

Shadow Banking in the Financial System in Poland in 2007–2009 and 2017–2019

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Abstract

Purpose: The main goal of this work is to present shadow banking in the financial sector. The specific aim is to present and classify non-banking financial intermediaries. For the purposes of the study, the following hypothesis was formulated: shadow banking poses a threat to the maintenance of the stability of the financial system in Poland.

Design/methodology/approach: The research method used in the article is a critical analysis of the related literature on the basis of many studies and reports available on the market.

Findings: The results of the literature review are the basis for statements about shadow banking in the financial sector. Other research should be devoted to the analysis of the stability of the financial system during the COVID-19 pandemic, because there will be many other factors that affect the functioning of banking or non-banking entities and also shape new directions of their development.

Research limitations/implications: The review was limited to reports of the National Bank of Poland, the Polish Financial Supervision Authority and the Central Statistical Office (now Statistics Poland) only due to the necessity to standardize the sources of publication of research results.

Originality/value: Conclusions from the review may inspire others to undertake research in previously unexplored areas. They may also be a guide to ensure its best possible quality.

Keywords: shadow banking, parallel banking system, parallel banking, shadow banking, financial system stability, non-bank financial intermediaries.

JEL: B26, E02, G21, G23

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Shadow Banking w systemie finansowym w Polsce w latach 2007–2009 i 2017–2019

Streszczenie

Cel: głównym celem niniejszej pracy jest przedstawienie bankowości cienia w sektorze finansowym. Celem szczegółowym jest przedstawienie i sklasyfikowanie niebankowych pośredników finansowych. Na potrzeby badania sformułowano następującą hipotezę: *shadow banking* stanowi zagrożenie dla utrzymania stabilności systemu finansowego w Polsce.

Metodologia: zastosowaną metodą badawczą w artykule jest analiza krytyczna literatury przedmiotu na podstawie wielu opracowań i raportów ogólnodostępnych na rynku.

Wyniki: rezultaty przeglądu literatury stanowią podstawę do wypowiedzi na temat *shadow banking* w sektorze finansowym. Kolejne badania warto poświęcić analizie stabilności systemu finansowego podczas pandemii COVID-19, ponieważ wystąpi wiele innych czynników, które oddziałują na funkcjonowanie podmiotów bankowych czy niebankowych, a także kształtują nowe kierunki ich rozwoju.

Ograniczenia/implikacje badawcze: ograniczenie przeglądu wyłącznie do raportów opublikowanych przez Narodowy Bank Polski, Urząd Komisji Nadzoru Finansowego oraz Główny Urząd Statystyczny wynikało z konieczności ujednolicenia źródeł publikacji wyników badań.

Oryginalność/wartość: wnioski z dokonanego przeglądu mogą stanowić inspirację do podejmowania badań w nieeksplorowanych dotąd obszarach, a także być wskazówką do zapewnienia jak najlepszej ich jakości.

Słowa kluczowe: *shadow banking*, system bankowości równoległej, bankowość równoległa, bankowość cienia, stabilność systemu finansowego, niebankowi pośrednicy finansowi.

1. Introduction

The phenomenon of shadow banking and all financial innovations aim to ensure the security of liquidity and stability in the state's financial system, especially in times of crises. Each economic decision is exposed to specific financial consequences, both positive and negative. The awareness of the consequences of decisions in the development and operation of an institution requires specific knowledge in the field of financial management.

The increasing development of the parallel banking sector proves that the market needs institutions that operate outside certain state regulations. During the crisis, there were many threats that resulted from running and using the activities of entities not under financial supervision. It was feared that the level of risk might increase and eventually transfer to institutions subject to financial supervision. Entities operating outside the regulatory area create alternative sources of financing. In Poland, the focus was most often on entities related to shadow banking, which are non-bank lending institutions (Nijs, 2020, p. 397).

All the above-mentioned factors inspired the author to bring closer and study the development of the shadow banking phenomenon. The main goal of the work is to present shadow banking in the financial sector. The specific aim is to present non-bank financial intermediaries. For the purposes of the study, the following research hypothesis was formulated: Shadow banking poses a threat to the maintenance of stability of the financial system in

Poland. The literature on the subject in the field of the financial system was analyzed, with particular emphasis on shadow banking. The research method used in the article is a critical analysis of the literature on the subject on the basis of many studies and reports available on the market.

