LOAN PERCEPTION AND LOAN-RELATED ATTITUDE OF POLES: EVIDENCE FROM THE FIELD

Andrzej Cwynar[1]
e-mail: andrzej.cwynar@wsei.lublin.pl

Wiktor Cwynar
e-mail: wiktor.cwynar@wsei.lublin.pl

University of Economics and Innovation in Lublin, Poland

Kamil Wais
e-mail: kwais@wsiz.rzeszow.pl

University of Information Technology and Management in Rzeszów, Poland

Radosław Parda
e-mail: radekparda@gmail.com

[1] Corresponding author.

Abstract. Personal loans market in Poland has changed substantially within last years. Relevant aspect of the change was the emergence of personal loan companies and other non-banking entities with their offer addressed to clients excluded by banks. Positive results of the change were offset by increased concerns regarding financial safety of those who take loans from such institutions, not fully encompassed by the regulations followed by banks and credit unions. We investigated opinions of private individuals to study their perception of loans and attitudes towards selected loan-related issues within the new lending environment. To achieve the goal, we conducted survey in a representative sample of 1004 adult Poles and we utilized logistic regression model to get additional insight into the survey results. We found that negative opinions outweigh positive ones, both in general attitude towards loans and in the perception of particular loan-related issues such as connotations concerning payday loans and parabanks. Despite the study was not meant to ascertain the level of Poles' debt knowledge, we perceive the results of our study as evidencing, though indirectly, the lack of such knowledge. Hence, we believe that the findings call for more activity – both regulatory and market-driven – aimed at making private individuals more debt knowledgeable.

Key words: loan, payday loan, personal loan company, bank, parabank.

Introduction

The research that has been conducted in Poland until now, revealed ambivalent attitude of private individuals to loans. On the one hand, loans are considered as the means of achieving goals in general and making dreams come true in particular. On the other hand, they are perceived a burden that entails various self-sacrifices (see for example Credit Information Bureau & The Kronenberg Foundation 2014). Such conflicting feelings are reinforced by the repeating media reports concerning the abuses and improprieties associated with the activity of entities extending personal loans. Moreover, one can reasonably assume that consumers can feel increasingly lost in the personal loans market, since it becomes more and more complex with rising number of diverse entities delivering loans, such as personal loan companies, social lending platforms or unofficial lending vehicles. Their operation is more or less controversial and some of the controversies are justified, while the others seem to be unwarranted. Personal loan companies attract special attention as they successfully found their own place on the market by hitting exactly in the needs of the clientele excluded, for various reasons, by banks and credit unions. Some of such firms, especially those associated in the industry organizations, strive for dissociating themselves from other forms of non-banking lending entities that operate on unclear terms, and breaking unfair connotations that link them to low business standards and taking advantage of unknowledgeable customers who are forced to take loans from them.

We investigated Poles' opinions on selected issues regarding loans to check how they perceive loans in general and some immanent risk factors attached to loans in particular in the new, more complex setting. To do that, we surveyed representative sample of 1004 adults. Firstly, we examined their attitudes towards loans, including those generally unavailable in the banking sector, i.e. payday loans. Secondly, we checked the perception of so called parabanks – lending entities that extend loans through deposits of their clients. Thirdly, assuming that people recognize not only the "bright side" of loans, but also the "dark side", we studied the way they deal with the identification of the risks related to unfair practices of some personal lenders. The article demonstrates the results of the research. It is structured in the way that allows for confronting two different sectors of the same market: banking sector (consisting of banks and credit unions) and non-banking sector (represented mainly by personal loan firms). Since the literature concerning banking sector is vast, we deliberately give personal loan companies prominence.

The remainder of the paper is organized as follows. In section 2 we make literature review to ensure a context for our study. The section describes current state of the consumer credit market in Poland with special attention paid to the specificity of personal loan companies and the way they diverge from banking-sector lending entities. Additionally, to build the context, in this section we referred to findings of other authors on such issues as public confidence to personal lenders, the profile of statistical (private individual) borrower and his / her debt knowledge (literacy). Section 3 demonstrates methodology, the outcome of our empirical investigation and discussion on the achieved results. Last section concludes the article.

1. Literature review

1.1. Current state of the personal loans market in Poland

The financial institutions' assets in Poland represent merely 0,3% of the total global financial assets. Yet, they were growing faster than the real economy during last twenty years. The largest share in the assets have banks (Ancyparowicz, Rutkowska 2014). According to Central Statistical Office (2015), total value of personal loans taken from them reached PLN 123 491 million in 2014. Together with social credit unions, they constitute the banking sector of the entire consumer credit market in Poland (obligations of private individuals in relation to credit unions are materially lower as compared to liabilities due to banks, amounting to approximately 10% of them). The other sector of the market is represented by non-banking entities, including first of all personal loan companies, but also such diverse loan providers as social lending firms, pawnshops, parabanks and unofficial lending activities. Among them, personal loan companies deserve a special attention, since other non-banking lending vehicles have either marginal significance in the market (social lending platforms) or they operate out of the official economy.

Personal loan companies seem to complement products delivered by the banking sector as they provide low-amount and short-duration loans, unavailable in the offer of banks and credit unions. Research shows that there is a class of potential borrowers who look for lending products having such properties since their occupational characteristics preclude them from applying for loans in banks or credit unions (e.g. non-official workers, junk contract employees, independent professionals etc.). Therefore, it seems that personal loan companies – despite many controversies surrounding their activity – play an important role by reducing financial exclusion. However, the share of personal loan companies in the entire market is still small, even though it was experiencing rapid growth recently. It is estimated that the liabilities due to them constitute half of the liabilities due to credit unions, at best (PwC 2013).

The sector of the overall lending market represented by personal loan companies is young – first enterprises entered it at the turn of XX and XXI century. Still, some authors (The Conference of Financial Companies in Poland 2015) reasonably indicate that the short period of their activity can be divided into two distinct sub-periods: before 2012 and later. The division is important as it points that current form of the sector (with many competing firms having close substitutes) is in force for at most couple of years. Before, it was dominated by one enterprise and characterized by homogenous product distributed through unified channel (home lending). According to some sources the average annual growth rate of the total value of loans granted by personal loan companies estimated for last years achieved 15% (Kaczmarski 2015). Other authors confirm that since 2011 the part of the consumer credit market grew exceptionally fast, which resulted not only from more demanding credit terms introduced by banks (as a part of self-regulation process) and the implementation of T-recommendation by Polish Financial Supervision Authority in 2011, but also from the organic development of the market (PwC 2013; Instytut Badań nad Gospodarką Rynkową 2014).

