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SAVING AND INVESTING AMONG POLISH SOCIETY – DISCUSSION STARTING POINT

1. Introduction¹

During the Polish economy transformation process a lot of reforms have been implemented, including those connected with pension system. The pension system was based on two obligatory pillars. So-called the second pillar of pension security was supposed to guarantee future humane pension (at an adequate level), when reaching retirement age. However, it is not going to happen. Despite an advertising campaign in 1998 saying that salary replacement rate² may reach even more than 100%, economists drew attention to the word “may”. Getting a pension at the level of the value of the last salary from the I pillar (Social Insurance Institution) and II pillar (Open Pension Fund) did not seem real with flow of around 20% salary³ into pension system and with such high functioning costs of pension system⁴.

It is worth recalling that the first monthly payment from the second pillar in 2008 was PLN 28.26 (around EUR 7). That amount shocked both many citizens and politicians. Since then, many people became aware of the fact that the created

¹ Financed by the Ministry of Science and Higher Education as scientific project in 2007–2009.

² Relation between the value of first pension and the last salary i.e. what percentage of the last salary will constitute the received pension.

³ In the case of people with higher earnings, it is less due to the possibility of stopping payments to the pension fund after reaching a certain level.

⁴ At the beginning, the fee from each amount was 10%, then 7%. From 2010 is 3.5%. Additionally, other positions should be covered from the future pensioners' money such as: management fee, bank deposit commission, or market transaction costs (e.g., for purchasing or selling shares every time a fee of 0.3% transaction value is withdrawn).

pension system was not investment type but insurance type. Therefore, future pensioners should not, unfortunately, trust in high rate of future pensions received from pillar I & II and, much earlier, individually take care of their financial security. Do Poles really undertake this kind of activities? Do they save and invest?

In this working paper results of research conducted by others and the author have been presented in order to formulate an answer to the abovementioned question. The identification of standpoints and behavior concerning saving and investing is crucial in reference to economic and educational policy. Changing social mentality requires many years. What should be of high concern is a steady growth of households debt level in banks.

Therefore, in the present paper, the deliberation on the saving issue will be provided in relation to two groups: a representative sample referring to average citizens saving in the traditional way (most often bank deposits) and a target sample referring to individuals investing on stock exchange in more advanced financial instruments.

Moreover, in the article examples of proactive state undertakings aiming at encouraging citizens to saving have been presented. Unfortunately, the examples are taken from the British market, and not Polish.

2. Significance of savings in economy

Citizens investment activity does not seem a whim but a necessity. In economics there are three main reasons why households intend a part of their income for savings, and than for investments. These are: transactional (timely payments), provident (for unforeseeable events) and portfolio (diversification of income sources – gaining income not only from work but also from capital). From the microeconomic point of view, the aim of saving⁵ is securing widely understood family financial stability as well as assuring stable level of consumption – independently of households life cycle.

Within the macroeconomic approach, financial household savings as well as budget deficit reduction are the base for increase of investments and long-lasting economic growth. Consequently, it should result in the growth of general wealth of society. It is pointed out here that household savings constitute the cheapest source of capital accumulation and also they influence state economic sovereignty

⁵ Saving is defined as a process of limiting the current consumption for future consumption purpose.

(domestic capital is less prone to outflow than foreign capital). However, it should not be left out that high saving rate reduces current consumption, so it limits economic growth pace.

Therefore, from the point of view of economic growth, both possessing savings by households and taking credits fostering economic prosperity are favorable, and the most desirable state in this issue is relative balance between the two.

The transformation of household savings into investments is possible due to the presence of financial market and due to instruments operating in it. In modern societies of high-developed countries such traditional saving instruments as banking accounts and deposits are being replaced with more advanced instruments, e.g., bonds, shares, investment funds, instruments resulted from securitization, structure products or derivatives. Those instruments of higher level of investment risk offer potentially higher return rate. Meanwhile, traditional bank deposits also become more and more complicated which can be exemplified by structured deposits, also offered in Poland. All this generates new challenges.

3. Financial scissors differentials

In the middle of 2008, in Poland, a so-called financial scissors gap occurred – households took from banks more credits than entrusted deposits in them. As presented in Figure 1, that situation is continuing and the value of the gap is increasing.