The work is divided into: introduction, five essential parts and an ending. The first part is purely theoretical and covers the main areas of an emerging parallel banking sector. The second part presents the role of the parallel banking system innovation enriched with the characteristics of shadow banking. The last part discusses the conditions for the operations of non-banking financial institutions in 2007–2009 and 2017–2019. The issues related to the functioning of non-bank financial institutions which do not participate in the creation of money, but are responsible for the allocation between money recipients, were discussed. While writing the paper, articles from the scientific press, many reports and studies were used.

2. Parallel Banking System

Innovation is associated with change. Usually a change for the better. In Latin, *innovatio*, translated as renewal, means innovation (Wiśniewska, 2013, p. 10). These are actions performed in sequence that lead to product improvement. Innovation depends on the knowledge, skills and commitment of innovators (Białoń, 2010, pp. 21–22). It must have a specific goal on which all work is focused and pursued. The effects are the optimization of working time and the improvement of technological processes (Wojciechowska-Filipek, 2010, p. 56). Increasingly greater customer requirements as to the convenience, speed, quality and price of the services offered lead to an increase in the geographic coverage of banking services. Banks are now able to offer customers the option of booking airline tickets, concert tickets and paying bills using the SkyShopper portal. The OP Financial Group has also introduced the possibility of a maintenance-free electric car rental for its clients, which results in an increase in revenues. The goal of cloud solutions is to reduce operational costs (awi & aleBank.pl, 2019). It consists in implementing a simplified system and innovative products. It is also worth paying attention to open banking, which refers to services and technologies that are based on programming interfaces, made available to third parties. The essence is to arouse interest in and offer modern services to your customers by freely sharing customer data, from accounts and transactions through the banking products they use. Another option is the so-called invisible banking, which – in the network of internal cafeterias of Bank BBVA – relies upon a user facial recognition system so that the payment process takes place without the need to carry a credit card (Luty, 2019). The only condition is that you have it with you when making a transaction.

Defining “parallel banking” is not easy. Both banking and parallel banking provide the same services as financial intermediation. It includes fund-saver

fundraising, fund applicant screening, cash flow. So, how is banking different from parallel banking? There is at least one difference between parallel banking and banking. In some cases, the difference is due to the use of investment in the stock markets to finance loans. The definition adopted by the Financial Stability Board and then by the European Commission in the Green Paper of 2012 is so wide that it is difficult to verify the institutions of shadow banking, but it says that shadow banking is a credit intermediation system covering entities and activities outside the traditional banking system. Due to many misunderstandings, the European Commission decided to clarify this concept. The entities included in shadow banking also include: special purpose entities that transform maturity or liquidity, money market funds, investment and hedge funds, financial intermediaries, loan companies, insurance and reinsurance companies, mortgage and investment banks (Solarz, 2014, p. 120). The listed institutions deal with the maturity transformation, credit transformation and liquidity transformation. The entities are characterized by the activity in the regulated area to a small extent, which limits the control by financial supervision (Dąbkowski, 2014, pp. 156–186). This is not tantamount to exposing the phenomenon of shadow banking to undesirable risk.

3. The Essence and Characteristics of Shadow Banking

Shadow banking has been an issue that has been discussed since the financial crisis of 2007–2009 (Block & Hockett, 2022). Shadow banks have gained the most attention with the increasing swap of residential mortgages into securities. Almost the entire transition from establishing the mortgage to selling the collateral took place outside the direct supervision of the relevant authorities. From the point of view of the Financial Stability Board, shadow banking was treated as an intermediary between transferring funds to borrowers from savers. This phenomenon is usually defined in relation to certain types of activity. The existence of shadow banking brings many benefits, including defining a new possibility of investing investors' funds in bank deposits. It is an alternative source of economic financing compared to the traditional banking system and offers the possibility of risk diversification outside the banking system (Dębski, 2006, p.45). Not only are there the benefits behind the shadow banking phenomenon; it is also important to pay attention to the risks associated with this concept. Individuals are governed by their own laws and work with entities in various relationships. An institution that looks like a bank acts like a bank but is not a bank, it is often a shadow bank. The shaping of the nature of shadow banking was influenced by the economic phenomena and mechanisms. Shadow banks are mainly engaged in borrowing short-term funds in the money markets and using them to purchase assets with longer maturities. They are not subject to banking regulations and financial supervision, so they cannot,

