

# **SŁAWOMIR LACHOWSKI**

# **DISRUPTIVE INNOVATION**

## **IN BANKING**

### **A BUSINESS CASE IN LOW-COST FINANCE**



**HOW TO WIN AGAINST THE LEADERS BY  
CREATING STRATEGIC COMPETITIVE ADVANTAGE  
AND REAL VALUE FOR CUSTOMERS**

Disruptive Innovation in Banking: A Business Case in Low-Cost Finance.  
How to Win Against the Leaders by Creating Strategic Competitive Advantage and Real Value for Customers.



Sławomir Lachowski

## Disruptive Innovation in Banking

A Business Case in Low-Cost Finance.  
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by Creating Strategic Competitive Advantage  
and Real Value for Customers.

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*To my parents,  
who taught me values,  
and to my wife and son,  
who gave them enduring importance  
on the journey of life.*

All proceeds from this book will be donated to charity.



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## Introduction

*Enjoy change*

*Savor the adventure and enjoy the taste of*

*New Cheese*

*Who Moved My Cheese?*

Spencer Johnson

**We** all dream about having a fascinating job which brings emotional and material satisfaction, and makes the world a better place. Change and uncertainty have become the mark of our times. It is more and more difficult to find stability and keep control over the course of things. You have to back down, it seems, and let yourself be carried by the current simply hoping it will all come right. But you can also put its momentum to good use, steering skilfully to avoid obstacles, and keep moving forward with poise and gusto. And if you do not let the hardships along the way spoil the pleasure of journeying, you will reach your destination with a smile on your face.

Who would not like to work hard, play hard and change the world?

Unfortunately, hard work alone is not enough to transform reality let alone find joy. But if you have the right idea, find yourself in the right place at the right time surrounded by the right people, anything is possible.

Can you start novel enterprises and innovative world-changing companies in average-sized countries, like Poland, which do not aspire to be the leaders in technology?

An economy's potential for innovation is usually ascribed to high public and private outlays on research as well as development. Our country ranks low in this respect, and there is little indication that it is going to change soon. The New Economy, however, provides an opportunity to seek innovation in ways other than through capital-intensive research. The Internet Era offers free access to information, exchange of ideas and experiences. Globalisation

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It is not the inventions but how they are used that changes the world. Cutting edge business models and groundbreaking process innovations are based on knowledge, imagination and often brand new application of scientific discoveries.

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allows the latest inventions and state-of-the-art technologies to be applied on an international scale. It is not the inventions but how they are used that changes the world. Cutting edge business models and groundbreaking process innovations are based on knowledge, imagination and often brand new application of scientific discoveries. This book is about looking for ideas and a bumpy road to put

them into business practice. It is grounded in personal experiences, and the knowledge the author had a chance to test in real life as a project leader and manager of the largest financial institutions with a few dozen thousand employees and assets measured in tens of billions of euros. It is also an account of the technological and civilizational breakthrough, which was all the more evident in the country at the dawn of political and economic change. The main protagonist here is innovation and creative solutions which lead to success in business, positive influence on reality and overall satisfaction.

Innovation in IT, which has occurred in the last fifty years, has gained critical mass with a force able to transform completely the way people go about their lives and work, the way companies, political parties and social organisations are run. Last but not least, it influences social and economic life in general both nationally and globally. Indeed, globalisation has erased borders now that the world has entered a technological revolution giving rise to a period of social and economic relevance.

The Internet reduces time and space. The web allows total transparency providing all players with essential information. A brainless, loyal and humble client, worker or citizen belongs to the past. The days when restricted access to information could be used to seize power or gain advantage over competition are long forgotten. The web improves markets too. At a local village market, back in the day, all you needed to know was within arm's reach. You could walk around the stalls comparing products and their prices. This has changed. Today, thanks to the Internet, we are back at the market, but now the entire globe is a village .

In March 2000, I left PKO BP, then the largest Polish bank where I was in charge of retail, corporate and investment banking, to work in BRE Bank. Together with a group of four close co-workers we embarked on a project whose purpose was to create a bank well-suited to

the challenges of the 21st century. The aim was clear: to build an institution that could compete in every respect with the best and biggest players on the market. We would whisper among ourselves that we hoped to create the best retail bank in Poland. To throw down the gauntlet to established institutions which functioned on an attractive market, enjoyed unlimited capital resources, and had access to the best practices abroad – that was an enormous challenge. The cream of the crop at that time was PKO BP. We had played a part in its restructuring thanks to which it regained competitiveness and the support of the world leaders in the field – the strategic investors in Polish commercial banks.

For BRE Bank, then the seventh largest bank in terms of assets in Poland, specialising in commercial banking, the decision to enter the retail market meant a fundamental change of its strategy and business model. As for me, I turned my hand to undertaking new enterprises rather than restructuring and managing change. I was aware that dates “are a sort of post-house, where the Fates change horses” (Lord Byron). A rare business opportunity had come my way. I felt that the tide of technological change and economic growth would transform Poland and its banking sector. I knew that people would prove the key to success. What we needed was a team able to work under extreme pressure. I would personally choose every member with great care telling each one the following credo: We work hard. We play hard when it’s the right time to play. We change the world for the better. People with excellent education, open to the world and others, hungry for success, daring and relentless, cheerful and kind – that was our team. There were no stars among us but there was eagerness to cooperate and learn. The average age was below thirty, half of the team had no experience in economy, and banking was something they had to learn on the go.

A pleasure cruise it was not, but no one promised it would be. We worked

We worked harder than an ordinary person can endure. At times fear and doubt haunted us, but we always regained our composure.

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mBank represents a low-cost business model in finance, which translates into relatively low prices and a good quality of products and service.

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harder than an ordinary person can endure. At times fear and doubt haunted us, but we always regained our composure. Little achievements along the way gave us comfort and faith in the final success. Together we created two banks – mBank and MultiBank. Both stood out

from the competition thanks to their innovative business model solutions, means of communication and appearance. MultiBank's pleasant world of finance enjoys popularity with the rapidly growing middle class being its preferred choice of a modern bank with a network of local branches across the country. It has charted a new course for the development of traditional retail banking.

mBank has brought about a revolution on the Polish financial market due to its disruptive innovations which provided clients with maximum benefit and convenience. It broke into the Czech and Slovakian markets in a spectacular fashion proving that it is possible to enjoy phenomenal success in a mature and highly competitive environment. Conviction about the unique strength of its business model and about the skill of its creators helped shape the idea of a new generation pan-European bank. mBank's entrance to the foreign markets in November 2007, achieved over eight months on the basis of the European Passport EU, was a test of the project's premise. After two years mBank has 350 thousand clients and a five-per-cent share in the Czech market as well as 150 thousand clients in Slovakia which is twice less populated.

mBank represents a low-cost business model in finance, which translates into relatively low prices and a good quality of products and service. This type of business model has worked perfectly in different areas – such as discount retail and budget carriers – and has altered the structure of markets. mBank is an example of a disruptive innovation which first creates a new market, and then by increasing the quality and range of products poses a threat to the biggest players and leaders in its branch of industry. As early as 2008, just after seven years of operation, mBank became the third largest bank in terms of clients in Poland, the fourth in Europe and the fifth Internet bank in the world.

mBank has changed the long-held rules about communication, advertising and relations with clients. It is in a class by itself in the banking business. It

plots new directions for progress in many areas. Its business model, way of operating, relations with clients and the outer environment, external communication (advertising), and its unique corporate culture have found both followers and opponents. This does not come as a surprise. Being different is always controversial, and mBank is unlike anything that exists on the banking market. mBank has shown that financial institutions do not need to be boring, recondite and aloof. Quite the opposite. mBank proves they can be sunny, open and straightforward.

The book sets out to show how to look for ideas that change the rules of the game in business. It is about forming an intellectual foundation for an action plan which aims for explosive growth on emerging markets, or beating off competition on mature thanks to lower costs. Even the best strategy is useless when its implementation ends in failure. Success comes only when the idea has been translated into business reality, and this cannot happen without proper discipline, efficiency and product quality. mBank will be taken as an example to show how important it is to implement an initial disruptive innovation in a short time span in order to gain first movers' advantage.

Consecutive innovations both sustaining and disruptive help fuel high growth rate. But identifying and applying them is not an easy process. It is an element of competent management. mBank's practice demonstrates the hands-on application of management by values. Its set of values informs the way it operates at all levels. This has helped to create a corporate culture distinguished by transparency, relations based on partnership, pursuit of excellence, commitment to the company and local community as well as exceptional work performance.

Here you will find an answer on how to succeed in business thanks to disruptive innovation and management by values.

Consecutive innovations both sustaining and disruptive help fuel high growth rate. But identifying and applying them is not an easy process. It is an element of competent management.

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# mBank in 100 Days



*Speed is God, time is the devil, and change is the sole constant.*

*Business is no longer about return in investment but return on minutes.*

Vivek Ranadive, *The Power of Now*

*Speed is the essence of war.*

Sun Tzu, *The Art of War*

A project is an enterprise with a clearly defined aim. Its completion requires managing resources, meeting deadlines and working within cost limits. Innovative projects are unique undertakings that demand getting to grips with tasks that have not been tackled before and that may end up being one-off ventures. It is a real challenge if that is the case. Theory and practice of management have been transformed during the Information Age, especially under the influence of the Internet. Project management has not only become a method for creating new enterprises and implementing change but also a style of management in itself. Nowadays, technological progress is so rapid that speed and flexibility are top priorities in management. “Do it quickly” and “Stop and turn round” are praiseworthy management principles. In the past, a project could be planned for months or even years and then implemented without hurry. These days, planning and preparation are drastically shorter. Speed is everything. If the process does not work – which happens – we give it another go. Consumers are those who test new products, and it is our job to watch their reactions closely. Improvements are introduced smoothly and perfection is achieved only after the first products have appeared

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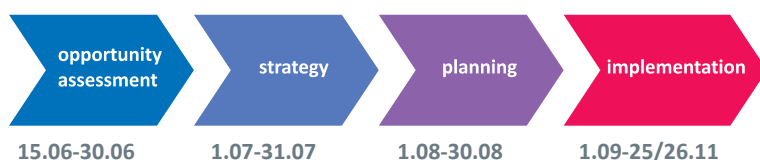
**Nowadays, technological progress is so rapid that speed and flexibility are top priorities in management.**



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on the market. “Beta version” is the business jargon for products put on the market in this way. There are areas, however, where the demands of safety do not allow for such an approach. In medicine, transport and even banking, certain products and functions must be thoroughly examined before they are made widely available.

The mBank project was carried out in under five months, not counting the period needed to prepare a Strategic Diagnosis (opportunity assessment) and Business Plan. The plan of action was given the green light on 8th August, and made a reality at 00.00 on 26th November 2000. In around 100 days.



Considering the nature and scope of the project, the word “accomplishment” does not sound hyperbolic. I cannot think of any retail or Internet bank that was created from ground up in so short a time. More than that, the project was unusual because it was implemented as part of a larger scheme, and coincided with the opening of a more traditional bank in terms of a business model.

## Creating a Bank is No Small Matter

*What's breaking into a bank compared with founding a bank?*

Bertolt Brecht, *The Threepenny Opera*

**Banking** is tightly regulated. Arguably, no other industry is governed by such precisely defined and strictly enforced laws. Reasons as to why are obvious: safety of savings, data privacy and confidentiality of clients’ financial transactions are among some of them. Numerous institutions and agencies are appointed to supervise banks. It is little wonder banks are conservative, saddled with bureaucracy and not given to radical change. Processes, procedures and



even such mundane tasks as paying in and withdrawing money are defined by hundreds of rules and regulations, instructions and recommendations. This is precisely why building a new bank is an unthinkable complex, strenuous and time-consuming undertaking. The awareness of the enormity of work involved in creating organisational and technological infrastructure, modern products as well as the entire sphere of operational activity gave me many a sleepless night. I am revolted by bureaucracy and overwhelming stacks of documents that need to be endlessly filled in, signed, checked and approved. By and large, this is what the world of finance looks like. It is normal to function according to established rules; processes must be clearly specified. For me, it was a source of many frustrations until one late evening when I went to the cinema to take my mind off the project after a day's work. Was it a coincidence that I chose to watch "Apollo 13" starring Tom Hanks? To this day, the journey to the Moon is seen as the most intricate enterprise in terms of technology and planning. At a critical moment, whether or not an astronaut returns home hinges on an elaborate technical operation. It is a series of ordinary actions which normally might appear intuitive and effortless. In a crisis, however, a tiny mistake can lead to tragedy. For that reason, a procedure is adopted to detect any possible errors. That is when it dawned on me! Tons of detailed regulations are a blessing in disguise. The way we control every aspect of our business is the measure of our care for the client's and our own safety. When I watched the film the second time I was in the company of a dozen or so of my fellow team members. I took them to the cinema with me hoping it would fire them with enthusiasm. They needed inspiration to create an infrastructure which would follow all bureaucratic requirements. It was no accident that Wojtek Papierak became the manager of this part of the project. As an educated lawyer, he understood better than anyone else how important paperwork regulations were in business.

I am revolted by bureaucracy and overwhelming stacks of documents that need to be endlessly filled in, signed, checked and approved. By and large, this is what the world of finance looks like.

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## The Name and Logo That Changed Business Marketing

*Image means personality. Products, like people, have personalities, and they can make or break them in the marketplace.*

David Ogilvy, founder of Ogilvy & Mather advertising agency

**The** project was given the go-ahead. Now it was the time to choose the name and logo for the online retail branch of BRE Bank. Many a heated debate raged over the subject. Eventually, I had to exercise my right to make an individual decision by using a “golden card”. I was entitled to produce it under specific circumstances when I could no longer convince my colleagues in management through rational argument. That was one of my special arrangements with Mr Kostrzewa, CEO. It gave me a free hand to carry out the project according to my deep convictions and at times business intuition, even if that meant disagreeing with different decision committees. I used that privilege only a few times at crucial moments when decision-making required following formal procedures. Wojtek Kostrzewa explains it in simple terms:

“BRE Bank was a modern corporate bank. Innovativeness was the driving force behind its development, which enabled us to make it to the top. I knew about the limits of our competence. Retail was a brand new area of activity. The project was innovative, and I had to trust new employees to be right even when I thought differently.”

Such an approach to division of labour and responsibility seems obvious. In reality, however, it is hard to adopt. Fear of the unknown or temptation to influence the course of events reduces freedom of action, which in turn deprives a project of qualities vital to its success.

The name and logo were the result of discussions within the project team, but the final decision belonged to me, and I took full responsibility for it. A competition was announced in the press. An amateur graphic designer sent in the winning suggestion for the logo. The name refers to the bank’s strategy of



growth. “mBank” is an institution that pioneers mobile banking in Poland. mBank is also “my bank”, pleasant and friendly. That is how it was described by those for whom the philosophy behind it was worth every sacrifice. Keeping in mind innovativeness as our main goal, we set out to highlight the features that would make the project stand out. We wanted mBank to radiate qualities such as:

- dynamism,
- innovativeness,
- courage,
- freedom and independence.

The logo and the name were unlike anything else that had appeared on the market before. Conservative employees were not happy. A flower in a clearly recognisable style of a Spanish artist, Joan Miró, in which simplified forms blend with lively colours in ways suggestive of a little child’s painting, is not an obvious choice for a bank’s logo.



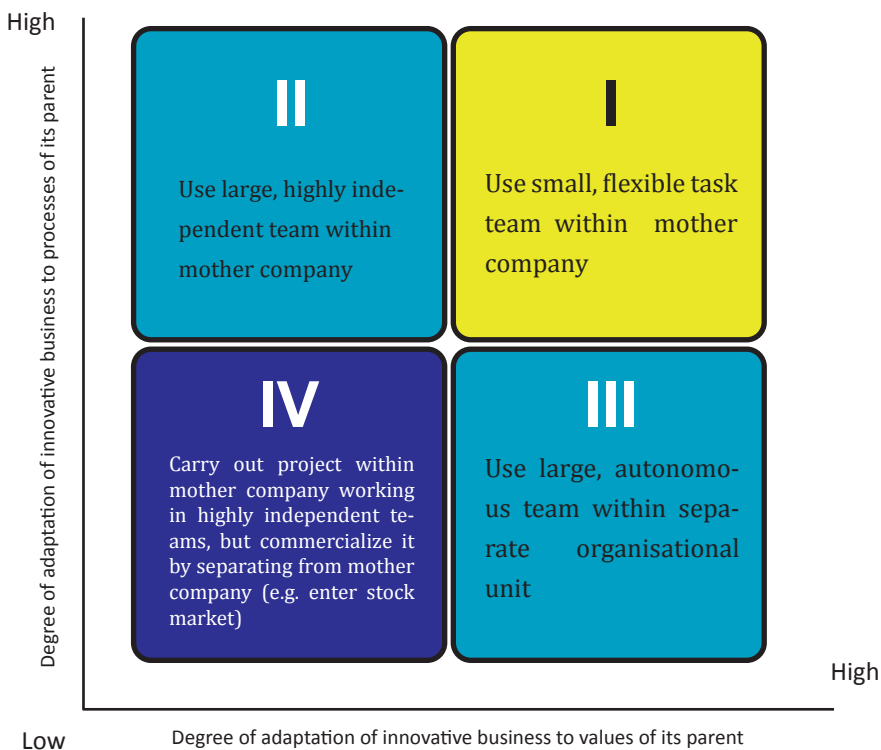
mBank’s logo and mission statement

## Together or Separately? Finding the Right Place for a New Venture

**Specifying** the project’s place in relation to its investor and owner, BRE Bank, was of fundamental importance to mBank’s creation. Having formed a broad picture of our operating model and having worked out what resources and actions of both companies would prove crucial, it was time to decide on the most

important thing: Should the project be run within BRE Bank’s organisational structure or independently? It was a difficult question. In order to answer it, we needed to consider circumstances within the company (the MultiBank project) as well as the best practices elsewhere.

### Fitting the Tool to the Task, or How to Build an Innovative Business as Part of a Mother Company



Innovative start-ups that fall outside their parent’s remit can be developed in four ways: within the company, in flexible project groups, in autonomous teams or outside the company altogether. The last option is best in the case of disruptive innovations which do not fit the mother company’s line of business. How do you fit the tools to the task, then? Management theory strongly



favours separation and autonomy in running innovative new enterprises. Clayton M. Christensen and Michael Overdorf claim that the only way for traditional companies to succeed in the virtual world is to “set up a completely independent organization and let that organization attack the parent. If you try to address this opportunity from inside the mainstream, the probability of success is zero.”

**Together or Separately? Options for Creating Innovative Start-Ups.**

	Independence	Integration
	<b>Brand</b>	
-	When your company’s current brand has a natural potential to become known on the Web	+
+	When the aim of your activity in the virtual and real world is different clients and products	-
+	When you require different prices between the virtual and real world to maintain a competitive advantage	-
	<b>Management</b>	
+	When your management staff have the skills and experiences to expand distribution channels to include the Internet	-
-	When your staff are ready to evaluate results taking into account the Internet’s features	+
+	When there is a channel conflict	-
+	When the Internet is a threat to the current business model	-
	<b>Operational Activity</b>	
-	When your current distribution system can be integrated with online distribution	+
-	When your IT system forms a solid basis for operational activity	+
+	When your operating systems guarantee a competitive advantage	-
	<b>Capital &amp; Other Resources</b>	
+	When there are problems with recruiting management staff in charge of your company’s online activity	-
+	When you need outside capital to finance the enterprise	-
+	When your success depends on distributors, suppliers and other partners	-

Based on Ranjaj Gulati, Jason Garino, Get the Right Mix of Bricks and Clicks, Harvard Business Review, May-June 2000.

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Towards the end of 1990s, when the Internet rush was in full swing, no one carried out innovative projects within traditional companies anymore. They were separate, organisationally and legally. It was a common practice to take over external companies in which similar projects had already been well underway. BRE Bank's case was more complicated. The Internet bank was part of a larger retail banking project, and MultiBank was supposed to be a modern brick-and-mortar institution.

We pressed on with our analysis to find an answer to one fundamental question: What route should we follow in creating a new firm as part of its parent – which functions and processes should remain common and which should be separate? While you are considering this, you might start asking yourself more detailed questions about the brand, pricing policy, management staff's skill set, dangers of mixing two business models, distribution systems in place, how advanced and important the IT systems are, what factors make both companies valuable, and the need to finance your new undertaking. You will find the answers in the table above. Extreme and general choices are best avoided. Each problem should be considered separately.

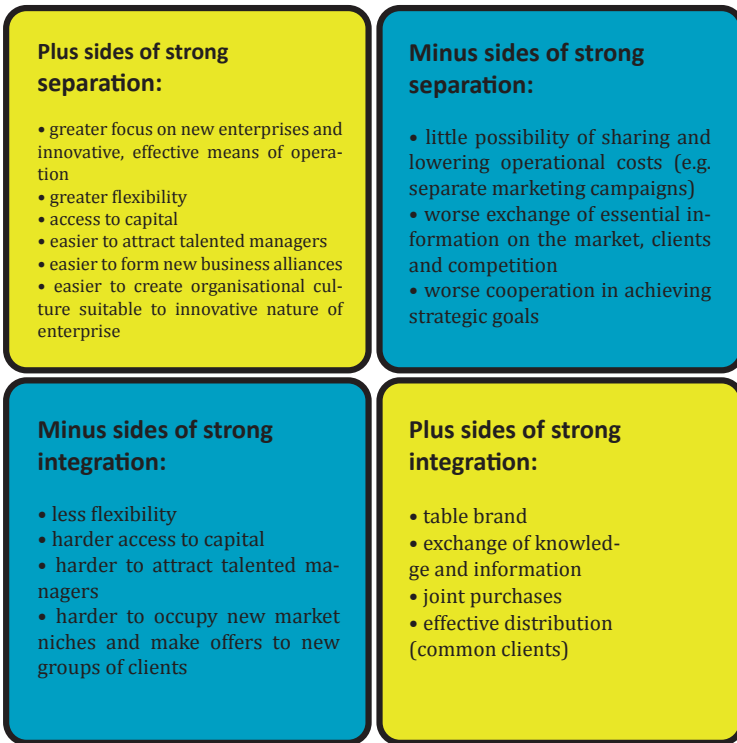
Whether a company with an entirely unrelated business model (e.g. an Internet project in a traditional company) should be integrated with or separated from its parent is not an "either/or" decision. Various businesses require different degrees of integration and separation. Therefore, each time pros and cons need to be weighed carefully..