Personal loan companies sector is segmented. Online segment firms specialize in micro loans (less than PLN 1000) granted for extremely short periods (up to 30 days), often lent without the interest (commission is the cost). At the other extreme, firms lending money in their branches / outlets offer the largest loans for longest periods (yet, still importantly smaller and shorter compared to the average banking loans). Home lending firms are situated between these two.

Aforementioned controversies around personal loan companies have various grounds. Firstly, they stem from the belief that their properties – exceptionally high interest rate and extremely fast granting procedure – can jeopardize financial health of not only individual borrowers, but also entire lending market. Secondly, there are at least suspicions concerning the abuses resulting from the information asymmetry or misleading activities (The Office of Competition and Consumer Protection 2013; Federacja Konsumentów 2015). Thirdly, to a degree the controversies result from the fact that personal loan companies seem to be confused with illegitimate lending activities such as parabanks. The disputes concerning personal loan companies were exaggerated by the fact that – as opposed to banks and credit unions – their activity was not fully regulated in Poland. It was based on Civil Law and Consumer Credit Act (personal loan companies were also encompassed by supervision of the Office of Competition and Consumer Protection, Inspector General for Personal Data Protection and Inspector General for Financial Information). Consequently, law amendment was introduced in 2015. The new regulations resulted in the following: (1) joint-stock company and limited liability company are the only legal forms in which personal loan companies can conduct their operations, (2) minimum share capital was set at PLN 200 000 with the requirement of covering it in cash, (3) Financial Supervision Authority gained additional rights in relation to personal loan companies, (4) maximum costs of the loans granted by personal loan companies were set. As the result of the regulatory shift, the debate over the threats associated with the activity of personal loan companies was substituted by the debate over the threats that can be caused by new legal frames. There are views according to which new law can eventuate in removing entire segments from the consumer credit market, mainly because of price limits imposed by the regulator. Such opinions are strongly advocated not only by some Polish authors and commentators, but also by independent foreign researchers. For example, Lawrence and Elliehausen (2007) argue – on the basis of own empirical evidence – that overregulation may be harmful for low and moderate income borrowers since it leads to credit availability restrictions. They postulate indirect, market-based price regulation through promoting competition instead of direct interventions resulting in price limits. Increased regulatory restrictions may lead to more constrained access to formal loans since a part of the market may get unofficial or be driven offshore. Center for Social Impact & National Australia Bank (2014) report that financial exclusion – measured not only by the prevalence of the banking accounts but also by the utilization of credits and loans – is positively associated with borrowing from informal moneylenders. According to the report current share of such loans in Poland is relatively low (less than 10%).

1.2. Profile of the statistical borrower and motives underlying personal loans

Although some authors claim that customers of personal loan companies "are usually clients with low level of income, over-indebted or with illegal income source which constitutes the roots of social risk" (Ostalecka, Swacha-Lech 2014), the results of social studies carried out in Poland so far are less definite in this respect. Both PwC (2013) and Białowolski (2012) point out that the demographic differences between banks' customers and loan companies' customers are at large insignificant. Even though the latter have – on average – lower income and more rarely represent larger towns (cities), the divergences are immaterial. Moreover, the studies report that the education level and labor market status are comparable in both groups. Thus, from this perspective the extraordinary risk exposure of loan companies' customers may be more disputable than majority of interested parties assume. What seems to be of an importance for the credible personal loan companies sector diagnosis is its segmentation and its impact on the customer profile. Związek Przedsiębiorców i Pracodawców (2015) rightfully indicates that the statistical customer in traditional segments (home lending and branch lending) are older, worse educated and less banked than customers in online segment. This is understandable since the properties of the online segment require not only the skills concerning Internet utilization, but also bank account possession. Hence, the profile of the statistical online segment customer contradicts the stereotype perception of the loan company borrower.

Foreign studies on loan company customer profile are still scarce for the same data-accessible reasons as in Poland. For example Logan and Weller (2009) inform that the Federal Reserve included data on payday loans in its overall data sets at the end of the first decade of XXI century. Despite the studies are consentaneous in some respects, they are inconclusive in others. For example, majority of them report that the customers of loan companies are more often younger people living in larger families as compared to control groups (see for example Polito et al. 2015; Elliehausen 2009; Chatterjee et al. 2009). Interestingly, some reports notice that they do not necessarily represent the lowest income classes. For example, Lawrence and Elliehausen (2007) inform that in their US study they receive – on average – moderate income while in UK investigation Polito et al. (2015) found that the median income of the online segment clients is approximately at the UK population average whereas for high street customers the median income is lower. Similarly, the educational gap between payday borrowers and non-borrowers may be questionable in the light of the mixed findings. According to results obtained by Elliehausen (2009) the customers of payday loan companies represent middle level of educational attainment. Former study of Lawrence and Elliehausen (2007: 315) proved that many of them had education that was "associated with the awareness of APRs for different types of consumer credit". Interestingly, they also point out that despite high costs of personal loans the borrowers had positive attitudes to them and exhibited high levels of satisfaction. As opposed to stereotypical view, Polito et al. (2015) observed that payday loan companies' clients are more likely to be full-time workers compared to population as a whole. One of the most interesting aspects of the studies is the issue of credit constraints and the resulting inability to obtain mainstream loan (a form of banking exclusion). Chatterjee et al. (2009) claim that payday borrowers are typically people who were denied loan by "traditional" lender (e.g. bank or credit union). The same was observed by Lawrence and Elliehausen (2007) who recapitulated that they are credit-constrained customers. However, later findings of Elliehausen (2009: 33), and other researchers refer to, show that "being credit constrained does not by itself appear to be sufficient to cause consumers to turn to payday loans".