like banks, borrow in emergencies from central banks, and they do not have traditional depositors whose funds are somehow insured (Overtveldt, 2022). Unfortunately, they remain in the so-called “shadow”.

Parallel banks perform the primary banking function of credit intermediation. They also include intermediaries – brokers who finance their assets through REPO contracts. These are conditional purchase or repurchase agreements (Kowalewski, 2021). Their goal is to regulate liquidity in the banking sector (Pietrzak, 1999, p. 166). When defining REPO operations, the following can be referred to: “According to the recommendation of the Polish Bank Association, a REPO transaction is an agreement in which one of the parties sells securities and at the same time undertakes to buy back the same or equivalent securities (i.e. having the same ISIN assigned by the depository)” (Miklaszewska, 2010, p. 196).

Shadow banks were characterized by a lack of disclosure of information on the value of collected assets. The name “shadow” is, then, for a reason. Often, the size of the assets they contained was simply obscured. Even estimating the size of the entire structure of the shadow banking system is very difficult due to a small number of entities that are subject to financial supervision. The primary distinction between banks and shadow banks is the level of regulation by the state or other financial regulators (Berger, Molyneux, & Wilson, pp. 63–68). Another factor that distinguishes the system is the significantly greater occurrence of risk.

Shadow banking has always been a concept with a potential for the future. There are three evolutions of shadow banking:

- “Shadow Banking 1.0”,
- “Shadow Banking 2.0”,
- “Shadow Banking 3.0”.

Currently, there is “Shadow Banking 1.0” in Poland. It mostly covers financial agencies that are financial services brokers. They act on behalf of the same financial institutions, presenting almost the same offer. The only thing that distinguishes these companies are the adopted marketing strategies and targeting the appropriate customer market. Dependence on other entities is of little importance here. They operate in specific areas of both consumer finance and private banking. Consumer finance is closely related to the consumer loans granted (Act of 12 May 2011 on consumer credit), i.e. those that are provided to natural persons for private purposes, e.g. housing. Private banking means the provision of professional and individual services by commercial banks for the most demanding customers (Gronek, 2019).

Nowadays, one can see newer and newer technologies implemented in the financial sector. All of them are aimed at simplifying all processes and shortening each procedure as much as possible, for example payment with a smartphone or a watch. Many small fintech companies are established

in the financial sector, introducing modern, unconventional and interesting solutions. Simply put, Fintech is just financial technology. The term fintech derived from the English language “financial technology” is a technology aimed at modernizing the banking sector by introducing innovations (Szpringer, 2017, p. 62). Innovations in the financial sector are related to services and modern solutions based on information technologies for further improvements and at the same time reducing financial costs for the services offered (Duhigg, 2012, p. 384). Interesting fintech solutions that are worth paying attention to are communication applications used by banking platforms that have combined their customer services with Messenger, an application from Facebook. Another solution is biometric authentication involving the use of a fingerprint through a fingerprint reader, which greatly facilitates and speeds up logging in to mobile applications¹.

Second-generation shadow banking operates outside Poland. Examples of platforms that appear here include: Zopa, Funding Circle, Auxmoney, CreditGate24 and Lendix. It is a formula based on business relationships that operates on various crowdfunding platforms. The essence here is access to the internet. A person who proposes their idea presents it on the internet, while internet users support it financially, in return receiving benefits in the form of either a finished product or a discount for its later purchase. In Poland, the most famous are: “Wspieram.to” and “PolakPotrafi.pl”. The second generation of shadow banking is focused on those entities that have financial surpluses or unused funds (Cline & Mazumder, 2022). Financial surplus, from an economic point of view, is called the advantage of revenues over expenditures, most often in the form of cash or securities.

