running its own branch would not be profitable.

In addition, the way of managing the branch and the effectiveness of performed activities are important elements, because in most cases, a self-employed franchisee achieves better results than a

hired manager. Meanwhile, an entrepreneur who joins a franchise above all obtains the know-how, as well as the possibility of running a bank branch under the brand which is well established in the market, and without a huge outlay as is required when setting up one's own bank (Szewczyk, 2008).

The development of franchises in the banking business is an important link in increasing the availability of banking services to people. The advantages of this form of organization of sales make it play an increasingly important role also in Pomorskie voivodeship. The best - developed network of franchise branches in Pomorskie voivodeship in 2010 belonged to PKO BP - 97 outlets.

The second largest network was Monetia, which already had less than half of them. It should be noted that the PKO BP was the only bank that has developed its network of partner branches since the early fifties of the twentieth century; however, at that time franchise branches' scope of operation included only activities related to clearing transactions and deposits, so they are difficult to compare with the institutions established nowadays. Such banks as BPH and Getinbank possessed 10 franchise branches in Pomorskie voivodeship, whereas franchise networks of the remaining banks had less than 10 branches and the other banks had fewer than 10 branches. The importance of franchise branches in the distribution of banking services is varied among banks (figure 4).



**Figure 4.** The share of each bank's own and franchise branches in the total number of branches of the selected banks in Pomorskie voivodeship in 2010.

(Source: author's own study)

DnB Nord bank established Monetia brand in order to build a distribution network as a franchise, and therefore Monetia network consists only of franchise branches. It should be emphasized, however, that they offer a smaller range of services than branches of DnB Nord, as well as franchise branches of the remaining banks (see table 1).

In 2010 Monetia Banking Agency offered only deposits and settlement products. In the case of PKO BP, the number of franchise branches exceeds the number of bank's own branches. A significant share of franchise branches also belongs to Getinbank. These accounted for almost 60 % of all branches of the bank. Additionally, it appeared that partner branches of Getinbank offered more products and services than the bank's own branches. These are namely mortgages, and car leases, which in larger towns were sold by specialized divisions of Getin group, such as DOM Bank or Getin Leasing (Dudek, 2008).

In case of the other banks, the share of franchise branches in the total number branches is not that high. However, they are an important element of the distribution network, inter alia, for BZ WBK, Multibank, and BPH. It should be emphasized that in case of Multibank, equipment and products offered by franchise branches do not differ at all from those found in the bank's own branches.

**Table 1.** Products and services offered in franchise branches of selected banks in 2010

(Source: author's own study based on analysis of banks' offers)

Product or service	BZ WBK	Eurobank	Getinbank	ING Bank Śląski	Monetia	Multibank	PKO BP	PEKAO S.A.
Credit / cash loan	yes	yes	yes	yes	no	yes	yes	yes
Loan / loan consolidation	no	yes	yes	no	no	yes	yes	yes
Mortgage	yes	yes	yes	yes	no	yes	yes	yes
Car loan	no	no	yes	no	no	yes	no	no
Credit cards	yes	yes	yes	yes	no	yes	yes	yes
Current account	yes	yes	yes	yes	no	yes	yes	yes
Savings account	no	no	no	yes	no	yes	yes	yes
Foreign currency account	no	no	no	no	no	yes	no	yes
Deposit	yes	yes	yes	yes	yes	yes	yes	yes
Settlement products	yes	yes	yes	yes	yes	yes	yes	yes
Investment funds	no	yes	yes	yes	no	yes	no	no
Brokerage Services	no	no	no	no	no	yes	no	no
Western Union services	yes	no	no	no	no	no	no	yes
Leasing	no	no	yes	no	no	no	no	no
Other services – e.g. phone top-ups	no	no	no	no	yes	no	no	no

There are two main models of franchise systems in the offer of banks operating in Pomorskie voivodeship. In the first one, the bank provides franchisees with a fully equipped office, which is not usually much different from the bank's own branches. In addition, the bank itself will select the most convenient location for the branch. One disadvantage of this system is a relatively high cost of accession. In case of ING Bank Śląski, which prefers this system, the minimal sum of franchisee's own contribution is 50 thousand zł, while in case of Multibank, it is about 100 thousand zł<sup>3</sup>. In the second model, the responsibility to find and equip the office rests upon the franchisee. The selected location must be approved by the appropriate authorities of the bank. The franchisor helps to adapt the premises to the standards applying for the franchise, not always contributing to the costs of the project, though. Additionally, in this model a partner branch often has limits concerning the product offer as compared with the bank's own branches. Joining the franchise network which functions on the principles mentioned above, however, is usually much cheaper. The minimal sum of the contribution required from a franchisee is in the range between 10 thousand zł in case of PEKAO SA and 30 thousand zł in the case of PKO BP. It should be noted, though, that these amounts may vary depending on local conditions.

Especially the second of the models may contribute to increasing the availability of banking services in the analysed voivodeship. It is because the model is based on smaller branches, the establishing of which is economically viable also in smaller towns, that is, in the areas, where the availability of banking services has been relatively low so far. An important aspect for potential franchisees is also the relatively low cost of joining the franchise.

## SUMMARY

Despite the fact that banking services are provided to people on an increasingly large scale using the electronic distribution channels, bank branches still have the chief influence on the availability of these services in Europe. In Pomorskie voivodeship, for every 10 thousand residents there are 4.9 bank branches on average, which is more than their average number for the whole

<sup>3</sup> This sum includes the franchise fee, which amounts to 35 thousand PLN.

Poland. The largest availability of banking services is found in districts with a high degree of urbanization. It is the major factor influencing the distribution of bank branches. What is surprising is the fact that the availability of banking services is not directly dependent on people's income in each area, even though this is the factor that significantly affects the demand for banking services.

The increase in the availability of banking services in Pomorskie voivodeship will probably take place in districts with a low number of branches per 10 thousand inhabitants and with a relatively high average income per capita (districts of Słupsk, Bytów, Sztum, and Kościerzyna). At the same time, districts with a high number of bank branches per 10 thousand residents and with low average income are the areas with lower potential for development of networks of bank branches (the city of Słupsk, and the districts of Malbork and Lębork).

The increase in the availability of banking services may be affected by the further development of the banking franchise networks. The main advantage of franchising is the division of costs of establishing the branch between the bank and the franchisee, as well as higher operational efficiency. In addition, the franchise is largely based on smaller branches, the establishing of which is also profitable in smaller towns. Banks are therefore likely to use this way of expansion to an increasingly large extent, which may increase the availability of banking services in the areas with a lower degree of urbanization.

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Submitted:  
March 07, 2011

Revised:  
April 10, 2011

Accepted:  
April 29, 2011

Published online:  
May 11, 2011