The latest edition of Social Diagnosis (Czapiński, Panek 2015) informs that the most frequent motives underlying personal borrowing in Poland are purchases of consumer durables, including cars and repairs (in both cases around 30%). However, the comparison with former editions reveal that they are in a gradual decline in favor of flat / house purchase. At the same time the percentage of those who borrow money to repay other debts is 7%. Even though some authors argue that the structure of purposes of loans taken from personal loan companies is similar to the structure of loans taken from other lending institutions, including banks (Związek Przedsiębiorców i Pracodawców 2015; Białowolski 2012), some material differences remain. Firstly, PwC (2013) estimates that the key disparity is concerning current expenses (more often financed by loans due to personal lenders than to banks and other lending institutions). This is confirmed by Związek Firm Pożyczkowych (2013), yet the observation should be closely scrutinized and explained. Związek Firm Pożyczkowych points out that – in contradiction to stereotype perception – the purpose is not the additional consumption but urgent needs and unexpected expenditures resulting from random factors. Furthermore, the study notices a "Friday effect": the phenomenon consisting in increased activity on the market for payday loans at the end of the working week which can signal that substantial fraction of the borrowers represent occupation classes facing income irregularity problems (and delays in wage payments among them). Secondly, PwC estimates (2013) show that loan companies' customers borrow money to repay other debts more often than other lending institutions' customers (31% vs. 7%). However, the authors of the report claim that "the mere fact that the household is indebted to a personal lender does not necessarily mean an excessive debt burden to the household budget" (p. 17). What is dangerous is the combination of the debt due to a personal loan company and due to lending institution of other type (e.g. bank) which applies to half of loan companies' customers. Unlike PwC, Białowolski (2012) asserts that taking loans from personal lenders to repay other debts is myth. He estimates that the percentage of personal loan companies' customers who borrow money to amortize their obligations due to other lending institutions was constantly decreasing, reaching 13%. Additionally, he hypothesizes that in fact the risk of the debt spiral – which is unfairly associated with personal loan companies segment – is really serious in the unofficial sector of the lending market. Finally, it is also argued that the average loan companies' customer "buys time – not money" (Kaczmarski 2015: 18) and some of the customers – especially in the online segment – decide to apply for the loan in the personal lender because they highly appreciate discretion: fast money combined with human-free service seems to be the key for understanding the motives of a group of loan companies' clients.

1.3. Public confidence in entities providing loans to private individuals

The results of the empirical studies devoted to trust in lending entities and carried out in Poland so far are mixed. According to The Polish Bank Association (2014) 60% of respondents have trust in their banks and 50% have trust in banks operating in Poland in general. For comparison, the reliance to credit unions was declared by 23% of respondents (other entities providing personal loans were not studied). Interestingly, no other investigated institution achieved as high confidence as banks, including church. On the other hand, Maison (2014) reports that trust in banks reached 36,6 points (out of 100), still being higher than trust in other financial institutions (insurers and financial advisors). The study also indicates that the public perception of banks is rather negative as many people think banks realize their own interest rather than the interest of their clients (69% of respondents). This is in line with the findings of Instytut Wolności & Raiffeisen Polbank (2014). Moreover, Credit Information Bureau & The Kronenberg Foundation (2014) inform that 73% of respondents

– regardless of gender and education – believe that the responsibility for over-indebtedness is not only on borrowers but also on banks. Maison (2014) argues that the reasons for such perception of banks are threefold: (1) low education (and insecurity resulting from it), (2) low banking penetration ratio, and (3) negative experiences with banks in the past.

Generally, international surveys confirm such picture. In the last edition of the Edelman Trust Barometer for 2014 (Edelman 2014) – largest global study of trust – the confidence in banks dropped from 48% in 2009 to 40% in 2014 in Poland. The reported trust in Poland is significantly higher than in many other European countries, yet at the same time it is below the world average (which reached 51% in 2014). Basically, European Union exhibits very low levels of trust in banks compared with other regions (e.g. Asia and Latin America). What is symptomatic is that, on average, the reliance to financial services achieved lowest result out of all studied industries (48%).

1.4. Knowledge of personal loans

Those rare surveys that are aimed at exploring what people know about loans and how they deal with basic exercises concerning loans – i.e. what Lusardi and Tufano (2009) name "debt literacy" – typically represent broader empirical investigations concerning financial literacy, and sometimes even broader – economic literacy. The history of such studies is short, even in the most developed economies, and dates back to first decade of XXI century. Kuchciak (2013) states that financial literacy as a research problem was basically ignored before 2000. Today it is monitored on regular basis by OECD and other prominent institutions.

Polish literature reports that the financial literacy is low, yet slowly improving. Iwanicz-Drozdowska et al. (2009) suggest poorer financial awareness of Poles compared with other nations and argue that it can be explained by the involvement of policymakers in other, potentially having more severe consequences, challenges resulting from the system transformation. In accordance with this findings, later ING report (2012), containing cross-country comparison of financial literacy levels, shows that in that respect Poland situates below the average for the studied sample (eleven countries), however higher than UK and Germany. Surprisingly, majority of Polish respondents thought that they were provided with the financial knowledge by media, including Internet (the percentage of people sharing such opinion was substantially lower in all other investigated countries). Knehans-Olejnik (2014) estimated that the level of financial illiteracy (analphabetism) reaches 57% in Poland. Instytut Wolności & Raiffeisen Polbank report (2014) concludes similarly: Poles lack financial knowledge and skills and they do not set a great store on financial issues. Their financial literacy is dependent primarily on education (higher education is accompanied by higher financial literacy) and age (25-39 years being the class exhibiting the highest literacy). The most detailed picture of the knowledge, skills and competences concerning loans is delivered by Credit Information Bureau & The Kronenberg Foundation report (2014). The survey underlying the report was designed in the way allowing for the estimation of two knowledge indicators: subjective and objective. 43% of respondents evaluated their knowledge on lending / borrowing issues as moderate, 39% – as low and 18% – as high. The average value of the subjective knowledge indicator in the sample reached 53 out of 100 points. Yet, the objective knowledge indicator was significantly lower (36 out of 100 points) meaning that Poles overestimate their financial competences.