It seemed that creating mBank would best be done outside the company. What we were dealing with was undoubtedly a disruptive innovation both in terms of technology and the business model. Successful team members had to challenge and break away the mold of a conservative – in the good sense of the word – worker of a corporate and investment bank. Corporate culture and values crucial to mBank's success were unlike those at its mother company.

Its target group of clients, products, services and means of communication were also meant to be different. And despite all those differences, we decided to run the project within BRE Bank while maintaining maximum independence, autonomy and respect for variety in all areas. Our road map to decision-making helped us ask the right questions and get the answers we needed.

The final balance of pros and cons determined not only that the mBank project would be executed as part of BRE Bank. More importantly, it also affected what would be novel about mBank and what it would borrow from its parent (see the graph: “Integration with BRE Bank and mBank’s Independence: Defining the Degree of Autonomy”).

### Together or Separately? Pros and Cons.



As a result, mBank opened up its own channels of communication with clients (an independent brand and logo), built its own headquarters (in Łódź, 92 miles from Warsaw where BRE Bank is located), and recruited its own staff (appointed from outside the company). At the same time, it was allied with BRE Bank associated by clients with conscientiousness and innovativeness. That gave us a cast-iron guarantee of stability in promotion and communica-



tion with the market and employees. mBank was backed by the highest management of BRE Bank. Not only was it about spiritual but also financial support. They were aware of the project's importance its parent.

### Integration with BRE Bank and mBank's Independence: Defining the Degree of Autonomy

Independence	Integration
<b>Brand</b>	
***	*
<p>New type of activity:</p> <ul style="list-style-type: none"> <li>• different client base</li> <li>• new products and services</li> </ul> <p>Different marketing:</p> <ul style="list-style-type: none"> <li>• aggressive pricing policy</li> <li>• guerrilla marketing</li> <li>• focus on electronic distribution channels</li> </ul>	<p>Supported by BRE Bank's brand to certain extent.</p> <p>Client's trust in BRE Bank helps conduct deposit operations. BRE Bank's reputation lends credibility to new venture.</p>
<b>Management</b>	
**	**
<p>Need for different organisational culture.</p> <p>Demand for talented, young people with fundamentally different qualifications.</p> <p>Greater risk and greater speed of decision-making.</p>	<p>A minimal degree of cooperation with BRE Bank required.</p> <ul style="list-style-type: none"> <li>• Parallel growth possible due to different areas of activity</li> <li>• Access to general IT resources</li> </ul>
<b>Operational Activity</b>	
**	*
<p>Building new system into integrated autonomous operating model.</p> <p>Distribution system based on new channels of distribution: Internet, Call Centre, external network.</p>	<p>Minimum degree of cooperation with BRE Bank required.</p> <p>Deploying human IT resources to build a new IT system.</p>
<b>Capital &amp; Other Resources</b>	
*	**
<p>Problems with recruitment and adequate motivation of talented people.</p>	<p>BRE Bank provides enough capital to finance enterprise</p> <p>Opportunity to use corporate contacts to set up new external partnerships.</p>

\*- number of asterisks indicates strength of argument in favour of either integration or independence.



The development of the enterprise within BRE Bank did not go against the rules of running such projects. In future, mBank was meant to gain independence following its launch on the stock market. I strongly believed mBank would be a success. I wanted it to grow independently in the long run. Only then would it take full advantage of its market

I strongly believed mBank would be a success. I wanted it to grow independently in the long run. Only then would it take full advantage of its market capabilities thanks to its uniqueness.

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capabilities thanks to its uniqueness. In order to introduce vital changes, a disruptive innovation needs to have some autonomy. Independence ensures growth and transition from a niche to stable mass market. The understanding that a company's value does not always equal the sum of its innovative parts was crucial to mBank's success. It was assumed that in the future mBank's IPO would prove more beneficial to BRE Bank than its development as an integral part. That approach directly impacted the architecture of the IT system for retail banking services at BRE Bank. The retail platform was built as two separate instances so that mBank's future separation would cause no technical problems.

I was leading the project to put BRE Bank on the retail banking market. And I was mBank's boss. The running of the project and the building of Multi-Bank were happening side by side. For that reason, all critical areas of management were a déjà vu experience for me. As a management board member of a large corporate bank, I regularly encountered people and ways of organising a company that were nothing like those at mBank. mBank was also markedly different from the other retail project – MultiBank. With time, I became more and more convinced that mBank's would owe its final success not only to a great business idea but also people who are part of and co-create a unique organisational culture.

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## A Philosophy of Operation Reinforces a Disruptive Business Model

*It is more important to know who you are than where you are going.*

James C. Collins and Jerry I. Porras, Built to Last: Successful Habits of Visionary Companies

**Our** concept and operating strategy were developed with the help of Human Resources on the basis of the world's best examples. The vision, mission and business model of the new company were drawn up at quite an early stage and were present throughout their implementation. At first, they formed a rationale behind the project itself and grounds for BRE Bank's investment decisions. Later, they provided workers and partner firms with a stimulus for hard work. Knowing that we were a part of something, special did wonders for our morale. mBank's extraordinary character justified its existence in the eyes of its owner, workers and clients.

Giving shape to mBank's vision and mission straddled the boundary between artistic creation and rational analysis. It was a lengthy process. The vision was first presented as mBank's philosophy. I thought the term described better what the vision was supposed to mean to us. I briefly explained in writing what was essential to mBank, and what could make it attractive to clients. mBank's philosophy, which defines the main principles and aims of its activity, applies to this day and can be looked up on its website ([http://www.mbank.pl/o\\_nas/filozofia.html](http://www.mbank.pl/o_nas/filozofia.html)). At that time, it was in fact a completely new approach to banking. The bank's manifesto sounded like a call to arms:

### *mBank's Philosophy*

*Personal finance requires simple on-hand solutions. Products and services ought to create value for clients, make their life easier, and enable the realization of their individual plans and more so their dreams.*

*The development of human civilization on the verge of the 21st century creates the impression that time itself has accelerated. Physical barriers and limited access to information have ceased to be an issue. Progress*



*exerts a visible influence on people's lifestyles and the way businesses operate. The awareness that banks are there to serve clients and not vice versa is spreading throughout the world of finance. The new business model challenges the traditional canon of retail banking according to which higher quality of service equals higher price.*

#### *BRE BANK SA*

*decided to use available IT solutions to create a new business model when it was entering the market of banking services for individual clients. The model is revolutionary. Its main advantage is providing sought-after products via remote distribution channels – landlines, mobile phones, the PC and WAP Internet service – at better prices than those offered on the market to date. This model of banking services eliminates the need for expensive local branches. Clients ought to benefit from choosing such cost-effective services, which should reflect how much money a bank has been able to save. Adhering to this principle, BRE Bank SA created mBank which offers its clients the ever more appreciated freedom, independence and maximum benefit, all at the same time.*

*mBank's main aim is to provide products and financial services that clients really need. We do not promise to offer everything that is available in the world of finance. But what we do guarantee is the highest quality, best prices and practical usefulness of our products.*

*Our Clients can expect mBank:*

- *to offer an exceptionally high interest rate on eMAX savings account*
- *to guarantee great interest rate conditions on funds deposited in eKON-TO saving/checking account*
- *not to charge any fees for maintaining savings and personal accounts, and withdrawing money from a chosen ATM network*
- *to issue basic VISA Electron cards free of charge*
- *never to mislead them with a complicated fee and commission system*
- *to be available 24/7 from anywhere in the world*
- *to employ a team of dedicated people whose most important task is to serve them.*

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*Too good to be true?*

*Whoever becomes our Client will soon realise that their relationship with a bank can be convenient, straightforward and beneficial beyond anything they have experienced before.*

*mBank is creating future today. Is there any other bank like that?*

The mission statement in its final form was completed sometime after mBank had been opened. It was put more succinctly and reflected what was most important and distinct about the company, that is “Maximum benefit and convenience in personal finance”. That philosophy guided us from the start of the project and offered answers to a few basic business questions: For whom? How? What sets us apart from our competition? What do we want to achieve? How do we foster relations inside and outside the company?

mBank’s vision and mission were written down and repeated ad nauseam on different occasions. By going over them again and again we made sure we did not stray from the desired path. It also gave us a frequent opportunity to question them once they turned out to be out of date in some ways.

We created a business model of a bank in which the most advantageous price, maximum convenience and security in managing money would be the core values. Reducing the costs of client service made it possible. We decided to give up the idea of traditional local branches, and put all our eggs in one basket, that is e-banking.

When preparing mBank’s business model, we knowingly broke the long-established canon of retail banking according to which higher quality entails higher price. Our initial plan assumed creating only a limited number of innovative products and financial services. We wanted to make our offer easily

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**When preparing mBank’s business model, we knowingly broke the long-established canon of retail banking according to which higher quality entails higher price.**

understandable for the client. Even though it was limited, we had the ambition to attract a large number of clients by meeting their financial needs. We felt that if you can create universal products and services that perfectly satisfy a given demand, there is no point in multiplying them.

## Low-Cost Banking Founded on New Technology

**Our** offer featured the most essential, highest quality and best-priced products on the market. The starting point for preparing our product range was specifying the benefits of holding an account with mBank.

What distinguished our offer was:

- ease of managing finances,
- readily understandable terms and conditions,
- attractive prices – high interest rate regardless of the amount deposited
- no fees and commission usually charged by banks,
- round-the-clock access to money via electronic channels instead of long queues,
- no regular payments required,
- no minimum deposit,
- free-of-charge basic VISA Electron cards for account holders and authorized users,
- card payment and cash withdrawal in Euronet ATM network.

Originally, our offer included only two, but unusually attractive, products. The most important one, soon to revolutionize the Polish banking market, was eKONTO personal account. Our idea was for the account to become the centre of our clients' financial world, from which they could manage their savings, credit and investments, even those they might have at other banks. Its functionality and low cost were unprecedented. No bank could even come close to the quality of our offer. What is more, our customers could expect:

- 0 PLN of fees and commission for holding the account
- 0 PLN for transfers
- 0 PLN for card issuance
- several times higher interest rate than that offered by our competitors.

The other winning product promising to out-strip our rivals was eMAX – a modern instant access savings account. It provided maximum benefit, convenience and freedom to manage money. What mBank proposed was groundbreaking. The account features included:

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**Our idea was for the account to become the centre of our clients' financial world, from which they could manage their savings, credit and investments, even those they might have at other banks.**

- 
- Interest rate comparable to time deposits which generally offer higher rates;
  - Interest on every zloty, no minimum opening amount or balance;
  - A free-of-charge payment card makes independent money management a reality. Money can be used freely when purchasing products or services, and cash can be withdrawn cost-free from ATMs.

mBank's initial opening date was 11th November, 2000, the National Independence Day. Launching the bank on the public holiday that commemorates the restoration of Poland's sovereignty after 123 years of partition had a symbolic dimension. mBank wanted to show that it was always available, operated 24/7/365 and gave its customers total freedom to use their money wherever and whenever it suited them best. A 150-strong team worked night and day for everything to be ready on schedule. The day before the launch, BRE Bank's Management Board started to fret. They ordered to extend the tests of operational readiness for another two weeks. The result of an earlier test was entirely satisfactory. Its aim was to make sure whether all business operations could be carried out using ALTAMIRA IT system, and whether internal and external interfaces functioned correctly. Even though some errors were detected, they were eliminated straightaway. The project was kept secret, so a two week's delay made no difference. But we barely managed to stop commercials from being broadcast on the main TV channels.

## Enter the Dragon

**Rumours** can spread like wildfire across the market. We waited impatiently for the opening day. It turned out the delay was for the better. The news about mBank had travelled at lightning speed first on the Web, among business journalists and on the banking market. A discussion forum on banking created in 1998 – pl.biznes.banki – was constantly scrutinized by bankers and journalists. Both groups of professionals found it an invaluable source of first-hand information on the economy. Bankers could learn about their mistakes from dissatisfied customers who were au fait with the world of finance. And journalists would scour it looking for news which, from time to time, made the headlines. A leak of information about mBank was all it took

to provoke a deluge of discussion among Internet users.

A press conference was held on Friday of 24th November. Plans to open a brand new Internet bank at the coming weekend were announced. Some journalists later claimed that mBank would be launched no sooner than Monday as Saturday and Sunday are non-working days in Poland. They were sceptical about our business model. Our offer, however, caused quite a stir. Our eMax account offered as high as 16.5 per cent interest on deposits which could be accessed instantly. It was a sky-scraping rate. In comparison, PKO BP's savings book offered only 7.5 per cent. It was speculated to be a mere marketing trick designed to attract attention. The message was a hard one to convey. People were used to conventional ways of thinking about business, perceiving growth as a gradual process. On the other hand, mBank demolished the barrier of high costs and, together with it, the traditional brick-and-mortar institution.

User-friendly technology ensured that clients no longer had to depend on an army of advisors working in numerous branches. If you can make use of it, it enables you to reduce expenditure and increase the quality of your products. Our partner-like approach meant that we eagerly shared the money we saved with customers. We could offer them better product prices while still maintaining our competitive advantage over traditional banks. A calculator featured on mBank's website gave an exact figure of how much clients could earn and save thanks to our personal account as opposed to traditional banks. It was quipped in the project team that even grannies would learn how to use the Internet in order to save their money with mBank. eKonto also appeared shockingly attractive. In addition to an interest rate of 15.6 per cent compared to just 3-6 per cent at other banks, clients had to pay neither fees nor commission for holding the account. It came as no surprise then that both analysts and journalists agreed with us that the offer was a revolution not so much in Internet service provision as primarily in competitive pricing.

No matter how attractive mBank's interest rates on deposits would be, the real benchmark – WIBID (Warsaw Interbank Bid Rate) – or the rate at which banks were willing to borrow from other banks equalled

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**It was quipped in the project team that even grannies would learn how to use the Internet in order to save their money with mBank.**



19.36% at that time (27th November 2000). It meant that mBank, if worst came to worst, would earn as much as 286 bp (basis points) on its clients' deposits, that is, nearly 3 percentage points! It shows how consumed by greed banks were. With no price competition, they earned several times more.

eKONTO 15,5 proc.; eMAX 16,5 proc.

# Wirtualny mBank rewolucją na rynku detalicznym

## mBank - wejście smoka

OFERTA BRE BANKU MOŻE BYĆ NOWĄ JAKOŚCIĄ NA POLSKIM RYNKU DETALICZNYM

■ **Wysokie oprocentowanie i brak wielu opłat są głównymi zaletami**

## Pierwszy mBank działający tylko w świecie wirtualnym

Wysokie oprocentowanie i brak części prowizji to niewątpliwie jedno z największych zalet tej ofer-

**W** poniedziałek pierwsi klienci będą mogli skorzystać z usług jedynego w Polsce całkowicie wirtualnego banku — mBanku.

*The information in the newspaper reads (from the top):*

eKONTO 15.5 per cent; eMAX 16.5 per cent

Virtual mBank Ready to Shake up the Retail Market

mBank - Enter the Dragon

BRE Bank's offer is a promise of new quality on the Polish retail market

High interest rates and few fees are its main advantages

The First mBank to Operate in the Virtual World Only

*Right column:* This Monday, Poland's only fully virtual bank - mBank - will start serving clients.

*Left column:* High interest rates and little commission are without doubt some of the greatest advantages offered by mBank.

The night of 25th November was a memorable one. Many online conversations about mBank that night were tinged with a mixture of uncertainty and excitement keenly felt by the project's creators gathered on the 9th floor of a former textile factory in Łódź. There they looked fixedly at their monitors unable to believe that right in front of their eyes their dreams were coming true.

Am I the only one lying in wait for 12 am? Ladies and Gentlemen!

> Stay alert! After all, Sunday is Sunday and Sunday begins in

> 52 minutes :) How nice it would be to slag them off in papers if they're not ready

> at 12 am:) We'll see if they REALLY understand what the Internet's all about.

> Krzysiek Kowalski

,ll be there ....

Sceptic

PS. Have my doubts about that launch. Bet they're keeping their fingers crossed that folks are asleep. Anyway, the bank will start operating once all the documents are ready, that means, in several weeks.

So, only 1 min 28 secs left :) who will be the first one? :))))))

Krzysiek Kowalski

Of course, it won't be up and running at midnight.

But just in case I'm checking 08013 mBank :-)

-- Piotr J. Ochwal

Update us at midnight, Piotr, will you? :)

I'll give their website a look-see :)))

KC

At 00.00 sharp I pressed ENTER on a computer locked safely away in an IT Centre in 123 Piotrowska Street, Łódź. A firewall sealing [www.mbank.com.pl](http://www.mbank.com.pl) away from the Internet had now been pulled down. A monitoring system sho-

wed that the first guests were already waiting for the clock to strike midnight impatient to visit the website of Poland's first virtual bank. The hour chimed and immediately pl.biznes.banki brimmed with enthusiasm.

It works!

Sceptic

O ye of little faith :)))))) Damn! They've beaten me to it by a couple of minutes :))

Krzysiek Kowalski

I quickly made my way to the Call Centre expecting calls from our first clients eager to set up an account as soon as possible. And I was not mistaken. A hasty glance at the Supervisor's switchboard was enough to notice that a queue of callers had already formed. Meanwhile, our advisors were carefully explaining the nuances of opening an Internet account. Unfortunately, it requires identifying the client or an e-signature which back then was at best a figment of imagination. Clients could fill in an online application form, but documents had to be sent by post for signature's sake. Nowadays you can count on a courier to get the job done, but this option did not exist at that time. I eavesdropped on one of the calls keen to hear clients being as excited as we were. When a printer coughed up the first customer's agreement, there could be no more doubts – mBank started operating. The sound of champagne corks popping marked the moment. We fell into each other's arms. Tears welled up in our eyes. The impossible had come true.

Re: Sweet dreams

OK., lads. Going to bed.

Free-of-charge account – that's good – but this night-time chit-chat will cost me

at least a several month's worth of commission :-)

And because of all the commotion I rang Tepsa instead of the cheaper Internetia :-

(But why am I complaining? After all, we're making history of Polish banking here. :-)

And to all of you reading this later. You should regret not having taken part in this

great event on-line! :-)

I wish mBank all the very best.

Keep it up... and don't stop working!

And maybe we'll hear from you here at pl.biznes.banki, eh? :-)

Before going to bed, I reloaded their homepage a couple of times to look at all the photos entitled "mBank – our faces".

At least now I know whom I'm dealing with.

BTW – the bearded one looks like the boss to me :-)

Author: gral@iname.com (Piotr Gralak)

Date: 26/11/2000 01:34:14

Next day, on Sunday, some web users realised they had indeed slept through the historic moment.

Re: Sweet dreams

Guys, you must be crazy ;-)

I wake up in the morning and feel as if I had been asleep for a couple of years.

Did I make the horrible mistake of sleeping instead of visiting a bank?!

Shame. I'm setting up an account right away. Better late than never :-)

Wojtek Frabinski wojtekfr@alpha.net.pl

Date: 26/11/2000 10:22:58

An hour and a half after opening his account, Wojtek Frabiński, who in the future was to become a member of mBank's Customers' Council and even later MutliBank's employee – made a "live" report of what was going on. Here it is:

RE: First Impressions

Guess what I'm writing about :-)

I never thought there'd come a time (certainly not now) when I'd be opening a bank account

sitting in my own armchair on a Sunday.

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- The charge for a call's the same as for a local one. (pity it's not just 1 impulse :-(). Luckily, I pay a flat rate for my Internet.  
+ the service is competent and feminine ;-)  
+ the whole registration went smoothly, they called me back on my mobile just after a few minutes  
(and they said 5-10 minutes. liars :-)))  
- they say they're not responsible for transactions which you make using your PIN number - they assume you're the only one to know it. :( I barely stopped myself from telling them a story  
about those nice guys who "kindly" ;- ) ask you for your PIN.  
I didn't want my new bank to take a dislike to me like some do... I'm not pointing any fingers. ;-)  
- they couldn't tell me what conditions apply for VISA Gold. I reckon these must be extreme but, still, I'm curious.  
+ You can add up to 10 new transfers for free. Yay! :-)))  
- after providing your password you need to click on "login" - "enter" isn't working. I hope they'll correct this.  
- additional transfers are rather expensive. They strongly suggest holding another account just for those. But the 10 free transfers will be enough to pay most of your bills.  
- no plans to introduce debit and time deposits  
- I'm not too clear on item no. 20. At any rate, it's not a token. More likely a list of one-time passwords. But we'll have to wait for those.  
+ everything works before you can say Jack Robinson. Simply amazing. You can already deposit your money. You can start withdrawing once you do the paperwork.

All in all, it's awesome. We'll see whether it stays that way.  
Wojtek Frabinski ICQ 50443653 wojtekfr@alpha.net.pl  
Date: 26/11/2000.11:44:22

That thrilling night and the weeks that followed made us realize that we had created something special for the rapidly growing Internet community. It was the first time I understood that working for an Internet bank is a challenge like no other: “It’s like living in a glass house with spotlights turned on it 24/7. Errors are evident straightaway and punished immediately. No one wants to hear any excuses. But everyone wants to know what’s new and what’s next.”

At that time, all manner of discussion threads on banks, their products and quality of service could be found at [pl.biznes.banki](http://pl.biznes.banki). It was also a perfect forum for those seeking help and practical advice on individual problems. For a dozen or so months the forum had been dominated by mBank to such an extent that 25 per cent of the posts were related to it in one way or another. There is no escaping the fact that our project drew valid praise but also well founded criticism.