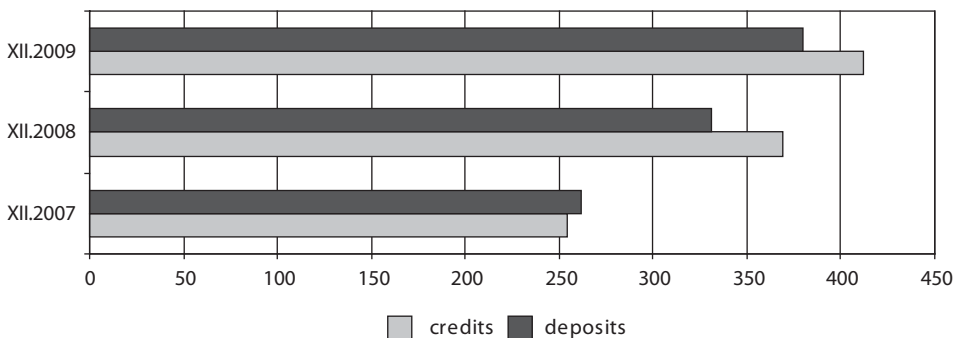


Figure 1. Value of household deposits and loans within the banking sector (nominal value, bln PLN)

Source: Polish Financial Supervision Authority, www.knf.gov.pl.

However, the statistical data should be analyzed with some research reservation. The presented data is underestimated by the value of loans issued by quasi-bank institutions. On the other hand, a decrease of deposit value might result from investing savings in other instruments than banking deposits or keeping cash at home. Therefore, it is so important to conduct survey among households to check if they possess any savings, and, if so, what instruments they use.

4. Household savings in Poland⁶

Such surveys on Poles' saving are conducted, among others, by CBOS (Public Opinion Research Centre). Their results show that in 2007 as much as 77% of society did not possess any savings in cash, 59% of households did not take any credits, and 41% were paying them back (4% declared difficulties with timely payments)⁷. Also in research conducted by Central Statistical Office in 2000 and by Ipsos Demoskop in 2003, respectively 77% and 79% of respondents declared lack of savings. It would indicate that around 77% of Polish society do not have any savings, and this level remains stable. However, one should be aware of the fact that maintaining this level may slow down the pace of economic growth in future.

Also surveys conducted by the author confirm such a pessimistic picture (Table 1); in 2002, 79%, and in 2009, 70% of Poles declared lack of savings (but 5% refused to answer)⁸. It can be cautiously assumed that in Polish society, at least since 2000, the rate of individuals without any savings has remained stable at the level of 70%.

⁶ PASW Statistics programme was used to process the data.

⁷ *Oszczędności i długi Polaków* [Poles' Savings and Debts], CBOS, BS/36/2008, www.cbos.pl. The survey was conducted between September-November 2007 on a sample of 38,866 households.

⁸ Surveys were made in the form of a direct questionnaire. The August 2002 research was done through TSN OBOP firm on a representative sample of 1,017 respondents. In September 2009, a research was conducted by MillwardBrown SMG/KRC firm on a representative sample of 1,012 respondents. A standard error was +/- 3,1% at the 95% level confidence.

Table 1. Range of answers to the question: “What do you invest your money in? Indicate all ways of money investment which you use” (%)

Specification	Percentage			
	Representative sample		Individual investors sample	
	2002	2009	2002	2009
Shares	2.7	0.6	86.5	87.5
Bonds	0.9	1.0	58.0	21.5
Bank deposits	9.8	8.6	35.0	48.5
Derivatives	0.1	0.1	27.5	16.0
Investment funds	0.5	0.8	16.5	48.0
Currencies	1.5	1.4	14.5	29.0
Real estate	3.8	2.5	11.5	40.5
Others, in which:				
– insurance with investment part	1.5	2.8	4.0	55.0
– gold		0.4		25.0
– numismatic coins		0.7		7.0
		0.3		12.0
I own savings but I do not invest them (I keep them at home)	4.3	11.5	–	–
I do not own savings so I do not invest	79.1	69.9	–	–
Refuse to answer	–	4.9	–	–

Note: Respondents could give more than one answer, therefore the total percentage does not equal 100.