Even though the empirical literature devoted to financial literacy is vast, the research papers focused on debt literacy is by far modest. Generally, the literature reports – despite some differences among countries – substantial shortcomings in the literacy, especially among the elderly, women, low income and low educated individuals (Brown, Graf 2013; Atkinson, Messy 2012; Lusardi, Tufano 2009). What is of special importance is the cost of being debt illiterate estimated in some studies. Disney and Gatherhood (2011) inform that those who lack the literacy use higher cost credit and more likely face problems in repaying their debts, including delinquencies. Lusardi and Tufano (2009) indicate that low levels of debt literacy result in poor financial decisions. They found that less literate people pay substantially higher fees and charges related to debt compared with more literate ones.

2. Methodology, results and discussion

We prepared survey questionnaire containing 22 closed and semi-open social questions and loan knowledge test containing 12 “true / false / don’t know” queries. Then the survey was conducted among 1004 Poles at the age of 18 or more over the period June 16th - July 3rd, 2015. The sample was representative and it was investigated with CATI methodology by professional market research firm – Biostat. To meet the article’s objectives, we utilized the responses to seven questions (they are given in section 1 of the Appendix). The remaining empirical material served other scientific purposes, not included here. In the investigation of the attitude towards loans we utilized logistic regression model (section 2 of the Appendix includes details concerning the model). Finally, section 3 of the Appendix demonstrates the structure of the surveyed sample.

As mentioned before, in the first step we scrutinized the attitude towards loans. Our survey showed that respondents who have negative mindset against loans outweigh those with positive attitude (34% vs. 25%). Interestingly, the most numerous were respondents reporting neutral attitude (41%). The dominance of the fraction having neutral attitude to loans was of a surprise to us since 2/3 of respondents confirmed in the survey that they borrowed money at least once. Thus, we expected that such former experiences with loans would serve as the factor helping in crystallizing and polarizing the opinions – in increasing the shares of those who perceive loans positively or negatively, depending on the experiences.

To get the insight into the forces responsible for the perception of loans, we built logistic regression model with the attitude towards loans as the dependent variable. We checked the explanatory power of various quantitative and qualitative independent variables, including standard demographic characteristics. Only few of them turned out to be statistically significant. For those that stood the test of statistical significance, we estimated the odds ratios. The obtained results allow to make at least five interesting conclusions.

Firstly, standard demographic characteristics appeared insignificant in the model explaining the attitude to loans (except the place of living, however only for cities having between 100 000 and 499 999 residents).

Secondly, in terms of the odds ratio, the key factor explaining the attitude towards loans is the former experience with them. In the light of our findings, the chance that people who took out a loan in the past, would have positive attitude towards loans, is almost two times bigger than the chance of the control (baseline) group. We believe that such result confirms the phenomenon commonly recognized as the fear of unknown: on average, people have negative attitude to what they do not know. We can interfere from our empirical findings that the experiences associated with loans are positive on average, otherwise we would not observe such high odds ratio with high statistical significance level (p-value < 0.01) for the variable "Previous customer experience with lending entities".

Thirdly, the logistic regression results also show that the trust in the lending entities translates into perception of loans in a way that seems to be reasonable and consistent with the commonsense expectations. The odds ratio for those who do not trust the lenders equals 0,43 which means that the chance that such people will be positively oriented towards loans is more than 50% lower as compared to the baseline group (those who have trust in the personal lenders). Alike expected result was observed in the way the connotations concerning payday loans affect the attitude towards loans in general, however in this case the effect is even stronger. We achieved very low odds ratio (0,22) for those respondents who admitted that their connotations are negative. Thus, the odds that the attitude to loans of such individuals will be positive, is almost 80% lower in comparison to the baseline group.

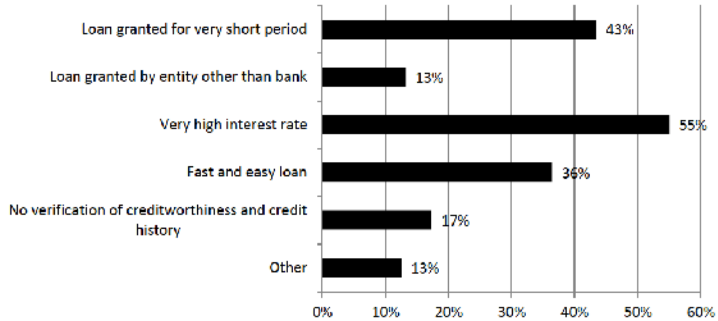
Fourthly, we found that what people know about loans – the variable denoted as "debt knowledge" – negatively affects the attitude towards loans. As mentioned earlier, in the survey we put the respondents through a test consisting of 12 "true / false / don't know" questions. Then, the responses were utilized as the explanatory variable in the logistic regression model. The outcome of the regression indicates that people become more negatively oriented towards loans as they acquire more knowledge concerning them. What is curious in the finding, is that the knowledge of loans does not influence the attitude towards them in the same way as former experiences with loans.

Finally, there is clear direct relationship between the respondents' self-assessment of financial knowledge and the odds for positive perception of loans by them. For example, the chance of being positively oriented towards loans is almost 50% lower in the sub-sample of respondents who assessed own knowledge as rather high as compared to those who assessed it as decidedly high, and it increases to almost 80% less than the level of odds set for the baseline sub-sample (respondents believing that their financial knowledge is decidedly high).

We designed our survey in the way that allowed us not only to investigate the way people perceive loans in general, but also to learn what is their perception of some specific loans in particular. In view of the article's objectives, we decided to take a closer look at payday loans granted by some personal loan companies. We were curious what are the connotations concerning such loans and how people appraise them. Additionally, given the fact that activity of so called "parabanks" gave rise to unprecedented controversies in Poland, we decided to check the attitude towards them (reflected in the overtone the term "parabank" has to them) and what exactly people have in mind when they hear the term "parabank". To realize those goals, we asked a series of four questions (see Appendix to get details).