# A Revolution Begins



*It's just the beginning of a revolution that will be long-lasting and universal.*

Bill Gates on the cyber economy

## It's Caught on! A Short Tale of How to Double the Market in Four Months

*"A revolution in Polish Banking began the night from 25th to 26th November, 2000. The pl.biznes.banki discussion forum was buzzing with activity. That was the night mBank – the first virtual bank – was to be launched. Internet users were exchanging views on how soon it would be possible to set up an account. Sceptics doubted whether it would get off the ground. After all, it was the night from Saturday to Sunday... Some kept checking a web address they thought would become mBank's site," relates Piotr J. Ochwał, a keen Internet user and employee at the financial department of Netia Telekom SA. "At midnight there was finally information about mBank. I click on a link to open an account. Hold on! The form I'm being asked to fill in is http:// not https://, which means my data wouldn't be encrypted. So I change my mind and decide to open it by phone. The operator sounds slightly nervous. It's his first client. I tell him I'd like to set up an account and I give the relevant information. After just five minutes my contract comes out of the printer. It's a quarter past midnight. Using my new password I log in. The account's already working".*

Piotr Ochwał, mBank's first client

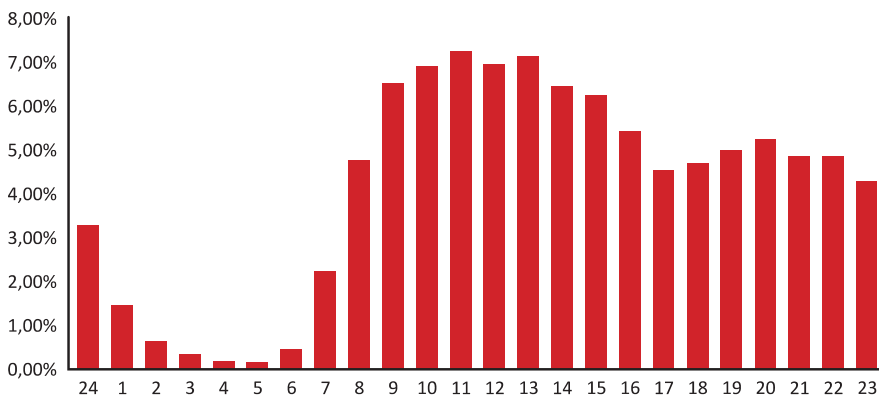
**Since** its activation the number of visitors to mBank's website had been rising exponentially with every hour until three days later when [www.mbank.com.pl](http://www.mbank.com.pl)



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was completely blocked. We learnt about that from our potential clients who grew impatient, and started calling the mLine as well as posting messages on the pl.biznes.banki discussion forum. The white-knuckle ride had begun, as one of our colleagues would put it. At the crisis management team meeting the head of the IT department, Mariusz Zarzycki, could only say, “I can’t help it”. In reality, mBank’s website was still available, but the navigation was rendered sluggish beyond human patience. At least beyond mine. I would simply walk away from my computer when the site took longer than one minute to load. Actions were taken to increase flow capacity by several times. However, achieving that demanded a significant investment in the local infrastructure of the Polish Telecom. Not only was it costly, but also required at least two weeks to be completed.

#### A distribution of the number of visits to our website in a 24-hour period



We immediately increased the number of staff of mLine, our Call Centre, but that did not help much. Nearly all those intrigued by rumours were logging onto mBank’s website which from day one displayed every feature of an Internet product. In many online banks around the world to 70 per cent of clients registered their accounts through call centres which back then were considered “safer”. What made mBank remarkable was the fact that the majority of its clients chose to apply online rather than by phone. Information travels at the speed of light on the web. Also, our billboards announced that the first virtual



bank had been opened. The siege lasted until the end of January. Despite the difficulties with access, our website had been visited 126 thousand times in the first two weeks. This amounts to an average of 6000 visitors a day.

An Internet bank is a truly global and universal institution. It is available at all times and in all places, at any hour of the day or night and from everywhere around the Globe. According to the information we collected, even in its infancy, mBank had at least several dozen visitors to its website from 2 to 5 am. Working in a company with glass walls, constantly inspected by the critical eye of its customers, was a wholly different experience for those who had been employed in banks available to the public only at fixed times. For some mysterious reason, the opening hours of conventional banks usually coincide with their customers' working hours. Banks are also closed on non-working days. So, the unfortunate client is left with no choice but to breach discipline and sneak off from work to visit their local branch in an aura of conspiracy.

Back then, not every bank had a call centre which would be available at all hours. Most of them did not operate at nights and on non-working days. Such was the reigning model of customer service. And to think that so many snappy slogans were coined to make clients believe they were the centre of attention. The first days of mBank's existence on the market clearly showed that we were dealing with a distinct operating model which required a different approach to the ones we were familiar with. The most important change was introducing a twenty-four-hour work day. It was not only about 24/7/365 availability but also the complete transformation of how the company was to be run. There are companies that operate round the clock but these are more often than not industrial factories whose production processes are not disrupted by the need to maintain contact with the end user. These can also be businesses which provide limited service, for example, petrol stations. The possibility of visiting a bank by Internet or phone at any chosen moment means that it must be prepared at all times to admit visitors. Technology answers many problems but not all. There need to be people backstage who are ready to offer help

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**An Internet bank is a truly global and universal institution. It is available at all times and in all places, at any hour of the day or night and from everywhere around the Globe.**

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You cannot simply put off problems till later. What matters is the here and now.

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with simple and complicated matters. You cannot simply put off problems till later. What matters is the here and now. Being in constant readiness to face any operational obstacle, changes your attitude to management; key managers must always

be contactable. You cannot simply switch off your phone and forget about your duties. Sometimes you even find yourself daydreaming about your work.

In November 2000, Internet banking in Poland was still getting off the ground. Only WBK and Handlobank – a new branch of Bank Handlowy – were encouraging their clients to use the Internet to do banking. In fact, all they offered was Web access to an already existing account rather than a special Internet account. That is why the price was the same as for a conventional one with a sole exception of cheaper Internet transfers. Most banks would even charge extra for remote access.

It is hardly a surprise then there was a shortage of online accounts in Poland. Towards the end of November there were only 39,800 of them. The leader in this field was WBK which had 14,000 such accounts and the runner-up was the dynamically growing BPH with 9,000. Bank Pekao SA was in the third place, and had been providing Internet banking services for the longest period of time, namely for more than two years. It offered online banking through its Internet branch, which I had initiated. The misleadingly named Telepekao24 offered only 7,800 accounts. The reason why so few Poles did online banking, and why large banks found it so hard to penetrate the client base was their unattractive offer which created no added value for the customer. The example of mBank shows that a different approach had to and could be adopted, bearing in mind that Internet users are naturally sensitive to the issue of price as most services on the web are offered free of charge.

In its first two weeks, mBank opened 5,647 accounts. Of that, 2,903 were eMax and 2,744 eKonto accounts. At that early stage the savings account from which funds could be withdrawn instantly proved more popular of the two. But that was soon to change in favour of eKonto which gave the client more freedom in their everyday management of money. At the end of 2000, mBank had opened 13,800 and was now ranked second among the largest Polish In-

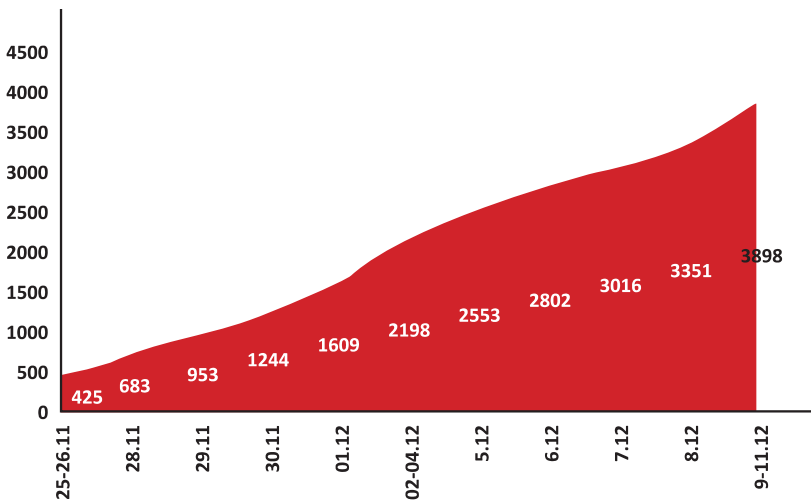


ternet banks. That figure had gone up to 50,000 at the start of March 2001, four months since mBank's launch. Over 40,000 clients were doing online banking with us, which was more than the number of customers present on the market when mBank had been opened.

Customers would deposit money as soon as they received their account numbers, long before the burdensome procedure of signing the agreement and account activation was over. Our concerns that people might distrust a new Internet bank proved to be unfounded. Some were worried that clients might wrongly believe that an Internet bank equalled virtual money. However, the public's reaction was unexpectedly positive, even enthusiastic. People were applying to mBank in swarms, rushing to transfer their money to us, often everything they possessed. They were attracted by our high interest rate and the freedom to manage money. In just a couple of days, mBank had accumulated 4,288.7 thousand zlotys.

The average balance for all accounts with a balance above zero was 5.48 thousand zlotys. Our client's average balance equalled 6.18 thousand zlotys, which was more than twice higher than at other banks.

**A total number of registered clients between 26.11.2000 and 11.12.2000**



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During the first two weeks the number of newly opened Internet accounts and registered customers reached 10 per cent of the banking market size prior to mBank's launch.

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During the first two weeks the number of newly opened Internet accounts and registered customers reached 10 per cent of the banking market size prior to mBank's launch. After one month the figure was 25 per cent, and the entire market was twice its previous size. It became clear that a new era of Polish online banking had begun in earnest. mBank's business model had

created a category all of its own and plotted a new direction for growth.

A renowned American investment bank, Schroeder Salomon Smith Barney, showed lively interest in how mBank was faring. In January 2000, it initiated a periodic news bulletin featuring information on BRE Bank's activity. The first report dealt with our new retail strategy, and it proposed that mBank was "EGG with surplus margins". Simon Nellis, Schroeder Salomon Smith Barney's bank analyst, wrote:

„We are staggered by the success of mBank – Poland's first retail e-bank with no branches which after six weeks of operation has managed to attract 18,700 customers by opening 500-700 new accounts every day, and attracts more deposits per account than was assumed. However, in our opinion such fast pace of growth cannot be sustained for long and will drop down to 200-300 accounts towards the end of this year. In spite of that, we believe that the bank will attract 126,000 clients during this period. The exceptionally rapid increase in on-line applications is astonishing, and raises doubts. The low penetration of the Internet in Poland will cause the acquisition of new customers to slow down after those who have Internet access submit their applications. Other Polish banks which offer Internet banking also noted a sharp increase in the number of clients during the same period (Pekao 10,000 customers, WBK c. 30,000)<sup>1</sup>”.

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<sup>1</sup> Translated from Polish: Simon Nellis, "BRE Bank a Closer Look at the Retail Strategy", Schroeder Salomon Smith Barney „Emerging Markets Report” 19.01.2000.

## A New Identity of a Bank in the Information Age: Freedom, Maximum Benefit and Convenience

It was clear from the start that our aim was not to create yet another bank. We were strongly convinced that we would change the world of banking ever since the decision had been made to create a new Internet bank. We were aware of the dramatic shifts in business practices caused by the technological revolution. We believed that the Information Age defined standards for the New Economy. That awareness and belief imbued us with a sense of mission that we would open a fresh chapter in retail banking. mBank's vision and philosophy were evident in the day-to-day work of the team responsible for developing products, technological solutions and ways to serve clients according to accepted values. All that comprised the positive identity of mBank. However it still needed to be presented to the world in an eye-catching way. The web enables interaction to some extent, but also limits the ways in which relations among people can be shaped. Genuine as well as lucid internal and external communication was our *modus operandi*. Thanks to such an approach, information becomes a basis for sound decision-making.

When a new market is created, spontaneous demand cannot be counted on. The public is not yet aware of its need for a new product or service. Market research based on opinion polls and focus groups does not make much sense. People will not express their desire to have a product they know very little about. That is precisely why disruptive innovation is largely a matter of intuition, faith and determination of its creators. A person has to get to know the product first, and their positive experience of it will later earn their admiration. Only then can it get a great wow effect. It became my obsession to make interaction with our bank enjoyable for our clients, which was not an easy thing to do. It was not enough simply to eliminate the well-known mistakes of conventional banks which make their clients' lives a misery. The world of Internet banking is a different kettle of fish and calls for out-of-the-box solutions. I am horrified by all those flyers written in a language

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The web enables interaction to some extent, but also limits the ways in which relations among people can be shaped.

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which means a lot to their authors but very little to anyone else. No wonder it is a truth universally acknowledged among bankers that a client must be in want of a financial advisor. Let clients come to their nearest branch so that “the complex nature of products tailored to their needs” can be explicated, and they shall be enlightened.

I decided that all information about mBank and its products addressed to customers would be edited in a radically different way than how it was commonly done. Informational materials were first prepared by an expert in the field. Next, a webmaster without the foggiest idea about banking would refashion the text to make it understandable to all and sundry. Eventually, I would look through the final version to approve it before it was published in the real and virtual world. That is how both the 1.0 version of mBank’s website and its paper publications were created. Wojtek Bolanowski – the key person in the process – was recommended to me as a novice fairy tale writer. Indeed, the scholarly-looking young man brought a proof of his artistry to a meeting with me – “16 Fables for Adults”. You can imagine how surprised I was to learn that the shy youthful person sitting in front of me was in fact a medical doctor and a graduate of theology. The promising paediatrician felt so frustrated by the prospect of beating his head against a brick wall of the Polish health service that he decided to start anew. Having read his book, at our following meeting I suggested to him that he would be welcome to join our team as long as he continued to work in his profession. During the following years he lectured on anatomy in English at the Medical University of Łódź, and took part in mBank’s crucial projects. He would leave work later than I did and despite that he still managed to be very active on discussion forums on the Web. When did he sleep? I do not know.

The concept of mBank’s financial portal, that is [www.mbank.com.pl](http://www.mbank.com.pl), was prepared independently by the project team. The information and transaction side of the project was carried out in cooperation with AMG and Andersen Consulting (Accenture). Constant modifications of original ideas, analyses of countless examples, numerous comments and the engagement of various team members led the portal to be instantly recognized as the best website among Polish banks and other financial institutions.

When considering how the website should be designed we strove to follow the world's best examples. We attempted to make each element of our portal fit our chosen business concept. The website was primarily supposed to:

- load quickly,
  - attract attention immediately,
  - carry across the most important information on what made our offer special,
  - enable the purchase of products – an easy way to start setting up an account,
  - ensure security of transactions and enable management of deposited funds,
- ... and to pursue those aims in a way that would be friendly, non-problematic and obvious at first glance. A coherent website structure, straightforward and easy to understand content as well as an unusual design were the key elements. Graphics were simple, functional, highly economical, and without needless background. The design lent identity and individuality to the website by clearly displaying the extraordinary logo and employees' photos. Our "click twice" rule meant that any element of the portal could be accessed by a double-click.





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The website fulfilled its role. Its message was heard over the babel of cyberspace.

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Each page view contained a photo of one of the workers to convey that the bank was made up of people, not machines, even though to an outsider it must have seemed as if everything was happening by itself. Our work filled us with

pride. The website fulfilled its role. Its message was heard over the babel of cyberspace. It managed to conquer concerns and prejudice, and many of those who visited [www.mbank.com.pl](http://www.mbank.com.pl) became our clients.

For Internet companies at their early stage of development commercials in the real world are more significant than presence on the web is for traditional firms. It posed a double challenge for mBank. Being part of BRE Bank, it aspired to create a new business model which would reject the way its parent operated. There was no direct conflict of interest as such, but BRE Bank had to respect the contrasting corporate culture and unconventional methods of its Internet division. mBank's advertising campaign was the first and most important test of BRE Bank's tolerance for *the Other*. That is where the foundations for mBank's identity were being laid. How mBank would be received by the public depended on that. There was no room for compromise if mBank wanted to stay faithful to the rules of the Web and the New Economy.

Our offer was a call to arms to win over the hearts of a new generation of clients; we were armed with low prices and convenience for those who would choose to bank online. The description of mBank, in a form of a letter to a new generation of customers, representatives of the Internet community, stated that: *Our dream was to create products that would completely change the standards of offers for individual customers – customers who do not want to be doomed to the rigid rules imposed by run-of-the-mill banks. All our efforts focused on making that dream come true. Now we can offer you the bank of our dreams. Our bank.* The main motto during the press conference at which we introduced mBank just moments before its launch was the following message: *mBank is a **revolution** in personal finance and a **breakthrough** on the retail banking market.* The place mBank held on the financial market at that time is best illustrated by the following maritime metaphor from one of the creators of the unbeatable offer: *The Internet is a vast ocean of freedom. Internet users*

*choose ports which they keenly visit and single out those that others should be warned about. mBank is a welcoming harbour for anyone who has a high regard for reliability, independence and convenience.* If I can allow myself a more terrestrial figure of speech, it was about creating a business space on a territory that had all the makings of a “promised land”. That could be achieved by changing the rules of the game on the traditional banking market. The Internet and telephone would replace branches. There would be no fees or commission for holding an account. Internet transactions would take the place of profiteering charges made by ordinary banks. Interest rates would be twice higher than anywhere else. Simple products would increase freedom and convenience. Last but not least, customers would be freed from the tangles of bureaucracy, and treated as partners.

Our offer of basic products contradicted the long-established business logic, and was the key to open the doors of a new market. mBank did not offer better solutions but completely different ones. The same applied to communication. We assumed that the client was independent and smart enough to make the right decisions after getting all essential information. Instead of stupefying and tortuous marketing, we proposed something different: an advertising campaign that informed the customer and raised their awareness.

The information campaign at the time of mBank’s opening was a test of how effectively we would satisfy our objectives. The main difficulty arose at the very beginning of our cooperation with a media agency which had been chosen after a long process of selection. In our briefing, we made it clear how the task should be approached. We stressed that our top priority was reliable information and that no brainwashing would be tolerated. NoS/BBDO initially did not treat that seriously. They believed that our mission statement – “maximum benefit and convenience – was just another advertising slogan. Marketing experts understood their task to consist in causing a furore or, better still, an atmosphere of scandal and sensation. Business reality and illusion clashed for the first time. Fortunately, the people we were dealing with had imagina-

Our offer of basic products contradicted the long-established business logic, and was the key to open the doors of a new market. mBank did not offer better solutions but completely different ones.

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tion so it did not take them long to see that our values were not for show but very real, even though our bank was virtual. What is more, the artists soon became our allies because they believed in the revolution that was to come. The task was complicated. We coped on our own on the web with the help of [www.mbank.com.pl](http://www.mbank.com.pl) and vast cooperation with many portals which accepted us as “one of them”. Word of mouth played its part too. Sensational information would appear on news websites. A newsletter repeatedly sent out to many email account holders informing them about mBank’s launch must have attracted the attention of future clients. Nevertheless, it was the campaign in the real world that played the key role.

The main objectives of our opening campaign were:

- to construct mBank’s brand image in opposition to traditional banking;
- to make our forceful and interest-arousing message reach the target audience;
- to present our business model and make mBank stand out from the competition: to create a brand new category for the first virtual bank.

Television was the most important means of reaching our clients. TV commercials were broadcast on all the main Polish channels as well as lesser thematic ones. The 30-second-long advertising spot features a comedic Batman “brainwashing his client” in an office of a traditional bank. “There’s no clowning around at our bank” – the voice-over says at the end – “we treat our clients and their money seriously”. In the following two spots, 10 seconds were enough to convey enough information about eMax and eKonto to make our competitors shake in their shoes. Until then, banks had been advertising their products as better than those of their competition saying, “it should be like that at every

bank”. mBank’s message was different: Our products are absolutely the best, there is no other bank like ours.

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Only a clown would go to a bank, pay commission and accept a twice lower interest rate when they could set up an account for free and enjoy double interest without even leaving their home.

The press campaign hit the nail on the head. It depicted the essence of our business model in a tongue-and-cheek way. Only a clown would go to a bank, pay commission and accept a twice lower interest rate when



they could set up an account for free and enjoy double interest without even leaving their home.

Through our advertising we wanted to show that mBank was in a category of its own, hence the acerbic, even mocking tone. The campaign built mBank's identity and made the extraordinary qualities of our offer apparent even at first glance.

Instead of saying that banks milk their clients of money, our advertisement simply stated: Our competition's interest rates are a farce.



To prove that things can indeed be different, mBank pointed to its incomparably high interest rate on eMax account and its great availability and freedom of managing money.



In the case of the personal account, our advertisement informed: Our competition's charges are a joke. There are no fees for eKonto at mBank and the interest rate is at least twice higher.

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The time of mBank's launch was favourable in many ways, not least due to a high, quasi-oligopolistic level of prices that gripped both banks and clients in its clutches impeding fast growth. Charges were levied on every banking operation. On the one hand interest rates were relatively low on deposits, but on the other they were extremely high on credits. For fear of inflation, the National Bank of Poland decided to hike up the value of the currency on the interbank market to nearly 20 per cent, which lasted several months. However, banks were not willing to pay their clients so much for their deposits offering as little as 5-12 per cent depending on maturity. Without going into the intricacies of mBank's financial model, it can be said, in short, that its ability to offer comparatively higher interest rates on deposits was a result of its low cost base.