However, the individuals who have savings do not always invest them. In 2002, savings were kept at home by 4%, whereas in 2009, by almost 12%. This threefold increase certainly resulted from the turbulences in the international financial market and news about bankruptcy and foreign banks problems. Such a cautious attitude of Polish deponents can be justified by the worldwide atmosphere of distrust towards financial institutions.

An analysis of instruments used in the investing process indicates their relative structural stability over that time. Only in the shares case a significant decrease from 3% in 2002 to 1% in 2009 is observed.

The individuals who declared investing in shares, invest parallel in bonds, bank deposits, currencies and investment funds. But they do not invest in insurance, real estate or gold.

The acquired results of research conducted on representative samples of Polish society are not optimistic. They imply that over the last 10 years the percentage of Polish society living day-by-day remains stable at the level of 70%. The group, in fact, transfers responsibility for their financial security over to the State. Reasons for such behavior are an open question.

A more detailed analysis of the research results from 2009 seems interesting and necessary. It might be the case that larger households will declare having savings more rarely than smaller households. However, such a relation did not take place. Possessing savings is declared by 12% of 1-person households, 17% of 2-person, but also 16% of households with more than 6-members (Figure 2).

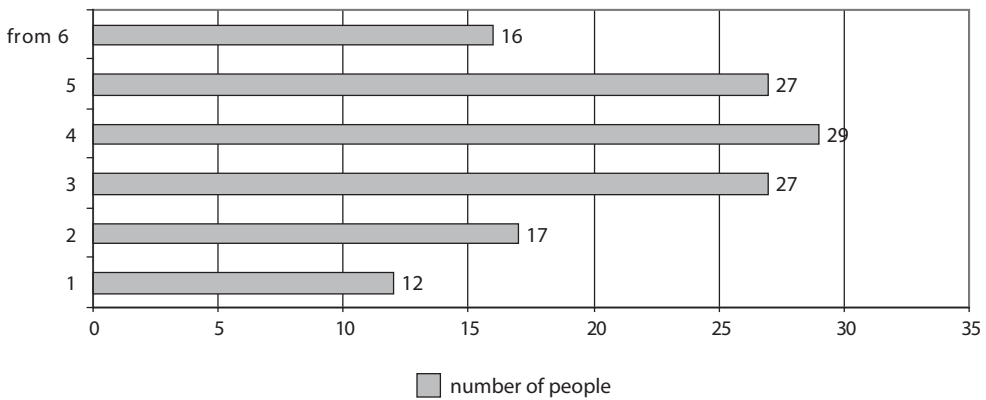


Figure 2. Number of household members with relation to savings (%)

Source: based on research.

A thesis that Poles do not save because they earn little and they cannot put aside any money has not been confirmed. An analysis of respondents income invalidate such assumption. Even more people with very low monthly income save something. Having savings was declared by 13% of respondents with monthly household income per person not higher than PLN 200. On the other hand, belonging to the most wealthy group does not equal having savings. The highest monthly household income per person in the respondents group was respectively: PLN 7,500, PLN 4,000 and PLN 3,750. However, among those with PLN 7,500, possessing savings was declared by 1 person, and 25 respondents declared lack of savings. In the PLN 4,000 income group 3 persons declared savings and 5 declared none. Among persons with PLN 3,750 income 7 declared savings and 28 declared lack of them.

Paradoxically, savings are owned by 13% households with monthly income per person at the level of not higher than PLN 200, and only 4% households exceeding

PLN 5,000 (Figure 3). Certainly, it may result from the fact that individuals with high monthly income have high creditability allowing for getting credits. They could make investments supporting themselves a credit which they are paying back now. Nevertheless, from the point of view of economic aggregate which is constituted by household savings, it turns out that in terms of generating financial savings this group is unreliable.