Our examination showed that for almost 2/3 of respondents the phrase "payday loan" has negative overtone. Moreover, out of five possible answers the respondents could have chosen among, the most frequently selected was "Decidedly negative". However, such results should not be considered surprising in the light of the distribution of answers to another survey question aimed at getting an insight into the connotations in relation to payday loans (figure 1). 55% of respondents admitted that they associate payday loans with very high interest rates. Importantly, the share of people for whom the term "payday loan" has negative overtone, exceeded 71% in this group. Noticeably, fewer people link payday loans in their minds with very short duration (43%). Our empirical findings also show that majority of people do not know that payday loans basically are not granted by banking sector institutions (with minor exceptions). Finally, the findings also suggest that many Poles consider payday loans not only fast, but also easy way to borrow money. Such opinion was shared by 36% of respondents which – in conjunction with the share of those who think that taking payday loan does not require the verification of the creditworthiness and credit history of the borrower (17%) – is not only worrying result, by also is a condemnation of poor loan-related knowledge of the average Pole. We combined the answers to questions concerning payday loan overtone and connotations to check how they interrelate one another (Figure 2).

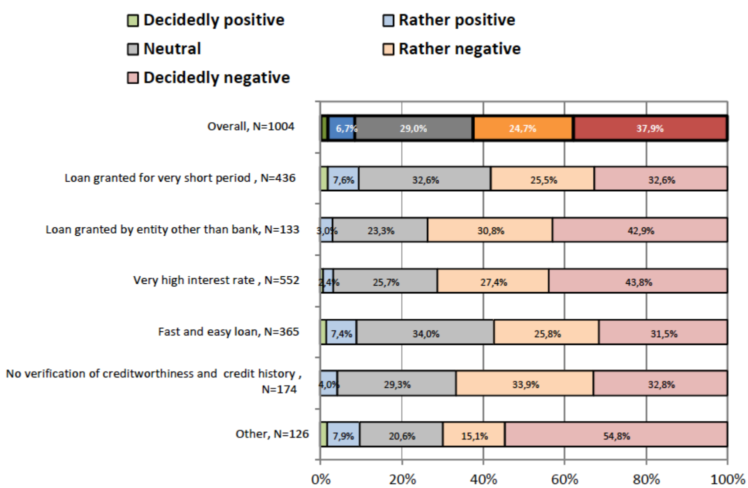
Figure 1. Connotations concerning the term "payday loan"



Source: own study.

Such combination revealed that the negative overtone was frequently selected by those respondents who indicated "Other" when asked "What are your connotations of the term <payday loans>?" (except aforementioned fraction of respondents who associate payday loans with very high interest rates). After closer examination, the result seems to be understandable as almost 1/3 of such respondents admitted that for them the connotations are unambiguously negative because they associate the term "payday loan" with such things as fraud, befooling people or usury. To conclude, the results may shed a light on unexpectedly small share of those respondents who confirmed they were clients of personal loan companies (at least in confrontation of the market data given for example in Kaczmarski 2015 or Związek Przedsiębiorców i Pracodawców 2015). The belief that payday loans meet negative public reception can result in people avoiding the admission to borrow money that way as they think it may stigmatize them.

Figure 2. Attitude towards loans vs. connotations concerning payday loans

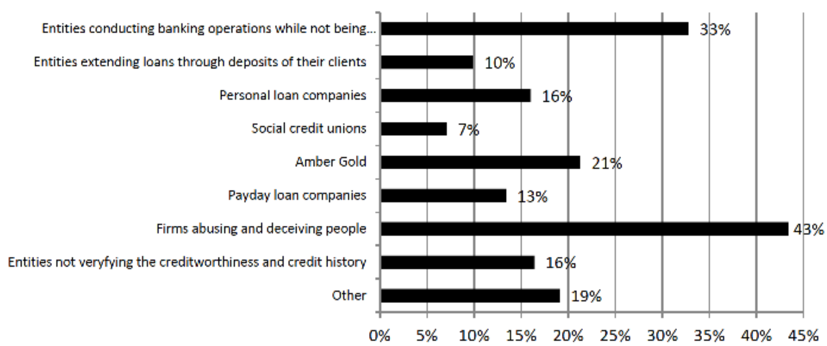


Source: own study.

The term “parabank” belongs to the most awkward words in the financial vocabulary, at least in Poland (the meaning of the term is somewhat different abroad). There is no official definition of “parabank”. Yet, Polish Financial Stability Committee (National Bank of Poland 2012) described it as the business entity that extends loans through taking deposits, while not being the legitimate bank. Thus, such entity operates out of the respective banking regulations. In the light of the interpretation there is clear difference between parabanks and legitimate personal loan companies: as opposed to parabank, the personal loan company lends money on the basis of its own capital – not through deposits made by its clients. Therefore, we used the questionnaire to check how people perceive parabanks and if they know the nature of such institutions.

Almost 70% of respondents informed that they considered the term “parabank” as having negative overtone (for 42% – decidedly negative). We expected such results, especially since our study was conducted soon after the unprecedented bankruptcy of well-known parabank – Amber Gold. 21% of respondents informed that they link the term “parabank” with Amber Gold scandal, while 43% stated that they associate it with firms abusing and defrauding people. However, we evidenced also that many people confuse parabanks not only with personal loan companies, but also with social credit unions (Figure 3). Almost 1/3 of respondents knew that parabanks were bank-like institutions, yet not being full, legitimate banks, however only 10% knew also that they transform deposits into loans, as typical banks. The results of our survey confirm the findings presented in the research report by the Office of Competition and Consumer Protection (2012). The report shows that only 27% of respondents indicated correct definition of parabank. Also Opolski et al. (2015) inform – on the basis of the results of own qualitative research – about the negative perception of parabanks.

Figure 3. Connotations concerning the term “parabank”

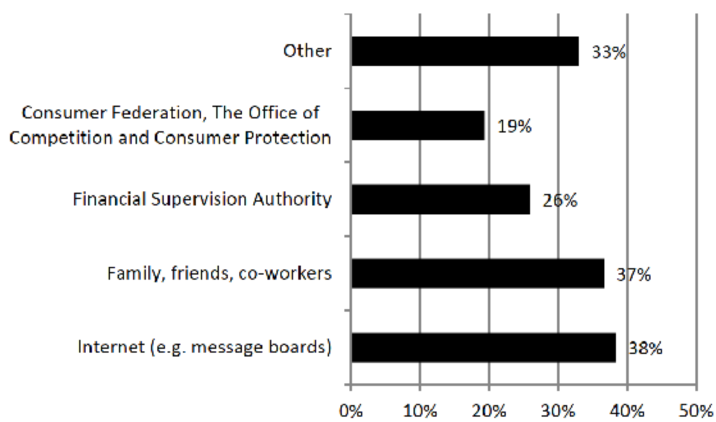


Source: own study.