Our prices were attractive to customers and lethal to competition. Under the circumstances, the difference between what we and other banks offered was all the more striking. The average interest rate for a personal account on the market was slightly above 7 per cent while mBank offered as much as 15.5 per cent. An instant access savings account was a long-forgotten product as banks wanted to tie their clients hand and foot with time deposits. Poland used to be a country where interest rates were low because, in general, our society was not affluent. The ratio of deposit savings held by Polish households to GDP was below 30 per cent, which was three times lower than in the EU member states. For people on low current incomes, the high interest rate on deposits and the freedom to withdraw and use their funds at any time were powerful incentives to save money. The instant access savings account which offered similar interest rates to time deposits perfectly matched the expectations of Polish customers. ING Direct owed its success in Canada to this solution. It was immediately implemented in the USA where it was received equally well. Across Poland, billboards blossomed with the cherry-red of mBank's advertising campaign. The time was on our side. Through a chain of circumstances the country's first Internet bank made its appearance at the right moment, with the right offer.

The advertisement reads:

The first virtual - mBank (part of BRE Bank SA)

Compare us with our competition

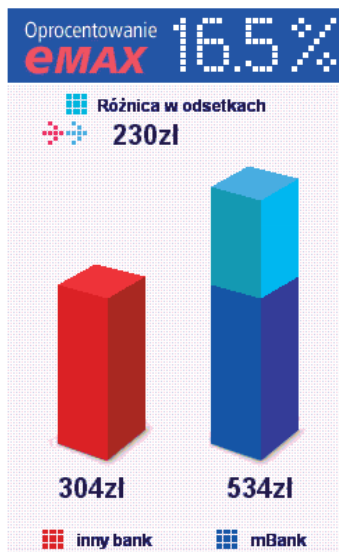
Right from the beginning, mBank understood the power of comparing products on the Web. The Internet marked a phenomenal rise in popularity once a browser had been introduced which enabled its users to search through websites for interesting content. A search often yields a bounty of glittering products. But are they gold? Standard products and services can be easily compared according to their price, quality and availability. Price comparers are becoming more and more popular in eCommerce. mBank was the first to introduce a price comparer to the Polish market in November 2000. It gave the client a chance to compare our two basic products with those available on the market. Their quantifiable advantage was displayed in a clear way. The

price comparer later became a target of criticism. Our rivals accused mBank and Multibank, which also introduced it, of unfair competition. In an attempt to justify their accusations, they claimed that it was nothing short of “comparative advertising”, which, by definition, makes it unfair. As a result, the matter had to be addressed by the Banking Ethics Commission operating within the Association of Polish Banks. It was no use trying to explain that comparing prices of products and services according

## Kalkulator

Porównaj korzyści jakie daje rachunek **eMAX** w **mBanku** z kontami oszczędnościowymi konkurencji.

<b>Kwota oszczędności w innym banku</b>	<b>Kwota oszczędności w mBanku</b>
<input type="text" value="3000"/>	<input type="text" value="3000"/>
<b>Rodzaj rachunku</b>	<b>Rodzaj rachunku</b>
<input type="text" value="ROR"/>	<input type="text" value="eMAX"/>
<b>Oprocentowanie</b>	<b>Oprocentowanie</b>
<input type="text" value="9.7"/> %	<input type="text" value="16.5"/> %
<b>Czas</b>	<b>Czas</b>
<input type="text" value="12"/> miesięcy	<input type="text" value="12"/> miesięcy
<input type="text" value="1"/> · <input type="text" value="2"/> · <input type="text" value="3"/> · <input type="text" value="6"/> · <input type="text" value="12"/> · <input type="text" value="36"/> (mies)	
<b>Odsetki w innym banku</b>	<b>Odsetki w mBanku</b>
<input type="text" value="304.29"/>	<input type="text" value="534.2"/>



to their price and other features is the inalienable right of the Internet user. Logical arguments were dismissed. Shockingly, BRE Bank received a reprimand for unethical conduct towards its competition. It was then that I decided to sell the software which powered the price comparer to Money.pl. The application “compare us with others” is still on our homepage but now is available as an external link.



# Long-Distance Sprint



*Systematic innovation is the purposeful and organized search for changes and the systematic analysis of opportunities such changes might offer for economic or social innovation.*

Peter Drucker

*The ultimate corporate balancing act: Cut back and grow. Trim down and build. Accomplish more, and do it in new areas, with fewer resources.*

Rosabeth Moss Kanter

## Quick off the Starting Blocks

**It** was not only intuition and deep faith in the future of the New Economy that led to mBank's launch on the market. More importantly, it was the result of the detailed Business Plan. Preparing it was a Herculean task. We faced hours of crafting development plans and solid financial projections. Could we at least fall back on examples of triumphs in Internet banking? No. It was a new field and such examples were scarce as was our experience. The only thing plentiful was uncertainty about the future which we had to predict. And ever since the Internet bubble had burst the future of new technology did not look bright.

"mBank's launch was seen on the market as an insensible move. It was believed the bank had no future. The words of the Chief Executive of Bank Pekao SA are the best illustration of that opinion. The Internet banking



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As the old saying goes, when you look at your feet while walking you will not trip, but you may not reach your destination.

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market is too shallow, he concluded. The number of potential users is too limited compared to necessary expenditure incurred by the bank. This means profit is delayed for far too long<sup>1</sup>.

mBank's project team saw the future differently. Their point of view was unique, and so was their attitude towards business. Their point of reference was not the here and now but tomorrow. The objective was to create a competitive advantage on the market in the future. That is why, the team focused on creating an offer that would take into account the rapid changes in lifestyle and economic environment. As the old saying goes, when you look at your feet while walking you will not trip, but you may not reach your destination. It is everyone's folly. Managers, journalists and politicians rarely look beyond the next quarter. Naturally, they like to mention it in discussions to show how intellectually mature their views are, but in reality they seldom treat it as an important criterion when making decisions.

The awareness of revolutionary changes in the society as well as the world economy had an impact on the preparation of the bank's operational model. The number of Internet users had increased so steeply that it could not go unnoticed. The Internet was just one step from becoming the customer's essential channel of communication with their bank. The influence of e-banking on the future of its older retail cousin was discussed at length at many conferences and meetings. It was not seen as a threat to the existing business model but rather as complementary to it. That is why Internet bank-

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That is why Internet banking was introduced in many places. More out of duty than passion. They did not want to be accused of negligence.

ing was introduced in many places. More out of duty than passion. They did not want to be accused of negligence. Little time and few resources were devoted to online banking – sharper focus was still on conventional ways

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<sup>1</sup> "History and Development of mBank", Michał Macierzyński, 21.08.2003. [http://euro.bankier.pl/edu/multiarticle.html?article\\_id=817689](http://euro.bankier.pl/edu/multiarticle.html?article_id=817689)

of operating. mBank was only the seventh bank to offer it. However, it made online banking its domain. It wanted to ride the crest of the tidal wave of Internet growth – that was its way to get to the top.

The enterprise meant the world for the people working at mBank. They threw themselves heart and soul into the project even though from time to time it meant sacrificing their personal lives. Soon after mBank’s launch, Internet banking engrossed everyone. We would discuss and verify and investigate the nuances of our business model for hours on hours on end. External companies were contracted to carry out simple but time-consuming quantitative analyses. mBank’s team did qualitative ones and was in charge of drawing final conclusions on the basis of which decisions were made. It was the team that forecast how the Internet banking market was going to change. mBank’s strategy was the result of those predictions. Our strategic think tank was comprised of people with different education and work experience. Suffice it to say that the pivotal roles in it were played by a medical doctor, lawyer, astrophysicist, anthropologist, cybernetician and foreign trade expert. Naturally, there were also representatives of economic sciences, but they merely made sure the general principles of banking trade were adhered to.

The project team envisaged a revolution. Its analysis showed that the Internet banking market would expand by four times just in 2001, and that was a safe estimate. According to a more optimistic version, in which we strongly believed, the increase would be tenfold. The following years would see the growth rate decline but it would still remain at an exceptionally high level of 30-60 per cent. In the horizon of four years, mBank’s forecast predicted a thirtyfold increase in the number of online bank accounts.

### Estimated number of accounts in Internet banks in Poland between 2001 and 2004 (in thousands)

Version	11.2000	01.2001	06.2001	12.2001	06.2002	12.2002	06.2003	12.2003	06.2004	12.2004
Optimistic	40	89	260	500	820	1200	1610	1950	2380	2650
Cautious	40	89	150	280	460	670	900	1130	1330	1480

Version Optimistic Cautious Source: mBank. Online Banking Growth in Poland: A Forecast. April 2001.

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The project team envisaged a revolution. Its analysis showed that the Internet banking market would expand by four times just in 2001, and that was a safe estimate.

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Other analysts did not agree with our predictions. In their opinion, the growth of Internet in Poland would be much slower and online banking would develop at a snail's pace. In a report published by SG Securities at the end of 2000 it was projected that the number of online bank accounts would reach only 1 million after four years.

"This is merely 2/3 of the number predicted in the cautious version of our business model, and only 38 per cent of our optimistic estimate. These discrepancies are primarily the result of the above-mentioned differences in the predicted growth of Internet access (SG Securities forecast approx. 9000 thousand Internet users at the end of 2004, our model forecasts 12000 thousand) and a higher RBV (**retail banking virtualization** – a quotient of the number of online banking accounts versus the overall number of personal bank accounts cited in our analysis)<sup>2</sup>".

Our projections stood in startling contrast to those of analysts, journalists and banking trade experts. Our business plan was criticized, greeted with disbelief and surrounded by controversy. While our competition's plans remained obscure, ours was widely discussed.

"Sceptics did not hide their views. They prophesied failure. At that time only 8 per cent of Poles were Internet users, and when mBank was launched there were just 53 thousand online bank accounts. The new bank was planning to attract three times more customers in one year.

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Our projections stood in startling contrast to those of analysts, journalists and banking trade experts.

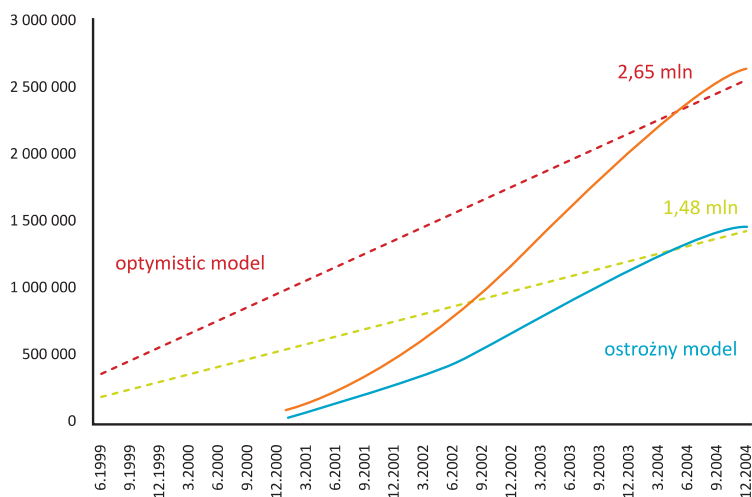
Considering how shocking from today's point of view the interest rate was, it seemed unrealistic...<sup>3</sup>"

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2 mBank. Online Banking Growth in Poland: A Forecast. April 2001.

3 "mBank: A Story of a Bank That Caught Finance in the Net", Michał Macierzyński, 2004-01-15; [http://www.bankier.pl/fo/multiarticle.html/mBank-Historia-banku-ktory-zlapan-finanse-w-siec.html?article\\_id=987889](http://www.bankier.pl/fo/multiarticle.html/mBank-Historia-banku-ktory-zlapan-finanse-w-siec.html?article_id=987889)

## Forecast of Internet Banking Growth in Poland according to mBank



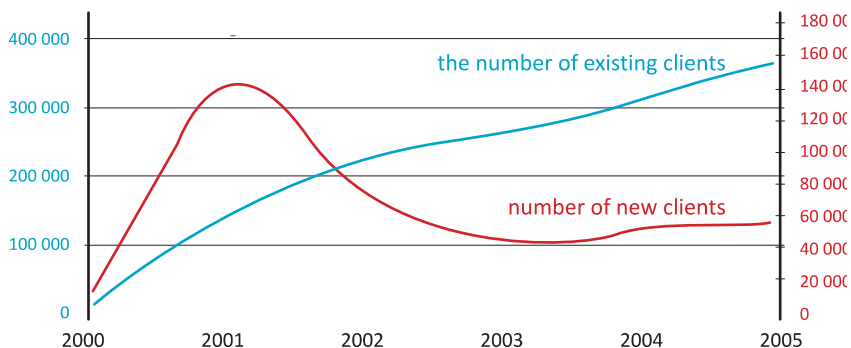
Source: Online Banking Growth in Poland: A Forecast. April 2001

Our strategy was to be quick off the blocks and press home the first movers' advantage. We took into account, of course, that the growth rate would decrease once the latent reserves of demand were exhausted. Our Business Plan anticipated a sharp increase in the first year and, from the second year onwards, a decline of growth rate and stabilization at a high level. To us the plan seemed ambitious, to analysts unrealistic. Its success depended on at least threefold growth of the entire online banking market in just one year. "The new bank's business plan would be considered a success if, by the end of 2001, it met its target of opening 150 thousand accounts and collecting deposits of above 1 billion zlotys. That would be a significant accomplishment considering the fact that there had been as few as 50 thousand existing online bank accounts on the market when mBank had been launched. In short, the plan assumed that mBank would on its own cause a fourfold increase in the entire Polish online banking market!<sup>4</sup>".

4 "mBank: A Story of a Bank That Caught Finance in the Net", Michał Macierzyński, 2004-01-15. [http://www.bankier.pl/fo/multiarticle.html/mBank-Historia-banku-ktory-zlupal-finanse-w-siec.html?article\\_id=987889](http://www.bankier.pl/fo/multiarticle.html/mBank-Historia-banku-ktory-zlupal-finanse-w-siec.html?article_id=987889)

Indeed, our objective for 2001 was to attract 140,000 clients using the momentum created by the first movers' advantage, and in the future to take on 50-70 thousand customers each year.

### Plan of selling current accounts



Source: The mBank Business Plan 2000-2005

The classic financial model of retail banking is simple. In a nutshell, it is all about attracting money of households and selling consumption credits and mortgages. It boils down to an easy formula: Interest receivable minus interest payable equals income (after deducting operational costs). mBank did not grant credits to individual customers at the beginning. It made its profit on interest on interbank loans. “mBank just like its online banking counterparts in the West offers its customers a better interest rate on deposits and better conditions on personal accounts than traditional banks. But unlike banks such as Egg, it is able to achieve a surplus margin between interest received on interbank loans and interest paid to customers with deposits. It was able to sustain its aggressive pricing policy due its relatively low operational costs<sup>5</sup>”.

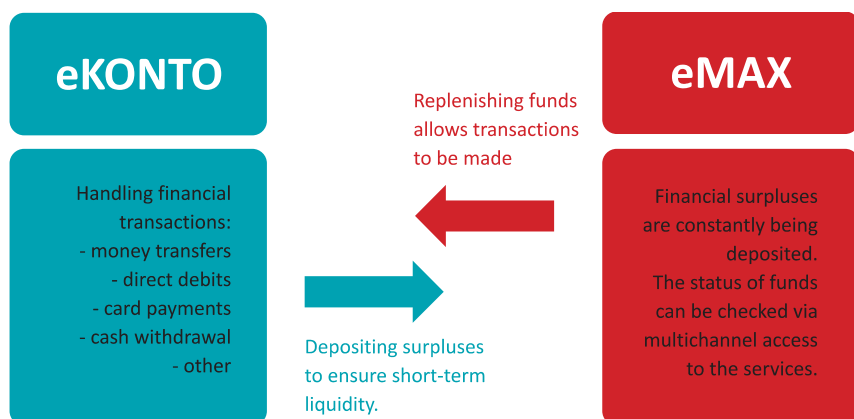
mBank offered its clients an account with a name that spoke volumes – eMax. Its offer also included eKonto, which was complimentary to the first

<sup>5</sup> Simon Nellis, “BRE Bank a Closer Look at the Retail Strategy”, Schroeder Salomon Smith Barney Emerging Markets Report, 19.01.2000.



one. Both options made it possible for the client to get a good return on their deposit. The same interest on every zloty, no minimum opening amount, no fine print were among some of the benefits of eMax. The highest interest rate was always offered regardless of the amount of the deposited funds. Normally, banks impose an upper limit to create an impression of making an attractive offer. Interest rates on amounts over the upper limit are considerably smaller. When the main objective is to get customers to pay large individual sums into their accounts, banks introduce minimum balance. In all these cases, clever marketing creates the illusion of high interest that, in reality, can only be earned under exceptional circumstances.

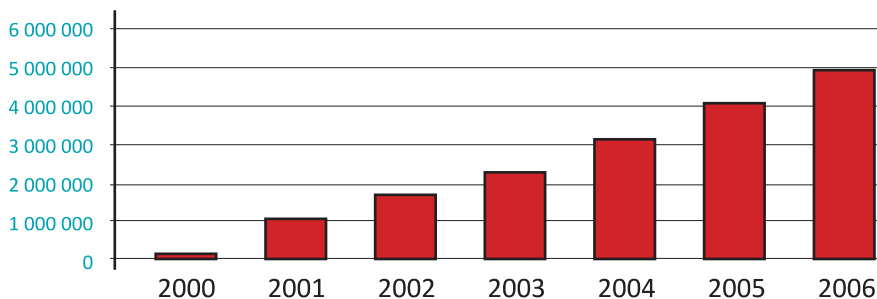
### Strategic positioning of mBank's basic products



eKonto and eMax are connected vessels. Money flows from one account into the other in real time. Unbeatable interest rates on the personal and savings account were irresistible to those mainly looking for a convenient personal account as well as to those who wanted a high return on deposits while enjoying the freedom to access their money at any time. Long-term loyal clients ensure the stability of deposits. Earning clients' loyalty is a lengthy process and depends on many factors including the quality of service,

**eKonto and eMax are connected vessels. Money flows from one account into the other in real time.**

## Projected increase in mBank's current deposits from 2000 to 2006



Source: The mBank Business Plan 2000-2005

the range of offer and brand strength. We knew that our projections would be difficult to meet. Worryingly, things were not looking up for the savings market. The Asian Crisis and the Internet bubble burst dealt a tough blow to the economy. To make matters worse, the economic transformation in Poland delayed the growth of individual consumption.

Banking was entering a period of breakthrough caused by a paradigm shift in business models. This is what we believed. mBank's aggressive business plan needed to take that into account. We also had to pay attention to the precise strategic positioning of the offer on the competitive market. To achieve that, we used our original idea of benchmarking. Thanks to that method our offer could be recognized by clients as not only the best but also as uniquely able to meet their needs. Benchmarking is based on belief that if you measure yourself against the best, you can become one of them. But in our case we were the ones blazing a trail. There was no reference point – no leaders, no businesses we could follow. So benchmarking became a simple tool, a reliable barometer for the quality of our offer and operation. This would allow us to make adjustments, whenever they were needed, to create competitive advantage. A tool like that should not be over-complicated. The idea was by and large to assess how well our offer met the needs of our target group of clients using a specific hierarchy of values.

Banking was entering a period of breakthrough caused by a paradigm shift in business models.

## The Breath of Competition

It was not for long that mBank enjoyed the lack of competition. After six months a serious rival appeared on the market. Its ambition was clear – to take the lead.

At the start 2000, two long-time employees of McKinsey & Co, Andrzej Klesyk and David Putts, founded a firm called Inteligo Financial Services in Warsaw. They were planning to offer financial services via the Internet, mobile phones, call centre, ATMs and payment cards. I met Andrzej and David in spring that year. They wanted to join forces with BRE Bank. It turned out we held similar opinions about the future of banking and the great impact of new technology on customers and companies. We felt that it was a once-in-a-lifetime opportunity for people like us who were planning to use the momentum of those rapid changes to run their own business projects. There was a crucial difference, however. My goal was to do that within a large corporation, theirs was to work on their own, as entrepreneurs.

Eventually, Inteligo's online accounts became a joint venture of Inteligo Group and Bankgesellschaft Berlin Polska (BGB Polska) which became a 49-per-cent shareholder of Inteligo Financial Services (IFS). BGB Polska had held a Polish banking licence since 1997 and now gave its backing to IFS. It was responsible for running clients' accounts while IFS provided facilities and was in charge of creating and selling products. Inteligo was not a bank as such but a sales platform which used the licence of Bankgesellschaft Berlin in Poland to offer products. It was similar to Virgin Money in the UK which had cooperated with the Royal Bank of Scotland (till 2000) and the Bank of America until it received its own licence in 2010.

Inteligo's plans were just as ambitious as mBank's. Andrzej Klesyk announced that Inteligo wanted to attract 150 thousand customers during the first 18 months, achieve profitability after 2 years and a 3-per-cent share of the deposit market after 4 years <sup>6</sup>.

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<sup>6</sup> Another Bank to Open in March, Internet Standard, <http://www.internetstandard.pl/news/20877/Kolejny.e.bank.ruszy.w.marcu.html>  
<http://www.internetstandard.pl/news/20877/Kolejny.e.bank.ruszy.w.marcu.html>



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Inteligo was supposed to come onto the market before mBank did, but in the end it opened on 2nd May, 2001. Its launch was preceded by an extensive marketing campaign in all media. Inteligo had a different approach to communication. Its aggressive marketing focused on introducing the new brand which in long term could serve other purposes. It was not the bank itself that was highlighted in the campaign, but Inteligo's account which was an IFS product. The message was addressed to Internet enthusiasts in a way they made them feel special. "Do not sponsor your bank's marble façade," "Earn more than your bank," it said. From early on, a good financial offer, convenience and security were to be its motor for growth. Inteligo's message was similar to mBank's, but its marketing campaign went a lot further leading to a confrontation with traditional banks. Just as it intended, Inteligo managed to flout the taboo of friendly competition and sparked much discussion in the media. The way it communicated was very effective. mBank kindled the fire of interest, Inteligo turned it into a blaze. The main Polish broadsheet devoted a special report to Internet banking in its weekend issue. The report sounded like a trailer for a new action-packed film.

"Would you let a bank that you'll never see take care of your money? In Poland, 150 thousand people decided to do so.

A courier was already waiting at a petrol station near Grójec. He handed me a box the size of two VHS cassettes. There was a phone number inside. I called. A man on the other end asked:

- What is the best band in the world?
- The Doors – I gave the countersign.