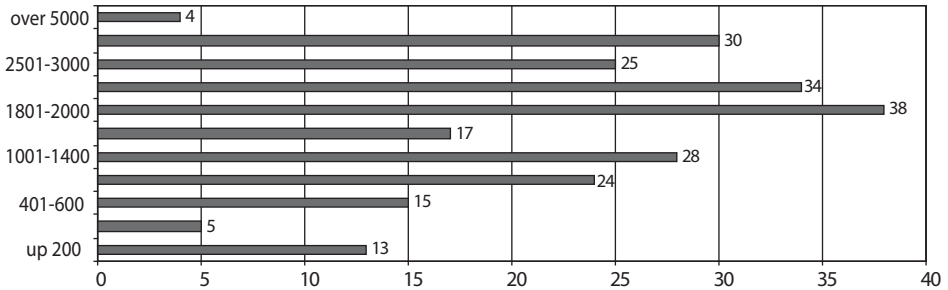


Figure 3. Level of household monthly income per person (in PLN) vs. owning savings

Source: based on research.

However, due to the character of occupation, it can be indicated that savings are owned by 77% of managers and free-lancers and 67% of company owners but also 8% of the unemployed, 11% of pensioners, 19% of skilled workers, 21% of farmers, 29% of unskilled workers.

It allows for drawing a conclusion that having and collecting savings is rather a question of accepted life attitude, and not current income, size of household or socio-professional group. It may also result from adjusting consumption level to the level of current income, which limits household abilities to save. The survey results make evident that saving is not one of Polish household priorities, independently of monthly income level. It may imply a low level of financial culture in Polish society, resulting from a low level of knowledge about personal finance. It certainly shows Poles' carelessness and lack of wide-perspective thinking about financial security at the time of decrease in professional activities. There is still an open question left whether the state will be able to bear the burden of financial support for so many citizens.

It may be the case that Poland will face the problem, already present in, among others, the United States and Great Britain, of shifting financial responsibility from citizens to the state at the time of both their professional activity and retirement.

It is a consequence of an extensive social welfare system and high taxes which limit citizens' invention, creativity and activity. As a result, in today's world there are attempts made to change societies' attitude and mentality from passive, reaching hands up for help, to active, in which the state does not interfere with citizens getting wealthier, and what is even more, it stimulates and fosters their additional activity leading to higher income. Examples of radical system changes in this matter are New Zealand and Australia.

5. Helping people to save – experiences from Great Britain

Research conducted at the end of the 90s in Great Britain showed that the number of households without savings doubled compared with the early 80s; 10% of households lacked any savings in any form, and 9% of grown-up citizens did not have bank accounts⁹. Other research from 1999 indicated that half of British adults have liquid financial resources smaller than GBP 750, although still other research showed that over 2/3 of households own real estate, and 60% of individuals at economically productive age have pension insurance. What was worrying was a steady increase of households debt level – the debt exceeded the owned assets.

As a result, in 2000, the British government accepted a document *Helping People to Save*. As a priority for the government activities, change in attitude to saving and investing among the British was recognized. It was argued that possessing savings results in life independence (in decisions concerning starting a family, changing jobs or place of living, setting up own company). It also gives security and comfort, particularly after getting retired. In consequence, a few programmes were implemented, aiming at activating savings and investing in society. In the context of the dissertations concerning Polish market, in the present paper, two of those programmes are interesting.

In 2002, testing several versions of the *Saving Gateway* programme started. The programme was targeted at individuals with low income, benefiting from various forms of government support. In one of such sub-programmes, participants could deposit monthly from GBP 1 to 25. At the end of the saving period, for each deposited pound an extra pound was transferred into the account by the government. As many as 52% of participants deposited the maximum sum i.e., GBP 375. More-

⁹ *Family Resources Survey 1998–99*, Department of Social Security [in:] *Helping People to Save. The Modernisation of Britain's Tax and Benefit System*, No. 7, <http://www.hm-treasury.gov.uk>.

over, 21% of individuals declared to keep the collected money (and the one received from the government) for a rainy day, whereas 23% intended to spend everything, and 46% intended to save some and spend the rest.

Within all the pilot programmes, 22,000 individuals saved GBP 15 million, receiving from the government GBP 5 million of a kind of bonus for saving. Out of the programme participants, 38% started saving regularly every month, and 39% started paying their debts back. The obtained results were so encouraging that the Parliament issued a regulation and since 2010 individuals with low income may save in the Saving Gateway programme. Special accounts may be opened by approximately 8 million citizens. The accounts will operate for 2 years with maximum monthly deposits up to GBP 25. At the end of the saving periods, for each deposited pound the government will give 50 pence. It means that after 2 years the state will add maximum GBP 300 to each account (the financial bonus is tax free). The programme aims at encouraging the British to systematic saving and fighting against the phenomenon of financial exclusion.