Assuming that Poles can have problems with distinguishing various entities providing loans to private individuals – and hence, with identifying involved potential risks – in the questionnaire we inserted two questions examining the behavior of respondents in relation to such risks. Firstly, we were interested in the way they would verify the trustworthiness of the personal lender. Secondly, motivated by former studies conducted in Poland, we decided to check how many people would deposit money in a lending entity if it was the condition of loan grant from it.

Former study of the Public Opinion Research Center (2012) showed that the key source of advises when considering the selection of a financial product (investment in this case) appeared to be family. Opinions and recommendations issued by the Financial Supervision Authority would be used by only 32% of respondents. We obtained similar results concerning loans. According to them 26% of respondents would check the list of Financial Supervision Authority's warnings while 19% would look for the information concerning the lender in such institutions as Consumer Federation or The Office of Competition and Consumer Protection (Figure 4). As distinct from the Public Opinion Research Center's study results, our research evidenced the important role of the Internet in supplying the potential borrowers with the information concerning the credibility of lending entities (38% as compared to 21% in the report of Public Opinion Research Center 2012). Also, we noted smaller fraction of those who try to verify the credibility of the lending entity among the family members or friends (37%).

Figure 4. Verification of the trustworthiness of the personal lender



Source: own study.

From our survey we learned also that there was a fraction of people (3%) who would risk a deposit to be granted a loan from a personal lender. 17% of respondents would make it conditional on the terms of the loan. Such results are consistent with the findings of the Office of Competition and Consumer Protection (2012) according to which 3% of respondents would apply for the loan from parabank. Similarly, the aforementioned study conducted by the Public Opinion Research Center (2012) shows that 3% of surveyed people would deposit money in the institution suspected to operate as the financial pyramid.

Conclusions

The results of our study show that people who have negative attitude to loans outweigh those who are positively oriented towards them. However, we evidenced that the most frequent is neutral attitude. One of the most important findings is that the perception of loans is strongly dependent on former experiences with them (i.e. it depends on whether or not the person took loan in the past). The assessments of loans were clearly more positive in the fraction of the entire sample that consisted of respondents who reported that they were borrowers. This may suggest that there is a gap between the way people picture loans and their impact on them in their minds, and the actual way they affect their lives.

The loans granted outside the banking sector – represented by payday loans in our study – have even worse opinion. Majority of surveyed people perceive them negatively. This is understandable in the light of the most widespread connotations concerning payday loans: they are primarily associated with very high costs that always have negative public reception. Our study revealed alike opinions concerning parabanks considered as lending entities. The views regarding them are basically negative. Almost half of the surveyed people admitted that they associated parabanks with fraudulent practices such as deceiving and abusing clients. Again, in the light of the latest scandals publicized by media, such views are understandable. However, our study evidenced also that many people confuse parabanks with other lending entities, which is worrying. This may result in unjustified negative perception of such institutions as credit unions and, especially, personal loan companies. Such empirical results can be interpreted as evidencing low knowledge of Poles in respect of entities that extend loans to private individuals.

Perhaps, the diagnosis concerning the respondents' debt knowledge is the most important finding of our study. Even though, it was not aimed at determining the level of Poles' debt literacy, we made many indirect observations confirming that they lack the knowledge in relation to loans. We believe that more knowledgeable people would be more effective in protecting themselves against threats resulting from low standards or predatory activities of some lending entities. For example, our research showed that few people check the warnings issued by regulatory or supervisory institutions. We think that it is so because they don't know how to find them.

To sum up, our survey confirmed ambivalence against loans. Despite their commonness, large wariness can be observed in the attitudes towards them. It seems that it can be explained – at least partly – by insufficient information concerning loans and institutions extending them possessed by private individuals. We believe that actions undertaken by lending entities and aimed at making potential borrowers better informed are strongly recommended. Obviously, the regulatory authorities must also be engaged in increasing the informational effectiveness of the market.

References

Ancyparowicz, G., Rutkowska, I. (2014), Consumer finance w Polsce, Zeszyty Naukowe Uniwersytetu Szczecińskiego. Finanse, Rynki Finansowe, Ubezpieczenia 67: 883-895.

Atkinson, A., Messy, F. (2012), Measuring financial literacy: results of the OECD, international network on financial education (INFE), pilot study, OECD Working Papers on Finance, Insurance, and Private Pensions, OECD Publishing, available at: http://dx.doi.org/10.1787/5k9csfs90fr4-en (accessed 9 March 2016).

Białowolski, P. (2012), Rynek firm pożyczkowych w Polsce. Charakterystyka sektora i profil klienta, Warsaw: Konfederacja Przedsiębiorstw Finansowych w Polsce, available at: http://www.senat.gov.pl/gfx/senat/userfiles/_public/k8/komisje/2012/kbfp/materialy/47pospozy.pdf (accessed 9 March 2016).

Brown, M., Graf, R. (2013), Financial literacy, household investment and household debt: evidence from Switzerland, University of St. Gallen, School of Finance, Working Papers on Finance 13(1).

Center for Social Impact & National Australia Bank (2014), A global snapshot of financial exclusion 2014, available at: https://www.nab.com.au/content/dam/nabrwd/About-Us/corporate-responsibilty/docs/140502-global-snapshot-report-final.pdf (accessed 9 March 2016).

Central Statistical Office (2014), Monitoring of banks, Warszawa: Central Statistical Office.

Chatterjee, S., Goetz, J., Palmer, L. (2009), An examination of short-term borrowing in the United States, Global Journal of Business Research 3(2): 1-18.

Credit Information Bureau & The Kronenberg Foundation (2014), Wiedza o produktach kredytowych i wiarygodności finansowej w percepcji Polaków, Warszawa: Credit Information Bureau & The Kronenberg Foundation.