The hosting platform plays the leading role in third-generation parallel banking. It is the provision of various resources by the Internet Service Provider on a dedicated server². It can be a “limited joint-stock partnership or a limited liability company. It is supported by global investment banks, insurance companies, private equity or venture capital funds or financial conglomerates, based in countries with a high regulatory and supervisory regime”³. The hosting platform primarily provides legal assistance to other entities that need it, all support at any time. Business support is access to start-up and development support programs and social media. Another function is to take care of the infrastructure of IT systems. The most famous hosting platforms in the world are: Crowd Engine⁴ and Crowd Fund Magic. In this generation, computers are linked to the network that permits sending and receiving data⁵. For this purpose, a peer-to-peer computer network communication model is used (Piech, 2016, p. 10).

4. Parallel Banking

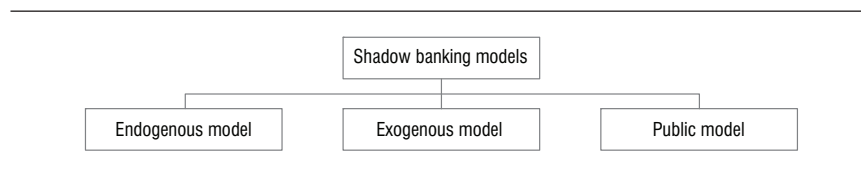
The term „shadow banking” was first used by P. McCulley in „Teton Reflection”, explaining that „shadow banking is an institution or a special purpose vehicle (SPV) that has convinced its customers that they can recover the funds entrusted to it without time delay and loss of value despite the lack of government guarantees” (McCulley, 2007).

The 2008 crisis was closely related to financial services (Hancock & Allison, 2020). Gray banking, as parallel banking is also called, is credit intermediation, including entities and activities that are outside the regulated banking system. The entities in shadow banking are those that are engaged in risk transfer, lending and transformation of payment terms. Operations are the sources of financing, the previously mentioned issues of securities, repo transactions or securitization. A parabank is a concept that is very close to shadow banking (BANKOVO, 2021). It is an institution that offers concepts similar to banks, but these institutions should not be confused (Srokosz, 2011, p. 80). This is due to the fact that parabanks are not subject to legal regulations, which are typical for banks, or to financial supervision. The offers of these institutions are similar, but they are completely different institutions. There is a shadow banking system in Poland which, unlike banks, is not under the control of the Polish Financial Supervision Authority. Parabank institutions do not have banking licenses. They are deprived of the privilege granted by government bodies, and at the same time the acquisition of the right to protection in the form of deposit insurance or membership in the clearing system, which includes agreements under which mutual liabilities and receivables of banks are settled by listing all transactions made in a specific period. Thus, non-bank financial institutions, abbreviated as NIFs, are financial institutions; however, they do not have a full banking license or are not overseen by a bank regulatory agency. Non-bank financial institutions complement the banking system. They offer various banking services, from loans and credits to retirement planning, stocks and other liabilities (Czekaj, 2017, p. 477). Institutions supervising banking activities control the creation of a bank that needs a license and approval to start operations and are intended to reduce the risk that banks face on a daily basis, i.e. in the event of financial problems, they can count on help before their liquidation or bankruptcy (Olszak, 2008, p. 228). In the case of non-banking institutions, there is no such scope of interest on the part of supervisory institutions (Waliszewski, 2012, p. 56).

Due to the way they function, the models of the parallel banking system can be distinguished. Models in which technical progress is a significant result of investment decisions by consumers and producers are endogenous. They are based on market transactions with high financial liquidity and use credit receivables to ensure the liquidity of cash. Another type of models are neoclassical models, otherwise known as supply, long-term or exogenous. In these models, the main assumption is that a long-term increase in actual output

is only made possible by an increase in potential output. The actual production is the production that is created by the state's economy. On the other hand, potential production is the amount of production that could be produced by the economy, using all factors in an optimal way. The exogenous model of shadow banking is based on a system of interdependence between entities that operate independently of deposit and credit activities. It uses a market process based on brokerage and dealer activities, regardless of bank lending. Another one is the public model, closely related to public authorities. Contrary to traditional banks, these institutions do not engage in credit activity based on the deposit market (Neely, 2022). "As in previous models, also here there is a transfer of credit claims from the banking sector and their transformation into a pool of assets using the qualitative and timely transformation of capital" (Duffie, 2010, pp. 51–72). The division of shadow banking models is presented in Figure 1.