In 2005, the British government offered a form of saving to parents of children born after August 31, 2002. The yearly limit of investment in the dedicated account is GBP 1,200. The collected money belongs to the child and can be withdrawn only by him/her at the age of 18. At the moment of opening the account, the government deposits to the account GBP 250¹⁰. The next deposit of GBP 250 will be transferred to the account for the child's seventh birthday (in the case of low income families the amount is GBP 500). The investment profit is tax free. The success of the programme in encouraging saving and investing can be measured by the number of 3.2 million opened accounts.

As it was presented on the example of the two programmes operating in Britain, promotion of saving among citizens is an important element of educating society, maintaining a sense of responsibility for taken action and encouraging creativity. Also, in the long run, it is supposed to prevent expansion of the financial exclusion phenomenon. Promoting individual investing and investing by giving up a part of tax revenue shows how important in Great Britain citizens' investment initiative is.

The fact is even more worth noting as the British capital market is considered a leading market and British society – one of the most affluent. However, in order

¹⁰ It could be called a British version of the Polish "becikowe" (maternity grant). However, in the UK it is used for supporting investing and securing a child with a certain amount on the threshold of adulthood as the money belongs to the child. Hence this is a more sophisticated concept.

to maintain the high position, it is necessary to continue improving economy and create desired social attitudes, including those concerning saving and investing. Great Britain is trying to create an investing and consuming society, and not a society of indebted consumers.

6. Savings of Polish stock investors

Stock investing may be considered an advanced form of depositing savings. Therefore, it will be valuable to compare a representative sample of Polish society with individuals investing on stock exchange. Not only do the individuals belong to the group of 30% of Polish society owning savings, but they seem the most financially educated part of the group, as well. That is why, in 2002 and 2009, the Author conducted a survey on a target group of 200 individuals on the stock exchange¹¹. Although results of the survey cannot be considered representative, yet they give a certain view on attitudes and opinions of individual investors' circles. Moreover, each conducted survey, also the one on an unrepresentative sample of a given population, is valuable, because information on attitudes, behaviour and expressed views developing at a given time is collected. Results concerning investing of individual investors in particular assets are presented in Table 1.

Among respondents-stock investors dominate individuals investing in shares at a similar level in both tested groups. Differently from what was observed in the case of representative sample, stock investors do not have a bank deposit and, what is more, their share increased (from 35% to 48.5%). Also, a significant increase of individuals investing took place in real estate (from 11.5% to 40.5%), investment funds (from 16.5% to 48%), and other assets (from 4% to 55%). At the same time, a decrease of individuals investing in bonds (from 58% to 21.5%) and derivatives instruments (from 27.5% to 16%) was observed.

A decrease in popularity of investing in derivatives may result from the fact that in the market foreign institutional investors are becoming more and more active, which limits the possibilities of generating satisfactory profits by minor investors. The fall in bonds, in turn, results from their diminishing investment attractiveness. It may also be the case that investors investing before in bonds, invested in investment funds capable of giving higher rate of returns.

¹¹ The survey in the form of a phone interview was conducted in 2002 by TSN OBOP, whereas in 2009 by MillwardBrown SMG/KRC.

On the basis of the list presented in Table 1, it should be stated that Polish individual stock investors are aware of the risk resulting from investing in stock market. Therefore, they diversify their investments both within as well as outside financial market (investing in real estate, gold, numismatic coins). Individual investors invest on stock exchange both directly and independently, and parallel indirectly, through investment funds. Such strategy ensures better diversification of investments, lowers costs of individual risk reduction and eliminates barriers for an individual with a relatively small capital entering certain markets (real estate market, foreign markets, natural resources markets). At the same time, the investors keep cash at the ready on bank deposits, being able to use it in case of rising investment opportunities, yet securing their financial needs in case they lost investing in the financial market. Such attitudes are characteristic of experienced investors, owning relatively big capital and, most of all, aware of the investment risk only in one market segment, in one type of investments and in one element of assets. So, individual investors invest on the stock exchange consciously, looking for possibilities of securing their capital purchasing value and enlarging it. They certainly do not count on ZUS (Social Insurance Institution) or OFE (Open Pension Fund), but actively and in advance build their pension funds (pillars) themselves, their current and future financial security and independence.