The man activated my account. Now I could pay money into it and count on a high return.

If you're stuck in a two-hour-long queue in a bank, just imagine this: It's Wednesday, one in the morning. You're in Paris. Your wife calls from Poland saying that she needs money. Tomorrow she has to pay

for your holidays in Turkey. You connect your mobile to your notebook and then transfer money into your wife's account via the Internet. A moment later you get a text message – your bank tells you how much you've spent converting the sum from the Turkish lira to zloty.

Is this how banks will operate in the future? Some already do – I've checked that <sup>7</sup>.

As interest in technical novelties snowballed, so did Internet banking. In its first months, Inteligo managed to attract even more clients than mBank. The latter increased its growth rate by as much as 50 per cent. That means 1200-1400 new accounts were set up every day excluding weekends.

The effects of mBank's and Inteligo's awareness-raising campaigns magnified by journalists, who closely followed the innovations in banking and customers' reactions to them, surpassed all expectations. In January 2001, 80 thousand people held on-line accounts. The figure went up to 570 thousand in the following year, and the magic number of one million customers was reached in October 2002.

mBank was a spark igniting a trend that became a key factor behind future growth. "We owe the popularity of online banking in Poland in no small measure to mBank's revolutionary offer in terms of products and price, and how the offer was marketed <sup>8</sup>".

The rivalry between mBank and Inteligo helped to raise the standards of Internet banking offers and increase their range. However, the two competitors were essentially different, just as their leaders' professional background and experience. Inteligo was created by outstanding consultants who had little experience of banking corporations. mBank was the brain-child of bankers fascinated by technological innovations. Inteligo's project was consistent with the dominant academic theory that disruptive innovations are best carried out as separate companies. mBank, on the other hand, was a compromise – "a company within a company". Inteligo's product offer

7 Piotr Lipiński, "What's that got to do with the price of tea in China?", *Gazeta Wyborcza* no. 181, 04.08.2001-05.08.2001.

8 A. Kowalczyk, "To Attract the Virtual Client: The Extraordinary Successes of Online Banking in Poland", *Bank*, 4/2003.

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and marketing communication was based on tools, strategies and techniques that came from the large arsenal of McKinsey – one of the most well-known consulting firms in the world<sup>9</sup>. mBank's business model, the way the project was implemented and run, were the result of hands-on experience and knowledge backed up by business intuition. Inteligo's project ended once Bankgesellschaft Berlin, its main sponsor, went bankrupt, and its technology as well as client base were sold to PKO BP in October 2002. It is impossible to decide which approach triumphed over the other. However, "at no point did the amount of collected deposits exceed 30 per cent of the amount that BRE Bank managed to gather on its online accounts. On the other hand, Inteligo did much better at attracting new clients<sup>10</sup>." At the end of 2002, Inteligo had 180 thousand clients and 440 million in deposits, while mBank could boast nearly twice as many customers (330 thousand) and more than four times the amount in deposits (1770 million).

"We have a definite advantage over our direct competitors, which arises from mBank's business model. Although it goes unnoticed by many, we operate in ways that are different to Inteligo and other banks. mBank launched a personal account (eKonto), and at the same time offered its clients the market's best interest rate on its on-demand savings account (eMax). The latter product makes us stand out from the rest of our competition and it has attracted more than 1 billion zloty so far. Clients use eMax to save their money, while eKonto serves the role of a transactional account<sup>11</sup>".

Many products are all the rage one season and never heard of the next. mBank was no flash in the pan. It broke into the market with gusto, and changed

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**mBank was no flash in the pan. It broke into the market with gusto, and changed the landscape of competition with its low-cost base strategy.**

the landscape of competition with its low-cost base strategy. It introduced a simple method of comparing prices. Lastly, it could count on clients who appreciated mBank's high interest rates.

9 See Ethan M. Raisiel, Paul N. Friga, *The McKinsey Mind* (K.E.Liber, Warszawa 2004), trans. Agnieszka Olewińska; E. M. Raisiel, *The McKinsey Way* (K.E.Liber, Warszawa 2001), trans. Bożena Uranowska.

10 Michał Macierzyński, "History and Development of mBank": <http://www.bankier.pl/wiadomosc/Historia-powstania-i-rozwoju-Inteligo-634714.html>

11 "Competition Favourable to the Client", *Gazeta Bankowa*, 9.09.2002.

“Three years ago little did anyone suspect that a peculiar Internet bank would so drastically change the Polish banking market. Many analysts observed the enterprise with disbelief claiming that the mere idea of a virtual bank in Poland is too progressive <sup>12</sup>”.

## You Innovate, You Grow

To expand the niche of Internet banking, we had to increase the quality and range of products. There was one more pressing need: to speed up the process of opening an account. Clients were forced to wait weeks on end for the procedure to be completed. Sometimes that was due to postal delays. At other times the bank was to blame as it struggled to process a fast-flowing stream of applications. Suffice it to say that the average time needed to open an account was as long as two weeks, while at traditional banks clients could set up their accounts right away. An Internet company can be expected to allow clients to track the progress of their application, just as in the case of e-commerce. mBank’s ability to innovate ensured that clients can now activate their accounts immediately after receiving their start package. The same applies to applications for issuing new ATM cards or mortgages – clients can easily track their progress. It is a great challenge but thanks to constant improvements and attention to detail the application process can be made more efficient and, most importantly, more convenient than in traditional banks.

mBank started out offering two products whose main competitive advantage was price, which has not changed. What has changed, however, is the scope of mBank’s offer which now includes retail banking products and services, investment products, broker’s services and insurances. And these are not standard products but innovative solutions that give the client an added value. That is how a discount bank has been created, a bank which offers all the essential financial products at the best prices and of the best

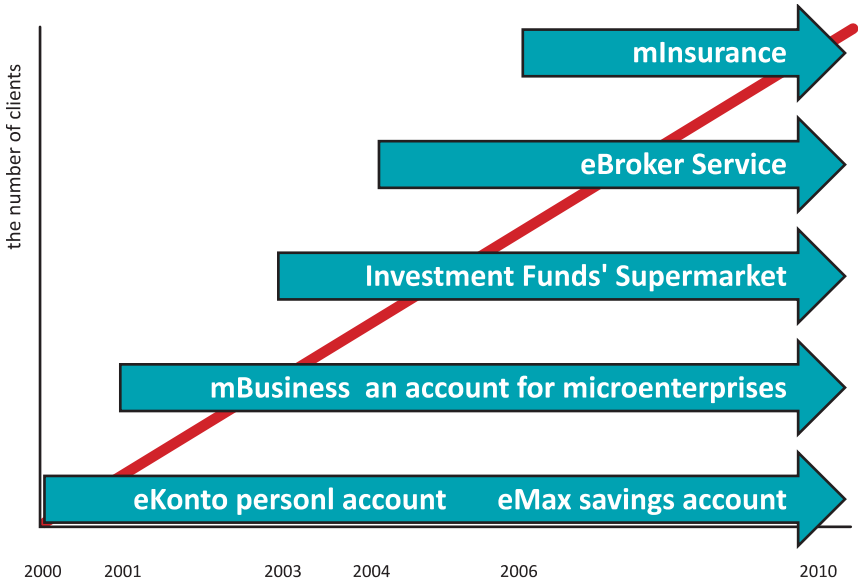
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12 Michał Macierzyński, “A Story of a Bank That Caught Finance in the Net”, 2004-01-15; [http://www.bankier.pl/fo/multiarticle.html/mBank-Historia-banku-ktory-zlupal-finanse-w-siec.html?article\\_id=987889](http://www.bankier.pl/fo/multiarticle.html/mBank-Historia-banku-ktory-zlupal-finanse-w-siec.html?article_id=987889)

quality, and creates a unique banking experience for the client.

Knowing that client satisfaction was the mainspring of growth, mBank team looked for new opportunities to introduce further products and services that would meet the customer's needs. Instead of wandering without direction in their search, which is typical of start-ups, the team had a clearly defined aim of creating innovative products and a sales model that would multiply the benefits of using the Internet: the ability to compare prices, speeding up the application process, unlimited access and unbeatable prices.

### Constant innovation –the mainspring of mBank's growth



The search for innovative solutions means constant testing, persistent learning and always being on the qui vive. More often than not, solutions that seemed promising turned out to be fiascos. And, from time to time, underestimated products would win the hearts of customers. Looking for innovations needs to be a planned process, but it may happen so that a solution is within arm's reach is discovered it by accident. mBank's phenomenal growth is the result of the ability to find and implement new products and services.



Innovations that have proven to be strategically important to mBank's development and the increase of client satisfaction, are:

- eKonto and eMax – a personal and savings account;
- mBusiness – an ideal account for micro-enterprises;
- Investment Funds' Supermarket;
- eBroker – Internet broker's service;
- mInsurances – new quality of bancassurance.

mBank has introduced many innovative solutions, but the ones above truly deserve to be called disruptive, both from the point of view of the company and the entire financial market. Because of their significance it is worth describing them in more detail.

Looking for innovations needs to be a planned process, but it may happen so that a solution is within arm's reach is discovered it by accident.

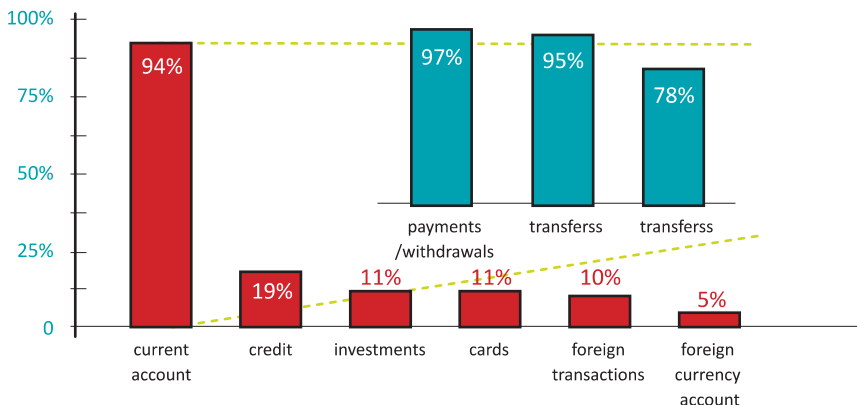
## mBusiness – Microenterprises Go for the Internet

**Serving** small enterprises or, more precisely, self-employed customers or businesses with up to 5 employees was a strategic line of business developed specifically for Multibank – an institution targeting demanding individual customers and entrepreneurs. A single IT system was developed to serve microenterprises at both MultiBank and mBank. mBusiness Account turned out to be a hit soon after its launch. It was not hard to guess why. Entrepreneurs regarded an Internet bank as a chance to free themselves from the manacles of bank branches, to save money, time and trouble. They saw mBank as a solution to all their problems so they immediately accepted the new way of banking. When the number of newly opened accounts reached 100 a day, it became clear that mBank scored a bullseye with its Internet offer. I had no doubts that mBusiness deserved to be a strategic direction for the company.

In Poland, after 1989, during the period of economic transformation, the number of small and medium enterprises (SMEs) had sharply increased. In 2000, almost 3.3 million employees of microenterprises, which accounted

for 95 per cent of SMEs, created GDP of 30.2 per cent. Their financial needs were purely practical: a good transactional account which would allow them to manage current payments and tax obligations efficiently as well as a simple credit.

### Usage of bank products by microenterprises



Source: "Microenterprises on the Banking Services Market: A Research Report" 2001 B.P.S Consultants Poland Ltd

mBank's offer targeted people running businesses and freelance professionals. That was a new type of client – price-conscious, quality-focused, looking for convenience and glad to use new technology. The market was on our side. Banks were generally expensive for microenterprises: high margins and commission applied to them which were typical of offers aimed at large corporations. Meanwhile, entrepreneurs' expectations were rising, coupled by the revolution in offers for individual clients.

So what was the first thing that needed to be done? Cutting red tape. That is the lesson I learnt at PKO BP, where, in line with a new strategy, small enterprises had been included within the scope of retail banking. I knew that mBank had every chance of making a name for itself on this market. But it had to go about things differently than its competitors. To do that, we needed a person who could listen to clients with humility, learn on the job, and draw the right conclusions in a flash.



Marek Piotrowski was a young man who showed incredible spirit during the period of storm and stress when hours of work stretched until midnight. He started working for mBank when the project began in the summer of 2000, just two weeks after his graduation from the Lodz University of Technology. He was the one who a couple of months later was promoted to the leader of that line of business. This is how Marek recalls those events:

“At mBank new projects and challenges came out of the blue like great adventures. You had to respond immediately sometimes letting your heart rule your head. Paradoxically, that was exactly where the strength of mBank’s team lay. That strength was made greater by our hunger for knowledge. When searching for answers to difficult questions, we were not satisfied with ‘it’s always been that way’, ‘it can’t be done’, ‘I don’t know’ – we would keep on looking. Those were crazy months. Thousands of quite often trivial questions gnawed at us. Hundreds of read articles, market researches, conversations with people who ran businesses. And that constant feeling... damn! I still know so little.”

Banking is easy. All you need to do is to focus on what is important for the client. After a short period of time a flagship product was created for microenterprises – the mBusiness account. Bearing in mind that microenterprises are run by entrepreneurs making their own living, there was nothing surprising about it. The two separate worlds of business and personal finance were brought together. One login and one password were enough to access a website where the most essential information could be viewed side by side. All the main functions allowing the entrepreneur to manage their business’s and personal funds could be accessed with a single click.

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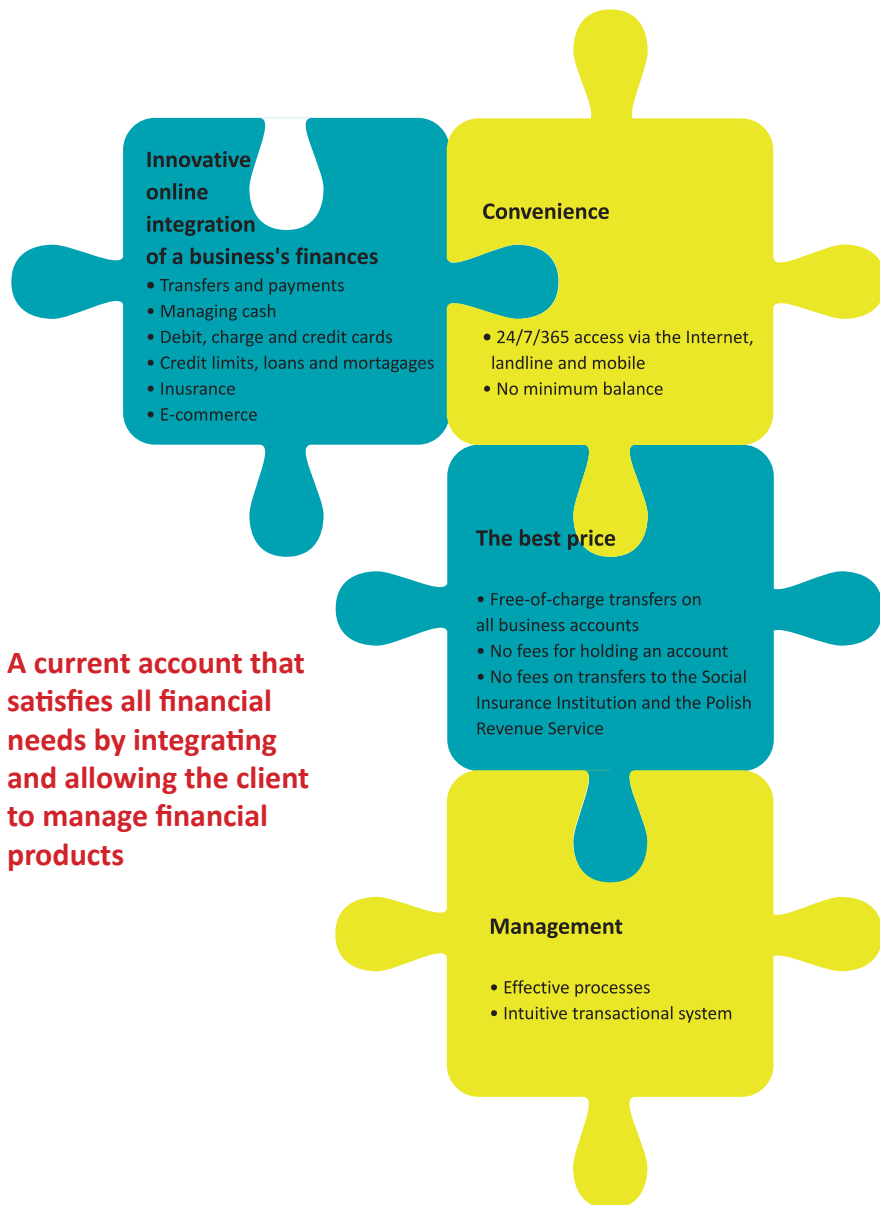
**Banking is easy. All you need to do is to focus on what is important for the client.**

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## mBUSINESS account – the most functional product for businesses

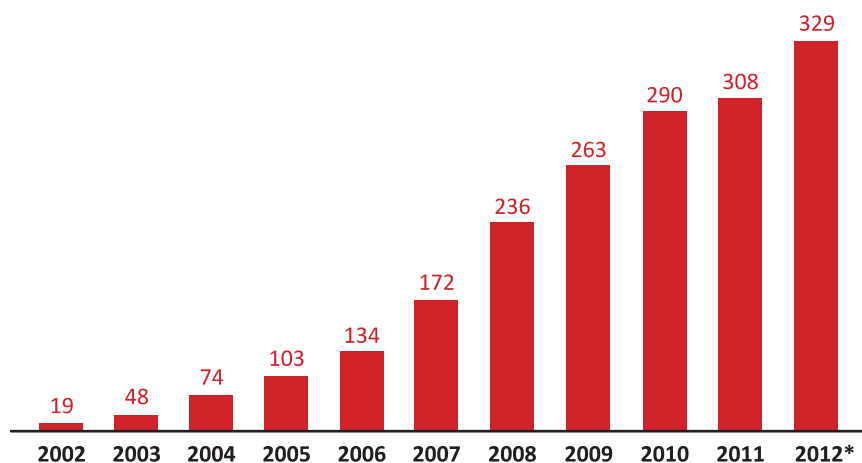


People who ran microenterprises helped to give our offer its final shape. Piotr Gawron, the manager of mBank, gained his first experience of entrepreneurship as a graduate, which now came in handy:

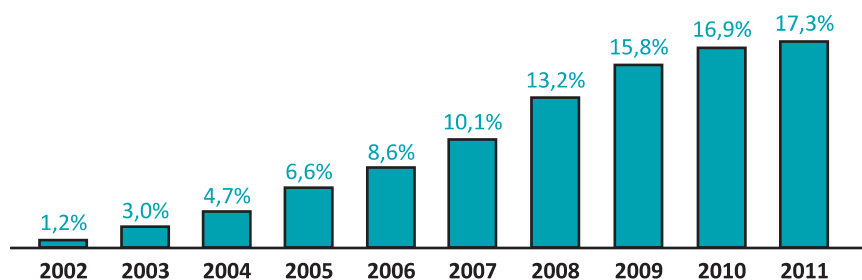
“When planning the new account for microenterprises, we wanted to create an offer aimed at individual clients running businesses. I knew from my own experience that personal and business finances were very similar. That is why we wanted to break with the common practice of separating the services offered to individual clients from those offered to businesses. Banks started to be interested in serving small and medium enterprises when new tax regulations were adopted which required them to pay taxes by bank account transfer. Banks saw that as an opportunity to make money. Account packages for SMEs were widely advertised. They allowed banks to make profit on various fees and different types of commission. I was convinced that most features of those packages were of little use to people selling computers, running local shops, or practising freelance professions. Our product was a complete opposite. We introduced no fees for holding the account, paying taxes by transfer and other compulsory payments the client was required to make. That was our main competitive advantage. In addition to that, mBank offered transfers and other services free of charge while traditional banks charged fees even for external online transfers. Most banks today offer products aimed at microenterprises which are similar to what we offered 9 years ago.”

No other bank enjoyed such powerful word-of-mouth marketing by microenterprises as mBank did. Our services for small businesses were actually never advertised, but it did not stop mBank from achieving its relatively greatest success in that area.

## Number of microenterprises served by mBank



## mBank's share in the microenterprises market



In the following years, mBank's offer expanded to include all products and services essential for microenterprises, such as basic types of credits, savings accounts – both in zloty and foreign currency – as well as many other. But the key to success was making processes run smoothly, the best example of which was the simplified credit analysis. Applying for a credit limit had been shortened from 21 days to just a couple of minutes. In fact, it was so efficient that clients got emails confirming that the limit was already available before receiving information that their request was being examined – sadly the automatic email sender was slower. The results surpassed all expectations. After we had introduced improvements to the process, the

daily sales of the product were higher than during the entire previous year. In three years, mBank had taken a 6-per-cent share of the whole small business market in Poland. 200 new accounts were set up every day.

“Success like that one was electrifying, even though we knew well that a lot of work was still ahead of us. No one but entrepreneurs could appreciate so much the ability to manage finances from home, on 24/7/365 basis, at costs several times lower than those offered by brick-and-mortar institutions. As long as I can remember, banks have been targeting SMEs – a lot has been written about it, but little has actually been done. No charge for holding an account, no fees on transfers to the Social Insurance Institution and the Polish Revenue Service, minimal commission for Internet transfers – such account features were seen as completely unattainable. But before long, clients began to save hundreds of zlotys a month on banking services. They no longer had to wait in queues for tens of hours each week. Instead, they now spent that time running their businesses.” (M. Piotrowski)

During the period of 10 years, mBank had achieved phenomenal success on the microbusiness market – 300 thousand customers and 16 per cent share in the market. It had become the second most popular bank for micro-enterprises (after PKO BP).