Figure 1
Division of the parallel banking system models



Source: Own study based on Nersisyan, & Wray, 2010, pp. 3–30.

5. Determinants of the Operation of the Parallel Banking Institutions in 2007–2009

Non-bank financial institutions have a smaller direct impact on the stability and functioning of the financial system as compared to banks. In the analyzed period, the situation of the sector of non-banking financial institutions was affected by the deteriorating economic situation in the financial sector, which led to a decline in the assets of investment funds. This also had a negative impact on the profitability of the specified insurance sector. High profitability was observed only in the case of pension fund companies and investment fund companies. When describing the conditions for the operation of parallel banking institutions, attention was paid to:

- insurance companies;
- investment fund companies and investment funds;
- universal pension fund societies and open pension funds (OFE).

The first six months of the following years were examined: 2007, 2008 and 2009. Starting with the plant insurance, at the beginning of 2007, non-life insurance had many payments justified by damage that was caused by strong windstorms. Due to this damage, the technical result was negative and the damage factor doubled. Despite such extensive damage, some positive

aspects were also observed, which include the reversal of the then downward trend in premiums from motor own damage and third party liability insurance. High premiums in the life and non-life insurance sectors were observed in the first half of 2008. Compared to the same period, but in the previous year, in property insurance, the gross written premium increased by 13.1%, and the net profit changed to 111.6%. This increase was caused by the receipt by PZU SA of high dividends (PLN 2.2 billion) from PZU Życie SA. In the case of gross written premium in life insurance, a change of less than 49% was recorded. However, here the net profit decreased by 36.4% compared to 2007, which was caused by the fall in prices in the stock market. In 2008, the profit on insurance activity in non-life insurance increased compared to the first half of 2007. The increase was due to the profit in the motor own damage insurance group. Voluntary AC insurance has become widespread, and as the number of cars increased, the demand for this insurance grew as well. In 2009, the pace of economic growth slowed down, which negatively affected the results of the insurance sector, leading to a decline in profits in the insurance sectors, mainly loans. The financial results in the first half of 2009 were worse than in the previous years, mainly as a consequence of the realization of the insurance risk. The largest group of motor third party liability insurance, which is obligatory when owning a car, had the greatest impact on the weakening of the results. Another factor that influenced lower financial results were insurance claims of large size, caused, as in 2007, by natural disasters. In this case, it was the rains at the end of June 2009. The net profit in non-life insurance changed by almost 26% compared to the previous year. Later, however, the results of the life insurance sector improved, inter alia, due to an increase in investment returns.

Table 1 presents the financial results of the sector of non-banking financial institutions at the beginning of 2007, 2008 and 2009.

Table 1
Financial results of the insurance company sector in the first half of 2007, 2008 and 2009 (in PLN million)

	2007	2008	2009
Property insurance			
Gross premium	9127	10325	10876
Net profit	1426	3020	2239
Life insurance			
Gross premium	12572	18701	13939
Net profit	2112	1344	2300

Source: KNF.

The Central Statistical Office (GUS) presented data on credit intermediation companies in 2008 and 2009. The number of credit intermediation entities in 2009 was greater than in 2008 and amounted to 420 banks, 146 insurance companies and 90 investment fund companies. The cooperation with entities conducting the activity of credit intermediation is presented in Table 2, in the form of the number of concluded agreements with entities.

Table 2

Number of agreements with entities with which entities conducting credit intermediation activities cooperated in 2008 and 2009

	Credit brokerage entities	
	2008	2009
Banks	404	420
Insurance companies	129	146
Investment fund companies	94	90

Source: GUS.