7. Financial knowledge of Polish society

Taking action to activate 70% of Polish society with no savings seems then a fundamental issue. However, what is problematic is defining the level of financial knowledge of an average Pole. A kind of test showing a relatively wider knowledge of finance may be a test checking deeper knowledge of the issue of shares. Therefore, the representative group was asked to name advantages and disadvantages of investing in shares and point out shareholders rights. This allowed to establish the level of Polish society's preparation for potential use of investing instruments.

The representative group was asked an open question concerning types of rights shareholders are entitled to, deriving from the very fact of having shares. A correct answer was given by 10% respondents, which can be considered a very high score in the case of an open question, in which respondents must show their knowledge and independently choose proper words. Moreover, the respondents used professional terminology, e.g., dividend, right to vote, participation in AGM, participation in general meeting, issue rights, insight into financial matters, or casting vote. One of the respondents stated: "I'm not interested in stock exchange"

– however, it is worth noting that he correctly associates shares with stock exchange. And another respondent stated: “I can’t tell the difference between shares and bonds” – yet, he knows both terms, which shows certain, at least basic, level of knowledge in the field of finance.

Also, answers given by respondents to a question concerning reasons why it is or it is not worth investing in shares, were correct. The most often quoted argument for investing was “you can benefit a lot/accumulating money”. It was given 219 times. Among the most interesting ones were: “you can earn quickly and easily” (18 times), “adrenaline”, “long-term shares are better”, “investment diversification”, “one of the quickest ways of accumulating money”, “you can make more money than from investment funds”, “money shouldn’t lie”, “investing in the future”.

As far as arguments against investing in shares are concerned, the risk factor was most often mentioned: “risk of losing money/profit is uncertain” – it was quoted 165 times. To illustrate other arguments, here are some more examples: “a possible crisis on the stock exchange”(7 times), “you can lose everything” (32 times), “a lot of stress about investing” (7 times), “there is risk of falling share value” (7 times), or “those with weak psyche can have a nervous breakdown” . As it was presented, also in the answers to the question respondents used such professional terminology as: profit, risk, diversification, stock exchange crash, or value decrease.

It proves that Poles possess a relatively deeper knowledge, enabling them to consciously take advantage of more advanced investing instruments. It also means that on the basis of the presented material, lack of knowledge cannot be indicated as a reason for not owning savings.

8. Conclusions

Concluding the dissertations presented in the work, supported by survey results, it can be stated that the level of financial education of Polish society is relatively high, although there are certainly differences between the level of knowledge of an average citizen and a stock investor. However, although stock investors’ level of knowledge translates into saving and investment structure, the same relation is not present in reference to an average Pole. This may mean a certain erosion of thrift, which used to be considered a virtue.

However, this lack of foresight may in future lead to triggering another financial crisis – heavy indebteding of households resulting in their bankruptcies, stress connected with lack of security, burdening the state with taking care of securing family existence, as well as health and pension insurance. All the elements generate

costs – functioning costs of economic system in a given state. However, when crossing a certain critical point, destabilization takes place.

States are wealthy with their citizens' wealth. Therefore, certain reservations are raised by the question whether 30% of active and farsighted Poles owning savings will be sufficient for capital balancing of economy, in order to prevent the next potential crisis at the indifferent attitude of 70% of society. In other highly developed countries the problem was noticed and action was taken to encourage saving and investing, whereas in Poland it is not. One piece of evidence, among others, is the still maintained capital gains tax, which certainly cannot be classified as a saving stimulus. Polish society have already begun (following the American example) heading towards indebted consumers. With the continuation of the trend, turbulences will be unavoidable.

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SUMMARY

The aim of the working paper is to obtain an answer to the question: Do Poles take action which will give them financial security in the future? Do they save and invest? In the paper, attention has been drawn to a potential problem which Poland could face, the problem of shifting financial responsibility from citizens to the state. Unfortunately, the presented survey results do not allow to formulate optimistic conclusions. Only 30% of Poles are financially resourceful and foresighted.

Key words:

savings, individual investors, financial investments, households