Czapiński, J., Panek, T. (2015), Diagnoza społeczna 2015. Warunki i jakość życia Polaków, Warszawa: Rada Monitoringu Społecznego.

Disney, R., Gatherhood, J. (2011), Financial literacy and indebtedness: new evidence for UK consumers, University of Nottingham, Centre for Finance, Credit and Macroeconomics Working Paper 11(5).

Edelman (2014), Trust in financial services, available at: http://www.edelman.com/insights/intellectual-property/2014-edelman-trust-barometer/trust-in-business/trust-in-financial-services/ (accessed 9 March 2016).

Elliehausen, G. (2009), An analysis of consumers' use of payday loans, The George Washington University, School of Business, Financial Services Research Program, Monograph No. 41.
Federacja Konsumentów (2015), Raport z badania wzorców umownych pożyczek krótkoterminowych,Warszawa: Federacja Konsumentów.
ING (2012), Finansowy barometr ING: Wiedza finansowa, available at: media.ingbank.pl/file/attachment/405509/df/iis_prezentacja_170512.pdf (accessed 9 March 2016).
Instytut Badań nad Gospodarką Rynkową (2014), Ocena wpływu proponowanych zmian regulacyjnych na krajowy sektor pożyczkowy, Warszawa: Instytut Badań nad Gospodarką Rynkową.
Instytut Wolności & Raiffeisen Polbank (2014), Stan wiedzy ekonomicznej Polaków, Warszawa: Instytut Wolności & Raiffeisen Polbank.
Iwanicz-Drozdowska, M., Matuszyk, A., Nowak, A.K., Kitala, R. (2009), Produkty finansowe i edukacja finansowa w Polsce na tle wybranych krajów wysoko rozwiniętych, Warszawa, School of Economics, Statutory Research No. 04/S/0010/08.
Kaczmarski, P. (2015), Rynek w świetle planowanej nowelizacji Ustawy o nadzorze nad rynkiem finansowym, Gazeta Finansowa 31/32: 18.
Knehans-Olejnik, A. (2014), Rola edukacji finansowej w racjonalizowaniu zachowań konsumentów, Handel Wewnętrzny 3(350): 255-273.
Kuchciak, I. (2013), Kreowanie świadomości finansowej wyzwaniem konkurencyjności w niesprzyjającym otoczeniu, Zarządzanie i Finanse 11(4): 65-82.
Lawrence, E.C., Elliehausen, G. (2007), A comparative analysis of payday loan customers, Contemporary Economic Policy 26(2): 299-316.
Logan, A., Weller, H.E. (2009), Who borrows from payday lenders? an analysis of newly available data, Washington: Center for American Progress.
Lusardi, A., Tufano, P. (2009), Debt literacy, financial experiences, and overindebtedness, National Bureau of Economic Research, Working Paper 14808.
Maison, D. (2014), Rola instytucji finansowych w społeczeństwie, Warszawa: Dom Badawczy Maison.
National Bank of Poland (2012), Komunikat komitetu stabilności finansowej. Ustalenia KSF i rekomendowane działania w odniesieniu do instytucji parabankowych, available at: http://www.nbp.pl/home.aspx?f=/aktualnosci/wiadomosci_2012/20120816_kom.html (accessed 9 March 2016).
Opolski, K. et al. (2015), Sektor shadow banking w Polsce ,Warszawa: CeDeWu.
Ostalecka, A., Swacha-Lech, M. (2014), Financial literacy in the contexts of threats related to shadow banking system, Studia Ekonomiczne 186(1): 185-195.
Polito, S. et al. (2015), Payday lending market investigation, London: Competition & Markets Authority.
Public Opinion Research Center (2012), Polak na rynku finansowym, Warszawa: Public Opinion Research Center.
PwC (2013), Personal loans market in Poland, Warszawa: PwC.

Szelągowska, A. (2015), Rynek pożyczek pozabankowych w Polsce w świetle polityki niskich stóp procentowych banku centralnego, Kwartalnik Kolegium Ekonomiczno-Społecznego, Studia i Prace 1(3): 119-136.
The Conference of Financial Companies in Poland (2015), Nowa regulacja katalizatorem zmian na rynku consumer finance, available at: https://franczyzabanku.pl/index.php/wiadomosci/89171-nowa-regulacja-katalizatorem-zmian-rynku-consumer-finance (accessed 9 March 2016).
The Office of Competition and Consumer Protection (2012), Konsument na rynku usług finansowych, available at: https://uokik.gov.pl/download.php?plik=12138 (accessed 9 March 2016).
The Office of Competition and Consumer Protection (2013), Reklama parabanków, Poznań: The Office of Competition and Consumer Protection.
The Polish Bank Association (2014), Wizerunek polskiego sektora bankowego, Warszawa: The Polish Bank Association., available at: https://zbp.pl/public/repozytorium/wydarzenia/images/kwiecien_2014/konferencja_prasowa/2014_prezentacja_wizerunek_28_04_2014_01.pdf (accessed 9 March 2016).
Związek Firm Pożyczkowych (2013), Mikropożyczki w Polsce, Warszawa: Związek Firm Pożyczkowych.
Związek Przedsiębiorców i Pracodawców (2015), Walka o polski rynek pożyczkowy w świetle nowelizacji Ustawy o kredycie konsumenckim, Warszawa: Związek Przedsiębiorców i Pracodawców.

Appendix

Section 1: Survey questions

Q1: What is your attitude to loans?Decidedly positive

– Rather positive.
– Neutral.
– Rather negative
– Decidedly negative

Q2: What is the overtone of the term "parabank" for you?

– Decidedly positive
– Rather positive
– Neutral
– Rather negative
– Decidedly negative

Q3: What are your connotations of the term "parabank"?

– Entities that are not legitimate banks, yet conduct banking operations.
– Entities that extend loans through deposits taken from their clients.
– Non-banking loan companies.
– Social credit unions.
– Amber Gold.
– Entities granting payday loans.
– Entities abusing people (that perpetrate fraud against people).