6. Stability of the System of Parallel Banking Institutions in 2017–2019

At the beginning of 2017, the sector of non-banking financial institutions developed much faster than the banking sector. The good economic situation on the Stock Exchange was caused by the increase in the assets of financial institutions. In the first half of 2017, the funds flowing to life insurance companies increased, which was caused by an increase in premiums paid for insurance. Compensation payments in 2017 were recorded at a high level, which was related to car insurance claims. Payments from this sector related to a higher share of motor vehicle liability claims. The investment risk, borne by policyholders in the amount of PLN 55.6 billion, had a large share in the structure of assets in the life insurance departments, which was related to the increase in the value of shares of non-life insurance companies in related entities. The reason was the purchase of banks' shares by the largest domestic insurance group. In 2017, few entities observed losses, and the financial results of insurance companies improved. The decrease in the loss ratio was caused by an increase in the prices of motor third party liability insurance. There was also an increase in ROE.

In 2018, section II of insurance, i.e. non-life, showed an increase in the value of provisions, which was related to an increase in the value of provisions for claims. On the other hand, section I, that is the life insurance sector, recorded their decline due to a decrease in the assets of insurance capital funds. In 2019, the situation was the same as in the previous year. A slight

decrease in provisions in the life insurance sector resulted from a decrease in the value of liabilities under contracts with unit-linked insurance funds. On the other hand, the growth in section II was influenced by obligatory motor third party liability and fire and theft insurance.

Financial intermediation complements the offers that banking institutions have in their possession. Financial intermediaries provide some customer services already created by banking institutions, as well as offering their financial services to customers, for example: non-bank loans. The branches of non-banking institutions are becoming similar to the banking ones in terms of externalities, as well as staff training and communication with clients. The activities of credit intermediation companies in 2016–2018 were characterized by acquiring customers via: the internet, by phone, as well as personal sales, advertising and leaflets. 5,103,000 participated in a survey conducted by the Central Statistical Office on the number of loans and advances granted to enterprises in 2016–2018. In the described years, most contracts were concluded with private persons. Figures for the number of customers, the number of loans or credits granted and the value of the credits granted are presented in Table 3.

Table 3
Information on the activities of credit intermediation companies in 2016–2018

	Overall			Natural persons			Enterprises		
	2016	2017	2018	2016	2017	2018	2016	2017	2018
Number of clients (thou.)	4533	4591	4361	4494	4553	4328	39	38	33
Number of credits or loans granted (PLN thousand)	5324	5488	5439	5279	5445	5398	44	44	41
Value of credits or loans granted (PLN million)	39973	42420	50841	33948	35869	44623	6026	6551	6218

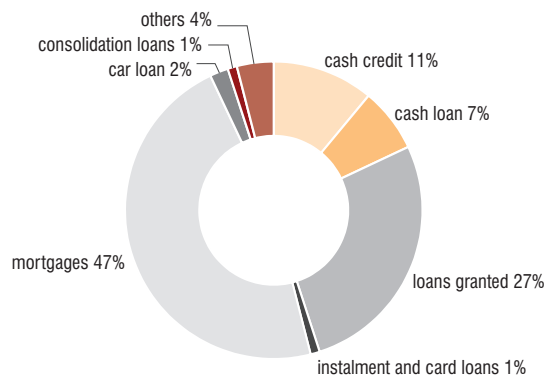
Source: GUS.

In 2016, the total value of loans or advances granted was PLN 39,973 million, of which loans and advances to individuals were granted for PLN 33,948 million, and those granted to enterprises amounted to PLN 6,026 million. Mortgage loans (47%) and loans granted from own funds (27%) had the largest share in the value of loans and advances, followed by cash loans (11%) and cash loans (7%), as shown in Figure 2 below.