What you should not do in business is just as important as what you should. A company’s operations should be limited to those that bring an added value to its customers. mBank does not offer every product available, but only the most crucial ones. Focusing your attention on what is truly essential is one of the secrets of success. Marek Piotrowski knows more about this anyone else:

“I’d like to end by talking about a project I managed... not to finish, without suffering any consequences, without <colliding with a train> (our euphemism for a bitter clash with our CEO) and, most importantly, without causing any backlash for the company. This story will give

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you a good idea of how tough things could get on mBank's front line. It all started out so innocently. One day, I went into a lift on the ground floor not realising it was heading down. When it stopped on floor minus two, the doors opened to reveal the Chief Executive himself. The Chief came in and things got serious. He immediately unleashed a heavy barrage of questions: 'Why aren't we offering EU subsidies pre-financing yet?', 'What is it that you're doing exactly at the moment?', 'Do you realise we're letting good business slip through our fingers?' Frankly, on floor minus two I did not, but on floor minus one I already did. And before reaching the first floor, we had nearly finished discussing the Business Plan or, to be precise, it was the Chief who had. I was simply listening and wondering to myself why the lift was so slow and if there was any point in coming to work that day. By the time the lift made it to the fourth floor, I felt well informed about how many students to recruit to help entrepreneurs write their business plans, where they would sit and who would help out with their recruitment. I missed the surname of a professor, an expert on recruitment, as well as money other details from that lift journey. But I did remember the Chief's sacramental 'I want you in my office in half an hour.' What to do? I went into his office and left after a while. My facial expression must have been priceless – it grabbed the attention of everyone in the open space. Any wonder why? I had just learnt about the deadline. Honestly, I had no idea how to organize the whole thing. But step by step, I started to work it out. Unfortunately, there were many loose ends that could not be tied up. There was no financial justification for it. However hard I tried, I could not find an added value for customers and the bank. EU subsidies for developing business were a hit but not with mBank. This was not our target group! What's more, it went against mBank's mission and vision: minimum formalities, simplicity and convenience. What we were dealing with here was red tape, complicated procedures and obscure subsidy rules. How am I going to get out of this one? I managed to convince the Chief that the idea was unfeasible. Luckily for mBank (and myself). It's good business for banks

...serving large companies with corporate cultures that fit in well with the EU bureaucracy. After the project fell through, a certain saying became popular at mBank, which goes like this: “No worries, on my head be it! Grander projects have fallen by the wayside...”

## Open Finance in the Mutual Fund Supermarket

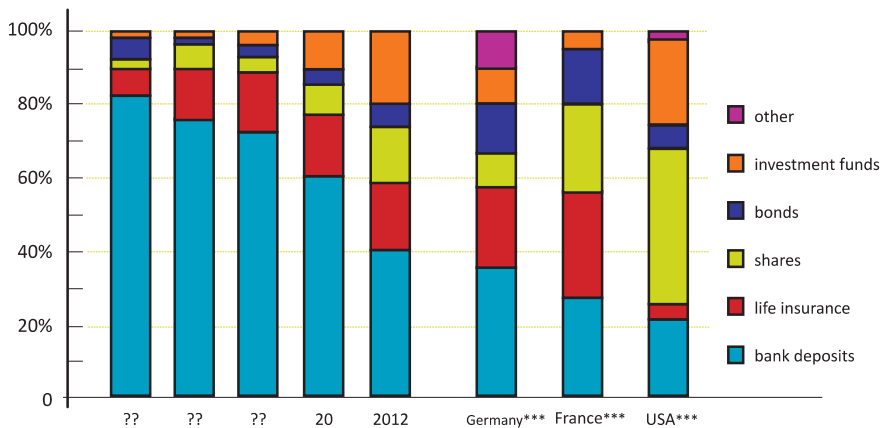
It was clear from day one that mBank would not limit itself to banking products. After all, the world’s Internet revolution in finance started with brokerage services. The Polish capital market got a new lease on life in 1991 and has been growing fast ever since not counting its collapse in mid 90s. mBank sought its competitive advantage in innovative solutions. When developing the model of a retail Internet bank, we naturally began to be interested in the capital market. We were up-to-date with the share and investment funds markets which are an extension of offers for individual clients. The latter seemed to be approaching the inflection point, and that is why it captured our special attention.

Pioneer First Polish Mutual Fund was opened in 1992 by an American company called Pioneer Investment Management. It operated as a monopolist until 1995 when it was joined by Korona Mutual Investment Company. Up to 1994, its Pioneer Balanced Fund managed assets worth over 2 billion zloty before the stock market crash took place which brought about a drastic decrease in valuation and huge losses for individual investors. Nonetheless, the Polish market was still seen as promising and at the end of 1999 there were 14 investment companies, which managed 60 funds. Their combined assets reached just 3 billion zloty and they had little impact on how households managed their savings. The infrastructure of the investment funds market was already there. All that was needed were favourable conditions to set the ball rolling.

The fall of inflation and the introduction of the capital income tax in autumn 2001, which included interest on bank deposits, made the alternative ways of saving money very popular. Money saved by Poles once again started to flow into the stock market and investment funds. As expected, it became

a long-term trend. In years 2000-2001 the assets of investment companies increased four times, and they nearly doubled in 2002 reaching 23 million zloty. This was largely owed to banks which had control over most of the investment fund societies and offered them to clients creating a new source of handsome profit on commission.

### Investments made by households in Poland and chosen countries in 2002



\* as of 30/06/2002 \*\* projection \*\*\* current data Source: GUS, NBP, PUMU, Rzeczpospolita

Internal conditions on the financial market were favourable. In Poland, unlike in the West, households did not put as much of their savings in investment funds. It was high time mBank had become a part of it.

First things first. mBank started out by creating a solid well-functioning business model for individual clients and microbusinesses. Only then could we allow ourselves to improvise a little bit. In the middle of 2002 a team of two graduates, capital market fanatics, began preparing an investment module. After a month, the two extremely ambitious but still inexperienced young men presented their far-reaching ideas to me. They suggested that mBank should create a completely new type of investment fund in Poland, which was already becoming increasingly popular in the USA – Exchange-traded funds (ETF). I knew very little about them so I had to fill the gap in my knowledge. After some research, I learnt that an ETF was a security that



tracked an index, a commodity or a basket of assets like an index fund, but traded like a stock on an exchange. ETFs experienced price changes throughout the day as they were bought and sold. Back then, ETFs were not widely known in Europe. In Poland they were a complete novelty. After a week of thorough analysis, the concept was scrapped. It was impossible to implement it quickly enough<sup>13</sup>. That is when I recommended a book I had recently read to my younger colleagues. Its title was *Charles Schwab. How One Company Beat Wall Street Industry and Reinvented Brokerage Industry*<sup>14</sup>. The chapter on an innovative sales platform – OneSource – was particularly helpful. I intuitively knew that the idea put forward in it was exactly what we needed. Mutual Fund OneSource was a supermarket of investment funds created by a discount brokerage firm called Schwab in the USA in 1992. It was the first sales platform which enabled the client to choose investment funds from any of the categories and access them via a single account without fees, commission and needless formalities. Investing in funds became as simple as shopping at a supermarket. In addition to that, this commission-free shopping eliminates barriers to exit erected by fund managers to reduce the client's mobility.

OneSource gave its clients real independence. At the start, it made available 200 funds from 25 investment companies. They could be bought or sold via phone, computer or at a branch. It is worth mentioning that OneSource was created before the Age of the Internet began. This shows how ahead of its time it was.

The American model also had the potential to be effective under the Polish circumstances. The distribution of investment funds in Poland was still stuck in the past:

- Everything had to be done face-to-face and buying was overcomplicated;
- High front-end fees;
- A relatively narrow choice of funds;
- Tricking clients with no financial education into buying funds;

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13 ETFs appeared on the Polish market as late as in 2010.

14 John Kador, Charles Schwab. *How One Company Beat Wall Street Industry and Reinvented Brokerage Industry*, Wiley&Sons, Hoboken 2002.

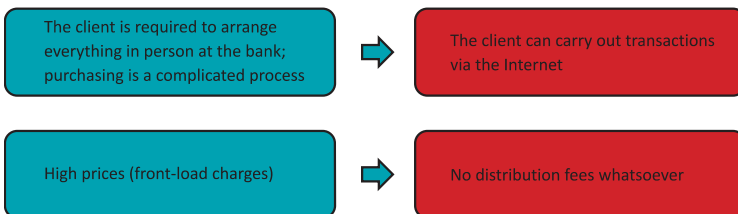


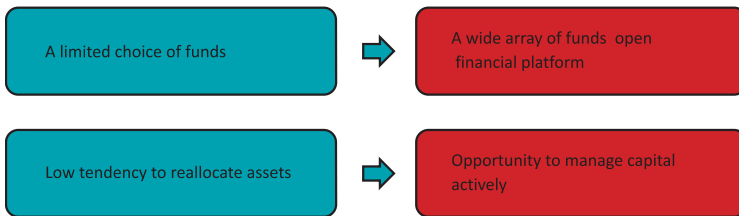
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- No tools to educate clients about investment funds;
  - Buyers were not eager to reallocate their funds despite the changes on the market.

Banks exploited the fact that they now exclusively owned the largest investment fund societies. mBank tried to break into the market by identifying customers' needs and preferences and then coming up with solutions that would take their point of view into account. The existing model on the market safeguarded only the interests of banks and investment companies. Little did clients matter. The top priority was profit even at the cost of misleading customers. Banks would earn it thanks to commission and investment companies by managing assets whereas clients were delighted during boom times only to be bitterly surprised by a downturn in the economy.

We first decided to gauge our clients' level of financial awareness and ask them what their future plans were. We were taken aback by our customers' positive response to our online survey. Several thousand of them took part in it, which meant we could draw conclusions on the basis of a representative sample. 18.5 per cent openly declared they had already invested in funds, which was reflected in the sums transferred to investment companies' accounts. Another 40.6 per cent said they intended to do so within the following 6-12 months. We understood that we had to hurry. However, we did not want to copy the existing one-sided model which took advantage of customers. Using as always our own resources, we diagnosed the weaknesses and limitations of the model. Then we drew on our knowledge of clients' preferences and set a broad framework for our own business model.

### Setting ourselves apart





In the matter of just a few weeks, mBank had designed its Investment Funds Supermarket – IFS (Polish name: Supermarket Funduszy Inwestycyjnych – IFS)<sup>15</sup>. Our business model was evidently different from the well-established one. Its two features in particular flew in the face of the market status quo.

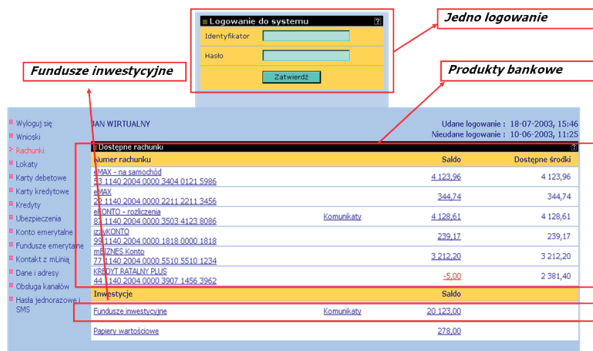
- Open structure – competing investment funds were made available on one platform; that contradicted the common practice of obtaining exclusive rights to sell funds;
- No front-end fees – led to a fierce clash of price offers between us and traditional banks and, more importantly, allowed for easier management of capital.

It was a challenge for mBank to create an internet service which would give the client an opportunity to sell, buy and convert fund shares on a 24/7 basis. For this purpose, we had to build an IT interface between mBank and Transfer Agents that maintained records of investors and transactions, so that clients' orders could be forwarded automatically. Users would not even have to be aware of the system's complexity. All they needed to worry about was signing a one-page declaration form, which was all it took to start using the Supermarket. In our business model, the client bought shares of a chosen fund from the ones available in the IFS using their eKonto (personal account) at mBank. In order to show neatly the risk profile of an investment and make its management easier, purchased assets were automatically sorted and displayed as portfolios according to their risk level – bond, currency, share and hybrid funds. The IFS was targeted at laymen – its main task was to educate its clients.

15 From here onwards, the Fund will be referred to by its English acronym.

The contrast with the established model on the market was striking. According to that model, the client who wanted to purchase funds from three different investment companies had to set up three separate brokerage accounts in all three of them, then place and pay for three orders. Our solution managed to get rid of the uncalled-for red tape, and to replace the piles of paper documents with fast electronic processes. It allowed us to cut down costs, save time, and offer our customers convenient services.

### Investment products and retail banking work in unison



The Investment Funds Supermarket brings about a fundamental shift in the relationship between investment companies and clients: the bank is in charge now. It is no longer a middleman but a supplier of funds and a party to the contract. The personal and brokerage accounts create an integrated ecosystem in which the client can comfortably manage their savings/investments depending on changes in risk profiles and the economy. If the customer decides to cancel an investment, their money automatically returns to their personal account, and can be deposited or invested in the stock market in real time.

It was an innovative model and had the potential to become a success. But the most difficult task was still ahead of us – putting it into practice. Complicated technical solutions needed to be created from ground up and integrated with Transfer Agents' IT systems, which posed a serious challenge. In addition, the final success depended on gathering a critical mass of

investment funds and making them available to customers. That could only be achieved by enlisting as great a number of the best investment fund companies as possible. The fact that most of them were owned by rival banks only made the matter worse.

In such cases it is always the team that has the final say on whether to implement a project or not. A month before its scheduled launch, the IFS nearly collapsed. On Christmas Day 2002, I learnt that the entire two-strong team were to join the competition. It later turned out they were not successful. Bureaucracy squashed their efforts. It seemed as though it heralded the end for the project. We ran a hasty recruitment process which was little more than choosing candidates from among colleagues and colleagues of colleagues. A leader from the outside was selected. His name was Maciek Witkowski, a boy with little work experience but with a huge drive to get things done, talented and hard-working – two traits that do not always go hand in hand.

The mBank team was eager to help where help was needed. In the following two months, it devoted all its efforts to helping Maciek launch the IFS platform within the deadline of 27th January 2003. Some radical changes were required. A new version of the main IT system had to be created for the Supermarket to function correctly. All the internal resources were mobilized – the preparations lasted three months, many new problems emerged along the way, but eventually the system was ready on time. An even harder task was to get investment fund companies to cooperate with us. After all, mBank was still a niche undertaking. Only logically compelling arguments could convince them to accept a novel idea of fund distribution. It was a rival project for investment fund companies owned by banks. Their managers regarded cooperating with us as a conflict of interest. Even though the IFS had the potential to create a new market by reducing costs to zero and increasing the availability of funds via the Internet, managers did not want to risk legal clashes with other distributors who considered the new model to be a threat to their businesses. Also, nobody could be certain, including us, whether the concept would work in spite of all its attractive qualities.

Finally, we managed to bring around four investment funds companies which together offered 17 funds. None of the biggest players responded to

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our invitation to cooperate, but I knew it was just a matter of time and building reputation until they had no other option but to join us. Apart from the TFI Skarbiec (Treasury Investment Funds Trust) which was owned by BRE Bank and was a major company, the rest were a lot smaller but had their advantages. Three important investment companies were present during the launch of the Supermarket: GTFI (Upper Silesia Investment Funds Trust) which boasted one of the market's best bond fund, the Scandinavian SEB as well as PZU. This is what Maciek Witkowski, the leader of the IFS project, says about its adventure-filled opening:

“It was 27th January. Just a dozen or so minutes after the opening, mBank's call centre was filled with the sound of phones ringing. After an hour, tens of clients had already asked to have the service activated. The magic number of one hundred had been reached by the end of the first day. Three days later clients' declarations started to come in, and the first transactions were processed on 4th February. We were perfectly aware that the breadth of the offer was a huge limitation for its growth. That is why we channelled our efforts in the following months to increase the spectrum of the available funds. I methodically tried to convince companies to cooperate with us. Many a time I talked to those that had already rejected our offer because of our prices and the fear of conflict inside their own distribution networks. Eventually, my attempts proved successful. We held talks with the investment funds trusts of Bank Handlowy, CAIB and Warta. Our negotiations were fruitful. IFS expanded its offer to 25 funds in August and then to 33 in September 2003. By the end of 2003 31,300 clients had joined us and we held 207 million zlotys worth of assets. The results lived up to our expectations but I felt that the best was still ahead of us”.

The market responded to the Investment Funds Supermarket just as it did three years ago when mBank had been launched. Naturally, the scale was different. Even though electronic sale of funds was in itself a novelty, the Internet was not the main behind the success:



“The offer is unique on the market because it provides the client with the opportunity to purchase 25 different investment funds from one place after signing one contract and without being charged commission. Competition cannot match mBank as far as prices and the ever-expanding offer are concerned. It is the best example of an entirely new strategy put into practice. The product is innovative, and mBank does not burden its clients with fees for purchasing or cancelling their shares.<sup>16</sup>”

### Investment Funds Supermarket – a disruptive innovation



16 Historia i rozwój mBanku, Michał Macierzyński, 21.08.2003 [http://euro.bankier.pl/edu/multiarticle.html?article\\_id=817689](http://euro.bankier.pl/edu/multiarticle.html?article_id=817689)

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We were convinced that the IFS would be the new rocket fuel for growth and we were prepared to devote a large amount of time and effort to creating it. As is often the case with disruptive innovations, the IFS required a lot of attention to detail and continuous development to realise its full potential. The consolidation of investment, a single point of success, competitive charges and functionality – all these features made it innovative. However, to develop the IFS and at the same time maintain all of its qualities was not an easy thing. Clients found it essential to be able to access trustworthy funds. They wanted to buy funds that topped rankings and enjoyed unrivalled reputation. At the early stage, every negotiation with a prospective partner was a difficult one because the terms of the agreement were invariably the same for all of them: no front-end fees, no preferential treatment for investment companies, management fees were split 50/50. Later, however, a swift increase in the number of mBank's clients and users of the IFS as well as its growing reputation excited the interest of investment companies. External communication played an important part here. Our ideas spread across the market thanks to our clients' positive comments posted on Internet discussion groups and many enthusiastic opinions presented in the media:

“mBank has just launched Poland's first online Investment Funds Supermarket which allows its clients to buy, sell and convert funds into cash via the internet<sup>17</sup>.

“The customer does not have to open several accounts, invests free of charge while earning as much as those who use traditional channels of distribution<sup>18</sup>.

What makes the Investment Funds Supermarket so attractive is:

- a wide range of investment funds that belong to different trusts and categories/classes,
- 24-hour service by Internet and phone,
- minimum fees and commission; clients are not charged for purchasing or cancelling their shares,
- transparent and thorough information is provided about making investments,
- a special web service which contains up-to-date information about the present and past prices of funds,

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17 <http://www.egospodarka.pl/776,Supermarket-Funduszy-Inwestycyjnych-w-mBanku,1,12,1.html>

18 <http://www.bankier.pl/wiadomosc/Supermarket-Funduszy-Inwestycyjnych-mBanku-rozwija-skrzydla-840830.html>

- mBank's secure tried and tested transaction system<sup>19</sup>.

According to many individual investors mBank offers the best investment platform <sup>20</sup>."

Clients were quick to notice the advantages of investing in funds with the IFS:

"The Supermarket offered by mBank (<http://www.m-bank.pl/inwestycje/fundusze/misja.html>) caught my attention – even though not all funds are available there – mostly because they don't charge commission for buying/selling/converting shares. I found the lack of commission tempting because it allows me to carry out my very simple plan: If you can earn money more easily on the stock market, you should invest more in share funds. And if not, you need to deposit more savings into more stable funds (bonds, currency funds)<sup>21</sup>".

No fees for converting or buying shares made that possible. It enabled clients to transfer quickly their money from one fund into another fund. The benefits were evident –those who joined the IFS saved a staggering 6.1 million zloty on commission just in the first year.

Clients were not the only ones who benefitted from the platform. So did mBank. The IFS was the decisive factor behind many clients' choice of the bank. Those investment companies which cooperated with their owners to sell their shares exclusively through a network of banks finally directed their attention to the new way of fund distribution. Market analysts quickly pointed out that:

"Until recently the sales of investment shares via the Internet accounted for 2-3 per cent of the total sales achieved by investment funds trusts. In the last 6 months, since the launch of its Supermarket, mBank has changed the asset acquisition structure by accumulating from several to a dozen per cent of assets of the funds available in its Supermarket and thus achieved the status of one of the largest distributors<sup>22</sup>".

19 <http://www.bankier.pl/wiadomosc/Supermarket-Funduszy-Inwestycyjnych-mBanku-rozwija-skrzydla-840830.html>

20 <http://www.inwestujwfunduszach.pl/>

21 <http://grupy-dyskusyjne.money.pl/m-bank;supermarket,watek,57602.html>

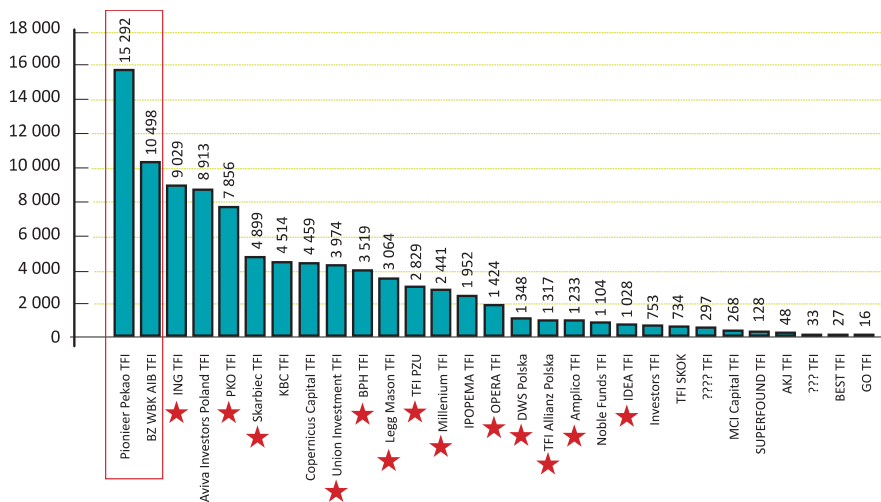
22 <http://www.bankier.pl/wiadomosc/Supermarket-Funduszy-Inwestycyjnych-mBanku-rozwija-skrzydla-840830.html>



“56.8 thousand clients have so far used the IFS and invested 333 million zlotys through the platform. These numbers testify to the scale of interest in the IFS and its significance for the Polish investment funds market. From the beginning of the year until April, those companies whose funds are available through the IFS have earned 260.12 million zlotys 21.5 per cent of which (55.92 million) they owe to the platform.<sup>23</sup>”

The new business model could no longer be ignored on the rapidly changing investment funds market. The tables have turned. Now it was fund managers who were calling mBank to offer cooperation.