- Entities that do not verify the creditworthiness and credit history of the borrowers.
- Other (which?).

Q4: What is the overtone of the term "payday loan" for you?

- Decidedly positive.
- Rather positive.
- Neutral.
- Rather negative.
- Decidedly negative.

Q5: What are your connotations of the term "payday loan"?

- Loan having extremely short maturity.
- Loan granted by a lending entity other than bank.
- Loan with extremely high interest rate.
- Fast and easy loan.
- Loan free of verification of the creditworthiness and credit history of the borrower.
- Other (which?).

Q6: How would you verify the trustworthiness of the personal lender?

- I would look for the opinions of other borrowers in the Internet (e.g. on message boards).
- I would inquire my friends, family, co-workers.
- I would check the warnings issued by Polish Financial Supervision Authority.
- I would try to acquire the information from such authorities as Consumer Federation or the Office of Consumer and Competition Protection.
- Other (how?).

Q7: Would you make a deposit in a personal lender if it was the condition of granting loan to you?

- Yes.
- No.
- It depends on such terms as the amount and interest rate of loan and deposit, respectively, or waiting time for the loan.

Section 2: Logistic regression results

Table 1. Model of positive attitude towards loans in general

	Model of positive attitude towards loans in general
(Intercept)	1.37 (0.64)**
Objective knowledge	
plus one score in the test	-0.06 (0.03)**
Previous customer experience with lending entities – baseline level: none	

any previous customer experience with any lending entity	0.59 (0.18)***
Place of living – baseline level: village	
town: up to 49 999 residents	0.07 (0.20)
town: from 50 000 to 99 999 residents	-0.42 (0.27)
town: from 100 000 citizens to 499 999 residents	-0.61 (0.26)**
city: 500 000 residents or more	-0.33 (0.22)
Connotation of payday loans – baseline level: decidedly positive	
rather positive	-0.63 (0.57)
moderate	-1.30 (0.53)**
rather negative	-1.51 (0.53)***
decidedly negative	-1.51 (0.52)***
Trust towards lending entities – baseline level: yes	
no	-0.85 (0.16)***
Subjective assessment of respondent's financial knowledge – baseline level: decidedly high	
rather high	-0.64 (0.38)*
moderate	-0.90 (0.32)***
rather low	-1.05 (0.36)***
decidedly low	-1.49 (0.43)***
AIC	1076.24
BIC	1154.82
Num. obs.	1004

***p < 0.01, **p < 0.05, *p < 0.1

Statistically significant coefficients in the model	Odds ratio	p-value
Objective knowledge: plus one score in the test	0.94	0.035
Previous customer experience with lending entities: any previous customer experience with any lending entity – baseline level: none	1.80	0.001
Place of living: city: from 100 000 residents to 499 999 residents – baseline level: village	0.54	0.019
Connotation of payday loans: moderate – baseline level: decidedly positive	0.27	0.013
Connotation of payday loans: rather negative – baseline level: decidedly positive	0.22	0.005
Connotation of payday loans: decidedly negative – baseline level: decidedly positive	0.22	0.004
Trust towards lending entities: no – baseline level: yes	0.43	0.000
Subjective assessment of respondent's financial knowledge: rather high – baseline level: decidedly high	0.53	0.097
Subjective assessment of respondent's financial knowledge: moderate – baseline level: decidedly high	0.41	0.005
Subjective assessment of respondent's financial knowledge: rather low – baseline level: decidedly high	0.35	0.003
Subjective assessment of respondent's financial knowledge: decidedly low – baseline level: decidedly high	0.22	0.001

Source: own study.

Section 3: Sample structure

Figure 5. Sample: gender structure

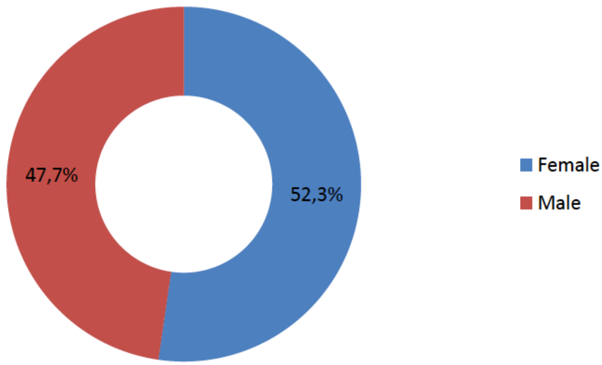


Figure 6. Sample: age structure (years)

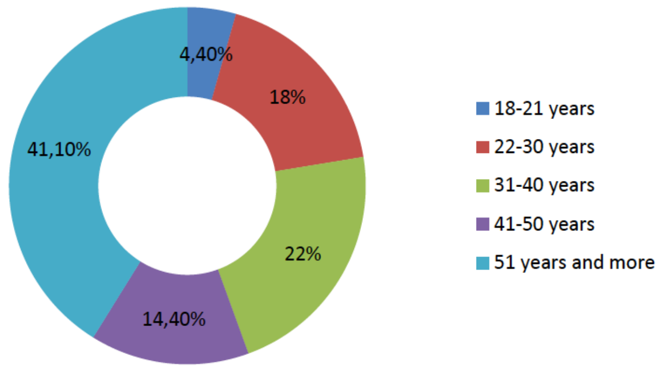


Figure 7. Sample: educational structure

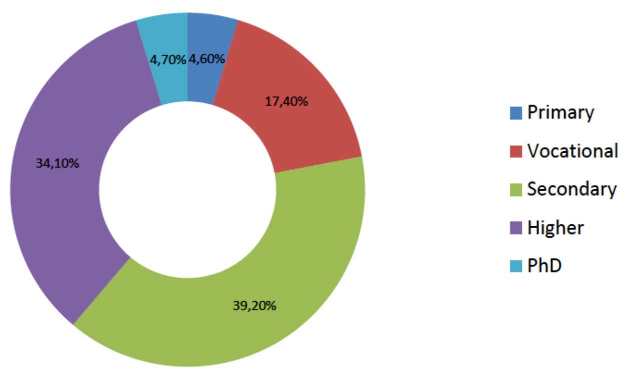


Figure 8. Sample: residence structure (numbers of residents)