In 2017, credit intermediation companies participated in concluding a total of 5,488 contracts in total, including with enterprises and private persons. The total value of loans or credits granted in 2017 was PLN 42,420 million,

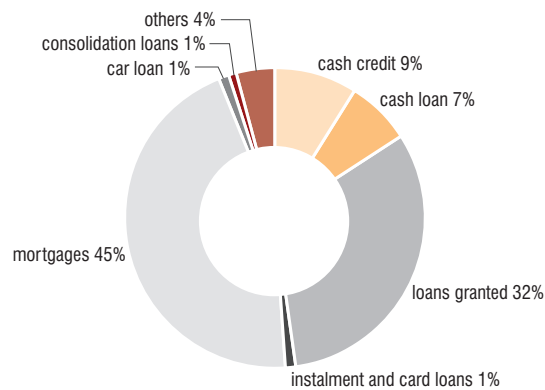
including: PLN 35,869 million for natural persons and PLN 6,551 million for enterprises. Mortgage loans (45%) and loans granted from own funds (32%) had the largest share in the value of loans and advances granted, similar to the previous year. Then loans and cash loans stood at 9% and 7%, respectively. The structure of the value of granted credits and loans is presented in Figure 3.

Figure 2
Structure of the value of credits and loans granted in 2016



Source: GUS.

Figure 3
Structure of the value of loans and advances granted in 2017



Source: GUS.

In the case of the determinants of the operation of the parallel banking system in 2007–2009, risk can be noticed at a higher level for the stability of the financial system. The crisis caused a significant change in the functioning of financial markets in Poland and a reduction in the dynamics of economic growth. Despite the economic slowdown, Poland maintained its positive annual real GDP growth. The rise in the unemployment rate and the fall in wages had an unsatisfactory effect on the economy. In the period 2007–2009, a decrease in profitability was noticed, among others, in investment fund companies. The increase in assets of non-banking financial institutions was influenced by an increase in pension contributions paid to the Polish social insurance institution (ZUS). Non-bank financial institutions recorded profits in the life and property insurance departments in 2017–2019. The liquidity situation in the mutual funds sector also improved. There was also an increase in assets related to an increase in the payment of obligatory contributions to the social insurance institution.

7. Conclusion

The development of shadow banking may result from imperfections in the banking system in the form of traditional banks. In Poland, the consequence of the reduction in bank lending was not that Poles were less indebted, but they were indebted to companies that offered loans with high interest rates. Entities operating in the banking system are strictly controlled by the authorities. The main aim of the work was to present shadow banking in the financial sector. On the other hand, for specific purposes, non-bank financial intermediaries were presented as compared to the others. The hypothesis formulated for the purposes of the study, which reads: Shadow banking poses a threat to the maintenance of stability of the financial system in Poland, has not been confirmed. Parallel banking complements traditional banks. The analysis of the stability and development of the financial system on the basis of reports presents the diversity of conditions for the operation of parallel banking institutions in the times of the financial crisis in 2007–2009 and in 2017–2019. The widespread focus on traditional financial and insurance services means that the influence of non-bank financial institutions on the situation in the banking sector in Poland is limited. Banks in Poland are relatively resilient, characterized by solvency and stability, which is thus an important condition for the performance of the central bank's tasks, namely maintaining price stability. Traditional banks are the main source of financing the economy, and the positive current macroeconomic situation does not threaten the stability of the financial system. Access to non-bank loans has improved the standard of living for many people and families that were not eligible for conventional bank loans. The activity of the non-banking financial services sector is justified by consumer demand. On the other hand, the emergence of such

lending companies would appear to pose a threat to traditional banks, which are subject to prudential regulation, in order to protect financial stability. As a consequence, banks became involved in the development of the non-banking financial services sector, thus strengthening the stability of the financial sector. Non-banking entities consolidated their position and gained trust among consumers thanks to the global financial crisis of 2008, which caused a decline in confidence in traditional banks. Loan companies are not covered by the state guarantee program because they lend money from their own resources. The results of the literature review are the basis for statements about shadow banking in the financial sector. Other research should be devoted to the analysis of the stability of the financial system during the COVID-19 pandemic, because there will be many other factors that affect the functioning of banking or non-banking entities and also shape new directions of their development.

Funding

This research received no funds.

Endnotes

- ¹ Biometrics: how to best secure your business?
- ² What is website hosting, <https://futurehost.pl/co-to-jest-hosting-strony-internetowej> [accessed: 7.02.2020].
- ³ Shadow banking 3.0-Hosting platforms a ... Polish case, <https://dyskusja.biz/finanse/shadow-banking-3-0-platforms-hostujace-a-Sprawa-polska-61240> [accessed: 7.02.2020].
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