### Investment Funds Companies available through the IFS platform



Source: Online analyses based on reports by TFI and data from IZFiA

The strategy of disruptive innovation was a success. All investment companies, big and small, were joining the Supermarket under the same conditions, which were exceptionally favourable to buyers. The number of funds was snowballing at an astonishing rate.

As of 2010, mBank offered 250 funds from 15 suppliers.

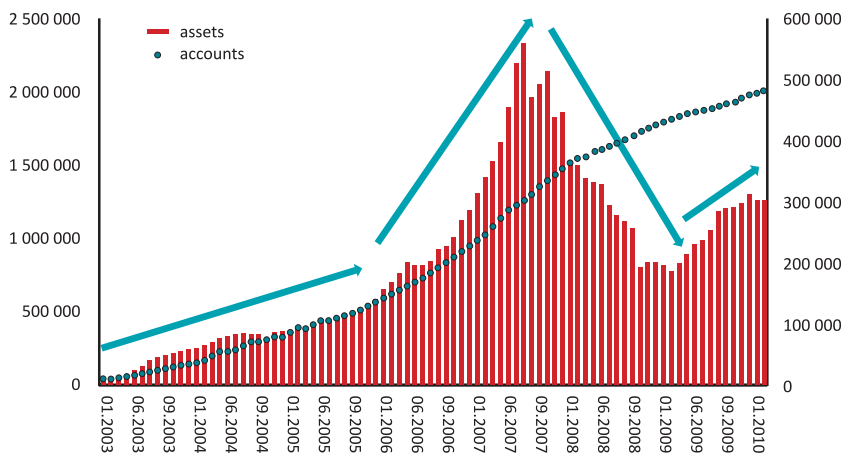
In 2006, I made the executive decision, as BRE Bank’s CEO, to sell TFI Skarbiec (Treasury Investment Funds Trust) which was exclusively owned

23 <http://www.money.pl/fundusze/poradniki/artykul/supermarket;z;funduszami,250,0,129018.html>

by our bank, making it clear that we were fully devoted to providing our customers with the best products and that we wanted to avoid any conflict of interest at all cost.

Exceeding the critical mass of funds available through the IFS triggered a chain reaction. The open structure of the IFS and its price advantage showed their true force between October 2006 and July 2007 when the assets collected by the users of the platform rose from 500 million to 2.33 billion zloty. In less than a year, the IFS grew four times larger in terms of assets and the number of accounts reached 300 thousand.

### mBank's Investment Funds Supermarket – accounts, net assets



In the middle of 2010, the Investment Funds Supermarket had 500 thousand registered users which accounted for 20 per cent of customers owning shares<sup>24</sup>. The IFS attracts novice investors. We dreamt about creating a platform that would make investing in funds easy and as widely available as checking accounts. Now we can say that this dream has become a reality.

Is it not curious then that this disruptive innovation has not been copied by anyone so far? The only exception is MultiBank which, as part of BRE Bank Group, became an obvious beneficiary of mBank's business model. Net assets owned by the clients of MultiBank's Savings Centre, which of-

24 <http://prnews.pl/inwestycje/liczba-klientow-funduszy-inwestycyjnych-marzec-2010-53179.html>

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ferred funds on similar terms to the IFS, amounted to 411 million zloty in the middle of 2010. The fact that no one has tried to imitate our solution can be explained in one only. The IFS, like any disruptive innovation, destroys business structures in its way undermining their financial model of operation. It would seem unthinkable for traditional banks to distribute investment funds through their branches without charging customers. Building an internet supermarket would be synonymous to creating internal competition which would cannibalize income and lead to a conflict of interest with the bank's own investment funds trust. For that reason, the IFS gives mBank a fairly stable competitive advantage.

## eBroker Breaks into the Market

**Trading** in securities, including stocks and rights to shares, bonds, hypothecation letters, investment certificates, future option and contracts is tightly regulated on the basis of the *Trading in Financial Instruments Act*. The Act states that brokerage firms are compulsory intermediaries in stock exchange transactions. This means that an investor must submit purchase and sell orders for securities listed on the stock exchange through the brokerage firm with which they have signed a contract. Next, the placed orders are executed on the stock exchange and cleared by the National Depository for Securities. Brokerage houses in Poland can operate only as joint-stock companies, and banks can be their shareholders. In order to operate, they need to obtain a licence issued by the Polish Financial Supervision Authority, formerly known as the Polish Securities and Exchange Commission.

Initially, clients were expected to open brokerage accounts with brokerage firms and place orders at customer service points. Relatively recently, in 2002, banks made it possible for clients to submit orders directly at their branches on the basis of a previously signed letter of authority. It saved customers the trouble of having to go to a brokerage office every time they wanted to place an order or buy bonds. All that, including setting up an investment account, was done by an advisor. In this way, the securities distribution network could potentially spread to all banking centres.

When the idea of mBank’s entrance to the brokerage services market was blossoming, the Internet virtually did not exist as a channel of distribution. In 2004, a meagre 77.5 thousand people held an online brokerage account.

In the second half of 2005, mBank launched one more disruptive innovation: an online brokerage service which gave its clients easy access to stocks, bonds and securities listed on the Warsaw Stock Exchange. After signing a contract with the client, the bank opens an investment account for them at BRE Bank’s Investment House BRE which is fully integrated with an eKonto. Combining mBank’s transaction system with Investment House’s infrastructure allows customers to carry out stock exchange transactions in real time. This is the main idea behind the eBroker. It makes purchasing securities fast and simple. The client can submit their order online which is automatically paid for from their eKonto. When securities are sold or converted into liquid funds, money is immediately transferred from the investment account into the eKonto. Together with the Investment Funds Supermarket, eBroker enables the customer to manage all categories of assets in an integrated way.

### eBroker’s distinguishing features

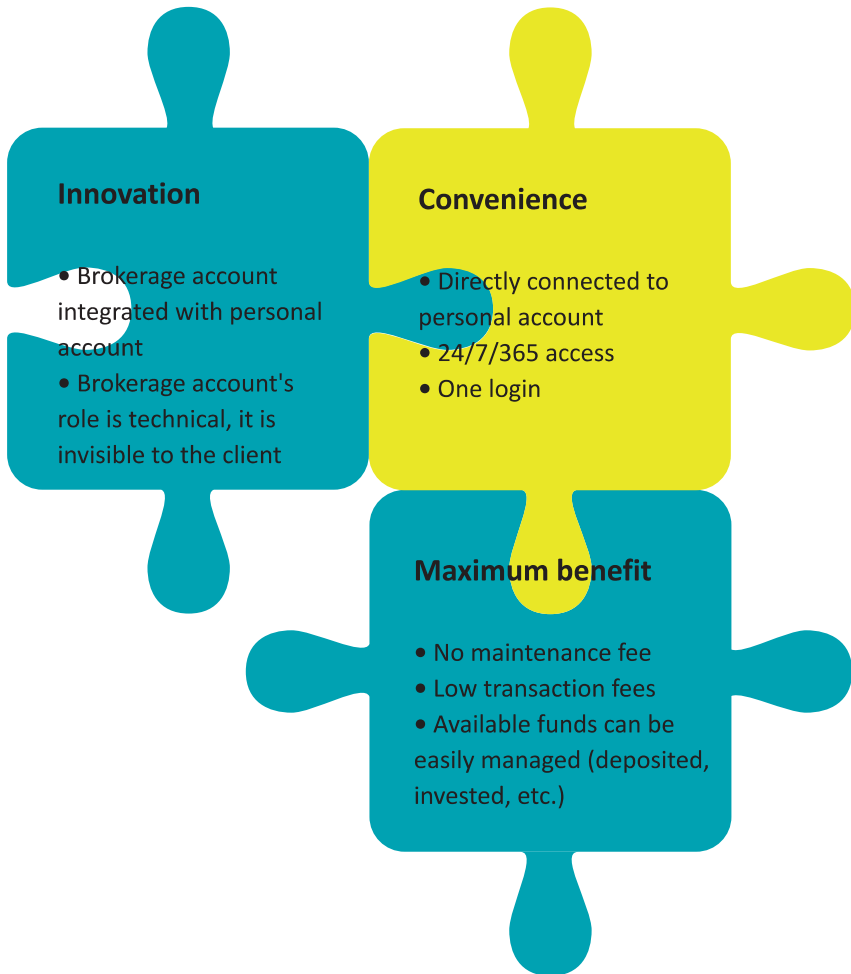
	Traditonal brokerage service	mBank
24h online access	YES	YES
24h access by phone	NO	YES
Integration of brokerage and current accounts	NO	YES
Maintenance charge	YES	NO
Interest	NO	YES
Transaction system is part of banking service	NO	YES

Online brokerage services were not uncommon in 2005. 16 out of 21 brokers offered Internet access to their investment accounts, but only 8 per cent of customers actually used it. In sharp contrast to Poland, in the USA, the UK and Germany such services were strongly preferred by investors. At the

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same time, however, online banking enjoyed far greater popularity in both absolute and relative terms. For example, 1 million mBank clients banked online, which was 15 per cent of their total number. That was the direct opposite of what was going on the better developed financial markets where the Internet distribution channel had first been developed in brokerage services. New players, aggressively breaking into the market and quickly coming into prominence, such as Schwab, E\*Trade, Ameritrade in the USA or Comdirect, Consors, Boursorama, eCortal, Bankinter in Europe are some of the best examples of that. Together with brokerage firms which were forced to implement online services, they had brought about a revolutionary change in how transactions were made on the secondary stock market. In the USA, 20 per cent of brokerage transactions were conducted online as early as 1997, in 1998 – 30 per cent, in 1999 – 45 per cent, and in 2002 – 60 per cent. The number of brokerage accounts stood at 4 million in 1997, 8 million in 1998, and 23 million in 2002. In Europe, which lagged behind the USA, the number of Internet brokerage account users increased sharply during the Internet boom to reach 4.4 million in 2001 – half of the accounts had been opened in Germany. And in all cases, discount brokers made all the running. It did not take a soothsayer to predict that the trend would soon start in Poland. “Quite unlike banking which requires hefty investment and is controlled by regulations making barriers to entry hard to overcome, the brokerage services market was open, built from ground up and new entities were coming onto it. But none of them spotted the chance created by the low-cost online based business model. Cases of Schwab, E\*Trade and Comdirect had been diligently studied at the mBank “university” long before the bank started operating. The need to offer brokerage services to our clients seemed obvious, but the right business model still had to be found. It was not enough simply to provide a discount service. Anyone could do that. A solution was required that would put store by speed and convenience. The development of the Investment Funds Supermarket gave us an idea which was ingenious in its simplicity and perfectly complemented mBank’s activity.

## What makes eBroker a breakthrough?

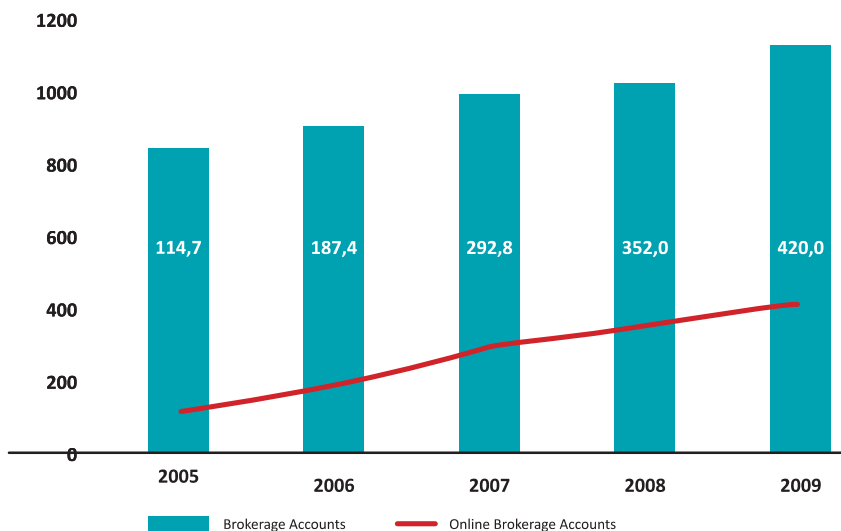


Integration of brokerage and personal accounts allows clients to manage assets in one place

By integrating the brokerage account with the eKonto we created a so-called killer application (disruptive innovation). In order to do that, we needed the approval of the Polish Securities and Exchange Commission. After obtaining it, the bank could operate as a representative which set up an investment account with a brokerage firm on the client's behalf. The account played a purely technical role because the client carried out transactions directly from their personal account using the brokerage firm's transaction system. This was the unique solution offered by the eBroker. mBank became a brokerage house in the eyes of the clients. In the prestigious Forbes ranking, mBank appeared alongside the Investment House BRE as a brokerage and in its subsequent editions took one of the top places. There was no mistake about it. The ranking is based on opinions of clients. Some of them must have been so accustomed to our service that they pointed to mBank as a brokerage house despite the fact that, in reality, it uses the licence and transaction system of the Investment House BRE.

mBank's entrance to the brokerage services market began a real revolution that lasts to this day. The online bank is its leader.

### The number of brokerage accounts owned by individual clients in Poland



During that period, the number of online brokerage accounts had risen five times and their share in the market increased from 8 to 37 per cent. In 2003, at the dawn of the biggest four-year-long boom on the Warsaw Stock Exchange, only 41 thousand investors used the Internet. When the boom was at its peak in 2007, there were 300 thousand such accounts, and as much as 420 thousand by the end of 2009.

“If the Internet continues replacing traditional brokerage orders at this rate, after a couple of years the client will have to rent Oliver Stone’s <Wall Street> to see a broker in red braces<sup>25</sup>.”

If this happens, it will be largely thanks to mBank. It has triggered an explosion in the number of investment accounts, popularized access to the capital market and introduced it to a new group of clients for whom investing on the stock exchange is a way to diversify even modest assets. And now they can do it easily and conveniently, actively managing their personal funds in one place.

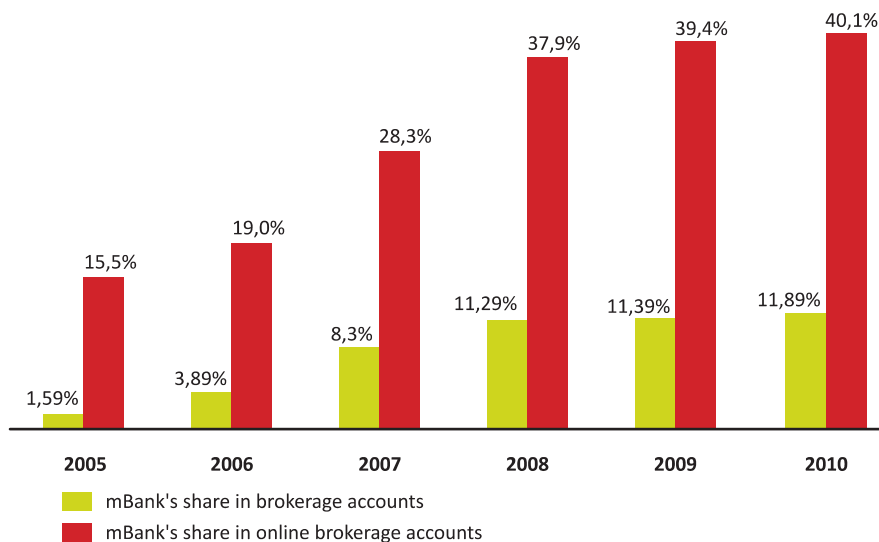
Maciek Witkowski, who contributed to the success of the Investment Fund Supermarket, explains what made eBroker so special:

“The trade didn’t and, in my opinion, still doesn’t understand the phenomenon of eBROKER. A battle between brokerage firms was being fought on two planes – usability and pricing. The former was about offering clients new features of transaction processing systems. As a result, the systems started to look more and more like professional brokers’ screens which you can sometimes see in films, but that effectively limited the number of their end users. We need to remember that most of the 800 thousand traditional accounts which had been opened up to 2005 were inactive and had been set up at the time when prices on the Warsaw Stock Exchange had been fixed. Those people weren’t only wary of transaction processing systems made up of countless rows of flashing screens, but, most importantly, they didn’t quite grasp what continuous trade was all about. Those clients became mBank’s target. We did not wish to compete with 16 differ-



ent brokerage firms but simply offer new terms and conditions convenient for both us and the new generation of customers. Brand experts and journalists cannot unravel the mystery behind eBroker's success to this day. They were disparaging about it and kept pointing out its shortcoming. Very few were perceptive enough to notice that it was supposed to be that way. eBroker was meant to be rough and simple to the core in order to attract new clients. And it was successful. 170 thousand accounts that had been set up in five years since its launch testify to that."

### mBank's share in the brokerage services market (the number of brokerage accounts).



In the latter half of 2010, three in four orders on the equity market were made via the Internet which confirms that those using the online service were much more active than clients of Customer Service Points that belong to brokerage firms. A staggering 40.1 per cent of customers using the Web service on the stock market and 11.8 per cent of their total number were mBank's clients. The result requires no comment. mBank managed to revolutionize the Polish brokerage market in less than five years playing a vital



role in closing the gap between Poland and more developed countries. eBroker achieved a breakthrough in brokerage services for individual clients offering an innovative business model combined with online access to the capital market.

## Bancassurance – Assuredly Cheap

**Insurance** is an integral part of the financial market. According to Maslow's hierarchy of needs, safety comes directly after physiological needs. From the socio-economic perspective, insurance needs are on a par with banking ones. In developed economies they are seen as fundamental. The main types are personal, property, compulsory and voluntary insurance. They provide security in case of unfortunate events and protection against economic risk.

Large banks and insurance companies are considered to be a particular kind of entities known as "institutions of public trust". Due to that high standards are set for them in terms of professionalism, regulatory regime and legal responsibility. The insurance market, just as the banking one, is tightly regulated, and companies must obtain a suitable licence before they can start operating. The companies are classified into life and non-life insurance trusts. Insurance market concentration is comparable to that of the banking market; a few big firms usually dominate the local market, and the largest of them operate on an international scale. Boasting millions of clients, they take advantage of their relationship with them to maximize profit and effectiveness by acting as middlemen in the sale of products that are not theirs. A prospect of offering individual clients different kinds of financial products in one place had long inspired banks to cooperate or even fully integrate with insurance companies. According to the concept of "Allfinanz", combining banking and insurance activities brings the benefit of scale and synergy. However, most cases show that the concept has not produced expected results so far but has been the cause of some spectacular failures. Suffice it to mention the 1998 merger of Citicorp and Travellers Group, which gave birth to Citigroup, or the 1997 and 2001 takeovers of Dresdner Bank by Allianz and Winterthur Schweizerische Versicherungsgesellschaft by Credit

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Suisse Group. Regardless of whether it was the bank that took over the insurance company or vice versa, the projected benefits remained on paper, and losses had to be paid for by investors of Winterthur Schweizerische Versicherungsgesellschaft when the conglomerates were in trouble and were forced to go separate ways by selling their assets<sup>26</sup>. In 2009, ING which was considered an exemplary case of “Allfinanz” made a decision to return to the roots by separating its banking and insurance activities and later selling the insurance company. It was forced to take urgent steps to repay the government’s financial assistance thanks to which it had avoided a disaster during the economic crisis.

Despite failed attempts to create national and global giants by merging leading banks and insurance companies, the idea itself is economically justifiable. The difficulty lies in putting it into practice. A special term was even coined to denote this kind of operation: bancassurance. It refers to combined sale of banking and insurance products which are available in one place. The French origin of the word is no coincidence. It was in France that Credit Mutuel first started selling insurance policies in 1974. Soon, life insurance policies became the main insurance products offered by banks. At the beginning, bancassurance developed slowly. But at the end of the eighties and start of the nineties, Credit Agricole formed its own insurance company, PREDICA, and other French banks followed suit including BNP (NATIO VIE) and Caisse Nationale des Caisses d’Epargne (Ecoreuil Vie). That allowed them to dominate the life insurance market completely, reaching a 68-per-cent share in total sales in 2002.

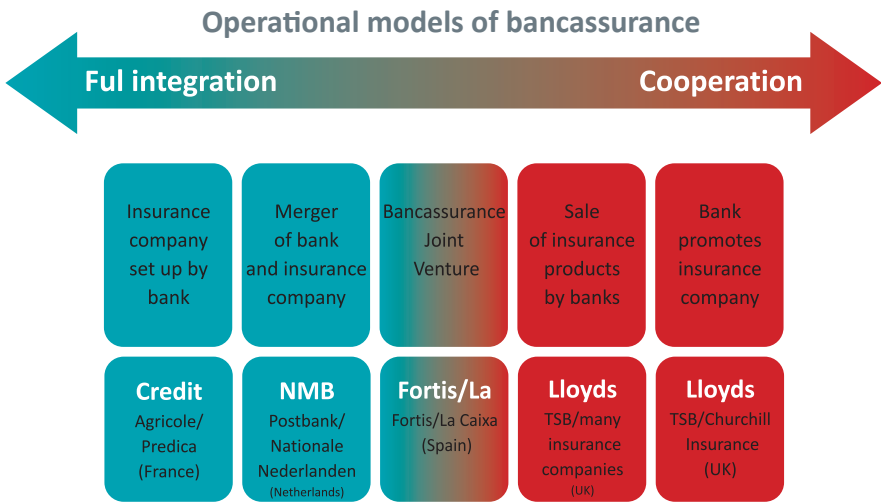
The banking channel of distribution gains rapidly in importance in other countries as well: in Italy, Spain, Belgium, Portugal and Finland, where more than half of all life insurances are sold at banking centres. Property insurances are also available through bancassurance, but they enjoy far less popularity. In Ireland and Spain alone their sale by banks exceeds 10 per cent.

Bancassurance can be looked at from two different angles: the relationship between a bank and an insurance company or the type of insurance products sold through banks. The former can take on various guises:

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<sup>26</sup> In 2002, Citigroup separated and later sold Travellers Insurance; Allianz sold Dresdner Bank to Commerzbank in 2008; Winterthur Schweizerische Versicherungsgesellschaft was taken over by French insurance company AXA in 2006.

- bank sets up its own insurance company;
- bank is a majority owner of an insurance company (a takeover or merger);
- joint venture with an insurance company in the form of a strategic alliance;
- contract of cooperation;
- distribution agreement – an insurance company uses a bank sales channel;
- promotion agreement – an insurance company’s products are promoted by a bank at its branches.

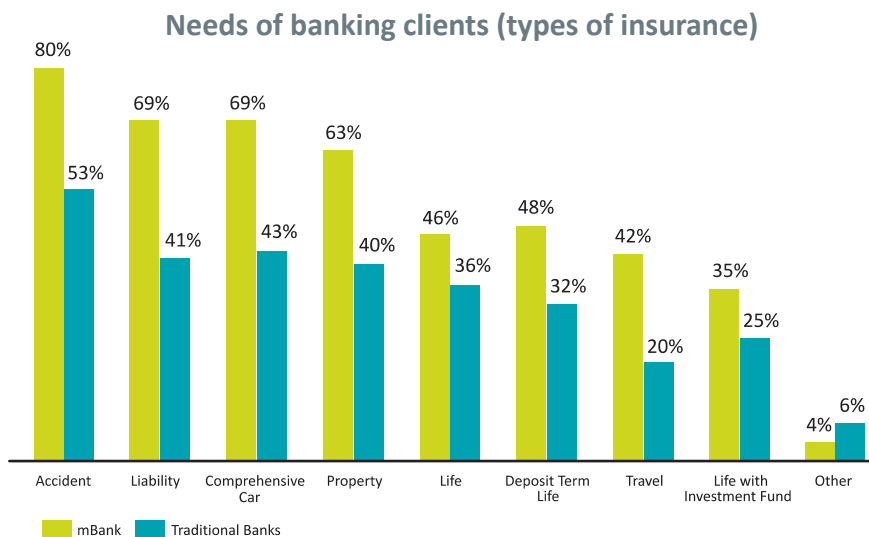


Group insurance policies which complement banking products are the easiest ones to sell at banks. A bank makes an independent decision about selling a client an insurance policy which is part of a banking product, e.g. accident insurance offered with debit cards or personal insurance for account holders. In some cases, clients cannot buy a banking product without buying insurance. Good examples of that are personal (life and accident) and property insurance policies, which are the most popular guarantees of loan and mortgage repayment for individual clients. It is harder and harder to find a banking product that would not be combined with an insurance policy. 95 per cent of banks offer such combined products, and only 43 per cent offer separate insurance policies. The latter are considered difficult to sell with-

out professional consulting. However, this is not an issue for clients who are conscious of their needs.

Bancassurance is growing fast in Poland, but it remains unknown if the insurance market eventually becomes dominated by banks or if insurance agents and brokers play the main role as they do in Germany, the UK and Switzerland. According to the Polish Insurance Association, in 2008 banks sold 34 per cent of individual insurance policies, 52 per cent of group policies and only 2 per cent of property policies. The dominant form of relationships between banks and insurance companies is the contract of cooperation. It is the basis for distributing insurance products at PKO Bank Polski, Pekao SA, BZ WBK and Bank Millenium, whereas ING Bank, Kredyt Bank, Citibank and BRE Bank have capital ties with insurance companies.

Offering insurance was naturally part of mBank's target business model. At the start, bancassurance was limited to combined banking-insurance products, but research into our clients' financial needs showed that they were using independent insurance products more often than the average customer.



Source: Own research, Pentor, May 2003



mBank's team was well aware of clients' needs and knew that bancassurance had to fit the existing business and operational model. The main problem with insurance companies was their traditional attitude towards their relationships with banks, which boiled down to distribution agreements on general terms. Terms of insurance and price offers were no different from what was available through other sales channels. Distribution margins for banks were comparable to large brokers' commission. Such was the long-established logic of bancassurance which guaranteed friendly competition and distribution of high profit.

mBank, however, is an institution whose clients expect efficient online transactions and prices that reflect the bank's low-cost nature. Online transaction interfaces of insurance companies were primitive and did not meet the requirements of mBank's IT system. Insurance companies were also scared stiff of their agents' and brokers' anger stirred up by an appearance on the market of a supplier offering the same products at much lower prices. mBank was prepared to lower its commission to pass on some of cost savings to its customers in the form of lower prices. It was no use. Insurance companies wanted to have total control over the final price and would not even entertain the thought of price competition. There was little hope that they would change their approach. Insurance companies were traditionally dependent on an external network of distribution. And, in this case, it was not only insurance agents and brokers that did not want to change the status quo but also traditional banks. All market participants claimed as one man that the key to insurance sales was consultancy and customer education through direct contact, and that prices played second fiddle. It was nothing short of a self-fulfilling prophecy – the opposite proposition was not allowed to be tested.

After many failed attempts to find a suitable strategic partner we were left with no choice but to create our own insurance company as part of BRE Bank Group: BRE Insurance which offers property and personal insurance<sup>27</sup>. It was a step into a new territory but an entirely rational one.

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<sup>27</sup> The full Polish name – BRE Ubezpieczenia Towarzystwo Ubezpieczeń i Reasekuracji Spółka Akcyjna – is abbreviated as BRE Ubezpieczenia TUiR S.A. It translates to BRE Insurance Insurance and Reinsurance Trust Joint-Company.

## Looking for the best bancassurance solution for mBank

<b>mBank</b>
<ul style="list-style-type: none"><li>• Low-cost. Internet bank.</li><li>• High competence in technology management.</li><li>• Unique relationship with clients.</li></ul>
<b>Conscious of client needs and behaviours</b>
<ul style="list-style-type: none"><li>• One of the largest retail banks whose client base is still growing fast.</li><li>• Learning organization. It can create and manage innovations.</li><li>• Brand that inspires trust.</li></ul>
<b>mBank clients</b>
<ul style="list-style-type: none"><li>• Independent. Aware of their needs.</li><li>• Well-educated.</li><li>• Technologically advanced. Internet users.</li><li>• Young (32% below 35 years of age).</li></ul>
<b>Needs of mBank's clients</b>
<ul style="list-style-type: none"><li>• <b>"I don't overpay. I always look for a good offer."</b> Price and quality matter.</li><li>• <b>"Don't tell me it's too complicated, I can understand it."</b> Transparent products.</li><li>• <b>"I value my time. I look for convenience."</b> Simple and efficient processes.</li><li>• <b>"I appreciate one-stop shopping."</b> Integration of product and service.</li></ul>
<b>Products and Process</b>
<ul style="list-style-type: none"><li>• Prices must reflect mBank's low-cost character.</li><li>• Website and call centre provide information necessary to make independent decisions.</li><li>• Clients have choice and opportunity to compare our offer with our competitors'.<ul style="list-style-type: none"><li>• Simple, effective and well-tested processes.</li><li>• Full integration.</li></ul></li></ul>
<b>mBank's expectations towards its partners</b>
<ul style="list-style-type: none"><li>• Low prices and high quality.</li><li>• Modern technology. Integration with mBank's IT system.<ul style="list-style-type: none"><li>• Transparency, effectiveness and speed of operation.</li></ul></li><li>• Adherence to mBank's rules of building relationships with clients.<ul style="list-style-type: none"><li>• mBank solely owns relationships with clients</li></ul></li><li>• mBank needs to cooperate with insurance company fully adapted to its technology, processes, and most importantly, its low-cost business model.</li><li>• Insurance companies are not interested in cooperating with mBank on its terms due to conflict of interest with their own and external distribution network.</li><li>• To answer clients' needs, we need to set up our own insurance company.</li></ul>

Founding a new business entity in large corporations is fraught with lengthy and burdensome procedures. Even the best ideas can get stuck in the tangle of discussions and negotiations. In this case, however, the task was made easier because at the time I was the President of the Board at BRE Bank still in charge of supervising retail banking. Thanks to my strength of argument and authority the corporate decision was taken immediately. And then, I unexpectedly got an invitation to dinner at Commerzbank Headquarters, BRE Bank's main shareholder. I flew to Frankfurt and arrived in a cosy exquisitely furnished room at 49th floor of the tallest office building in Europe. It was my first time to be a guest in Commerzbank's representative rooms where managers of the largest German and international companies were regularly received. The table was laid for four people, so it was not hard to guess that apart from Martin Blessing, a member of the bank's board of directors who sent me the invitation, other guests were also expected. The view from the highest dining room in Frankfurt was breathtaking: a sea of streets and houses below my feet, the meandering Main, the tree-clad Taunus whalebacks rising above the horizon. Here I was at the hub of the great world of business, an honour I had never even dreamt about. I was roused from my musings when a door opened suddenly, and the other diners came in followed by the host. I knew one of them because he was a member of Commerzbank's board of directors and BRE Bank's supervisory board at the same time. The other guest was a man of my age; he had an air of dignity about him, was tanned, slim and athletic. "Sergio Balbinot, the Manager of Assicurzioni Generali and the vice-president of Commerzbank's supervisory board," the host introduced him with undisguised deference. The true reason for my visit immediately became clear. Surely I was not here just to meet the boss of the second largest insurance company in Europe. After the exchange of courtesies Balbinot got straight to the point. "Are you aware that Generali owns a 10-per-cent block of shares in Commerzbank which makes it the main shareholder," he asked. Naturally, I knew that. I also knew that Generali acted as a white knight and saved Commerzbank from a hostile takeover<sup>28</sup>. "Do you know that Commerzbank cooperates exclusively with



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Generali in bancassurance and the company itself has been present on the Polish market for many years?” he fired one more question. I confirmed that I did because it was my duty to be au fait with the business model of BRE Bank’s strategic shareholder, and, in Poland, we had been cooperating with Generali for some time but with moderate success. “So, please explain to me the reason why you intend to create a rival company in Poland,” he snapped. I described in detail our strategic diagnosis which led to us conclude that by far the best solution was to create a new insurance company. Balbinot listened, but it seemed as though no argument could convince him. The fact that Commerzbank, controlled by Generali, held 75 per cent of shares in BRE Bank was not a determining factor for me if we could not find any rational justification for cooperating with the insurance company which had only a 2-per-cent share in the insurance market after a dozen or so years of activity. mBank, on the other hand, had a three times greater share in the Polish banking market in terms of individual clients just after five years. I knew I was risking a lot, bearing in mind the corporate “rules of the game”, but I could not give up the plan which was the only right answer to strategic challenges. Even though we were of the same age, I lived in the world of the New Economy, while he still inhabited the old. In moments like this, it is not ideas or concepts that are tested, but determination in seeing them through. I passed over in silence that the mInsurance project was to be led by one of Generali’s managers who became enthusiastic about the idea and resigned his membership in the company’s board of directors.

BRE Insurance was built despite the unfavourable opinion of one of its main stakeholders. The company was fully organized within six months. It obtained the licence in December 2006, and shortly afterwards the first policies were sold. Its activity and the development of mBank’s bancassurance were externally observed and closely supervised by myself because their results were a test of the controversial strategy and a justification for my stubbornness.

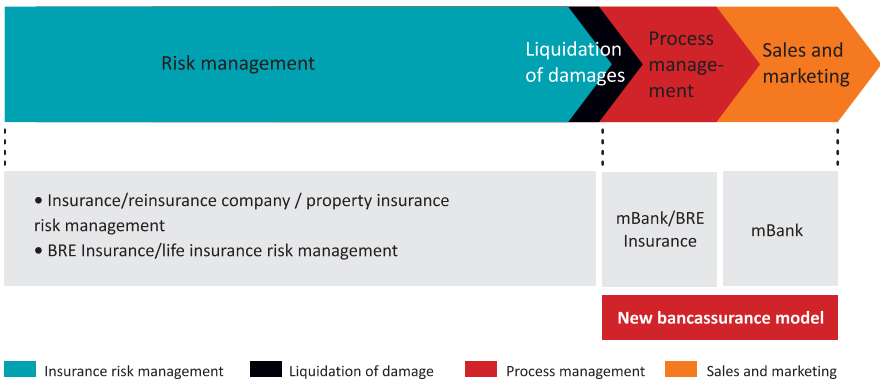
Four relatively independent links make up the insurance value chain:

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is abbreviated as BRE Ubezpieczenia TUiR S.A. It translates to BRE Insurance Insurance and Reinsurance Trust Joint-Company.

- insurance risk management which is a basic competence of an insurance company;
- liquidation of damages;
- process management
- insurance policy management;
- sales and marketing.

**Division of activities on the value chain of mBank's bancassurance model**  
**Insurance value chain**



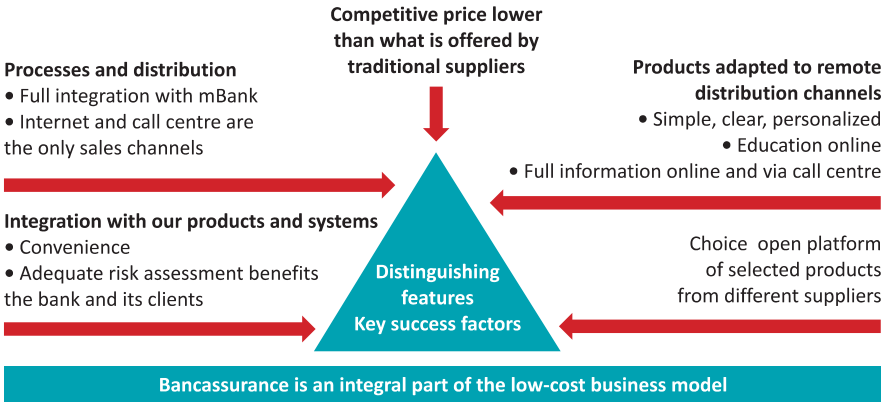
Selling is mostly done by external entities (agents, brokers, banks, etc.). It is now popular among insurance companies to outsource the liquidation of damages and policy management. As a result of that, only risk management remains their main activity. This trend became the basis for mBank's business model. BRE Insurance is essentially a vehicle for making and selling products to mBank's clients. Insurance risk management is not a basic banking competency and that is why BRE Insurance accepts only some of the risk, reinsuring the rest (up to 90 per cent) with other insurance and reinsurance companies.

mBank's bancassurance is based on the full integration of insurance with its transaction system and sales channel. Its wide spectrum of activities has been enriched by an insurance supermarket. The client chooses a desired product and buys it using their eKonto. All the processes are based on the same

**mBank's bancassurance is based on the full integration of insurance with its transaction system and sales channel.**

IT solutions which have been tested in banking operations, the Investment Fund Supermarket and brokerage service. mInsurance’s website aims to inform and educate, and is supported by the call centre. All these elements combine to create an environment in which independent and well-informed clients buy products they need. This changes what happens in the real world where persuasive skills of salespeople are a driving force behind purchasing products.

### Bancassurance in mBank’s business model



What is distinct about mBank’s approach to insurance companies specializing in distribution via remote channels is the full integration with banking services and open platform with enables clients to compare prices and choose different suppliers.

In 2003, Link4 became the first Polish company to offer modern vehicle insurance via phone and the Internet. 2006 was a good year for companies offering direct vehicle insurance: AXA Direct was opened in October, Benfia24 in November, and in Allianz Direct in December. mBank started offering this kind of insurance in 2007 and was followed by Liberty Direct, Aviva Direct, Generali Direct, PZU Online and most recently Ergo Hestia under the name “you can drive”. In short, nearly all the big players and those aspiring to play a major role are present on the Polish insurance market. Direct insurance policies usually include home and travel insurance in addition to vehicle insurance. A proof of this market’s significance is the UK where 49 per



cent of vehicle insurances and 25 per cent of home insurances are sold via phone and the Internet. In Poland only 6 per cent of vehicle insurances are sold that way, but the market was already worth 677 million zloty in 2009 and has been rising fast at the rate of 50 per cent every year. BRE Insurance offers its products to clients of mBank (Car Insurance Supermarket) and MultiBank (Insurance Centre). It reached nearly a 10-per-cent share in the direct vehicle insurance market in 2009, collecting 68.7 million zloty worth of insurance premiums for 206.8 car insurance policies.

## An Internet Bank in the Real World

**Virtual** or real? That is the question that fanned the flames of many a heated debate within mBank. It had an emotional side to it – reason dictated clearly that being present in the real world was a condition for becoming a popular bank.<sup>29</sup> During our yearly strategic meetings, an Oxford debate between the virtual camp, who fervently championed remote relationships with clients, and the supporters of limited presence in the real world, was the main attraction. Each discussion was charged with emotions; it was a real performance where acting skills were as important as rational arguments, and the audience made up of all employees reacted lively to every justification – true or fictional. Regardless of the element of fun the debates brought to our community, the very real problem remained: how should we pursue the strategy of a low-cost business model to use the full potential of the market? Those familiar with our brand immediately associated it with an online bank. The Internet and phone are the main communications channels with clients and they bring cost advantage but also create certain limitations in the sale of credit products, mainly mortgages and consumer loans. In order to meet our clients' financial needs, we need to create a physical manifestation of the online bank. But unlike traditional banks for which the Internet is just an extension of banking centres, mBank's presence in the real world complements its basic remote distribution channels. Offering credit products makes it

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Zbigniew Matyjas, "mBank - wirtualny czy fizyczny?", "Questus", 2005.

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necessary to have direct contact with the client. It makes the procedure of granting credits easier and more efficient. Another important matter is communicating with clients. At the dawn of the web's popularity, companies from the real world were desperate to make their presence known on the Internet in order to get noticed by customers. Nowadays it is the online companies that jostle for their attention in the real world.

Taking all this into account, mBank decided to develop a network of banking centres in the real world – the term “branch” was never allowed within the company. Financial Centres, mKiosks and mPOKs became the physical manifestations of mBank and its website. They reflect and reinforce mBank's unique style of communication with its clients.

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The Financial Centre is unlike any branch of traditional banks but it serves all important functions that are unavailable on the web.

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The Financial Centre is unlike any branch of traditional banks but it serves all important functions that are unavailable on the web. Initially, their number was supposed to be limited (24) and they were planned to target wealthy clients who demand direct

contact with highly-qualified advisors. They were located in the best spots of the largest Polish cities.

## mBank's Financial Centre: online bank in the real world



### Strategic functions (image):

- Presence of mBank's brand in the real world
- Increase in recognizability
- Increase in clients' trust
- Evidently different from traditional branches

### Operational functions (front office):

- New financial experience for clients
- Education and information
- Investment consulting
- Credit consulting
- Internet kiosks – self-service and education
- Collecting documents and signing contracts
- Cash withdrawal
- Service for wealthy clients

### Operational functions (back office):

- Sales agents' operational centre
- Processing and dispatching documentation

mPok is a new distribution channel in small towns which focuses on cash loans. It is mBank's outlet specializing in the sale of consumer credits and also offering mortgages. The functionality of its IT system makes all processes simple and effective. Thanks to that little financial resources are necessary to open and close mPok when it no longer brings profit to an agent's pocket. This solution has made mBank's brand popular in the provinces. All expenditure and operational costs are borne by mBank's partners who act as independent entrepreneurs.

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The idea of mKiosk itself was not innovative. Interactive kiosks which enabled remote banking operations started to appear in the latter half of the nineties. Initially, they were located in vestibules of banking centres, but as the spectrum of their activities became broader they were moved to highly frequented public places. Electronic branches of large European and American banks, which were located in supermarkets and shopping centres, did not make the grade and were liquidated. Then, mBank came into the market, and in defiance of the trend installed trial mKiosks in Łódź. mBank's motivation was different from that of traditional banks. The latter wanted to reduce costs and project a modern image to conceal the fact that they were technologically backward. What they offered was limited – only a handful of remote banking operations could be carried out none of which had an added value for clients. mKiosks, on the other hand, enabled customers to carry out the whole spectrum of banking operations. They offered even more than online banking. Clients, for example, could not sign documents via the Internet at the time when e-signatures were still rare. The first two mKiosks were designed by befriended architects according to the mBank team's instructions. Just a month of hard work was all it took to launch them in two shopping centres in Łódź in April 2002. The following three months showed that it was exactly what clients needed. It was one of those moments when you want to shout for joy. All the installed devices were better than expected. Small crowds formed around internet terminals even though they gave access only to mBank's website, cash machines reached the breaking point after one month, and people queued up in front of information desks eager to talk about the new phenomenon on the financial market. That gave me an excuse to do my shopping several times a week. Each time I looked, at mKiosk a slight adrenaline rush made my heart beat faster. There were always some people at the mKiosk, some of them were already mBank's clients, but many others came there to learn more about the offer.

Clients made it clear that they needed mBank's presence in the real world. We knew too well that the pilot kiosks were far from ideal. They looked crude and boxy. They were, well, not the easiest on the eye.



Things had to change. But we needed more experience to do that.

Luck had it that I visited the top international design consultancy, IDEO, during my stay in the Silicon Valley. It is involved in management consulting as well as developing products and services. IDEO created a dazzling miscellany of things, ranging from toothpaste tubes, shopping trolleys and palmtops to computer mice. And most importantly, the company does not keep its miraculous designing “tricks” secret. Fortune published an article entitled “A Day at the University of Innovation” after its journalists visited the IDEO headquarters in Palo Alto. I was similarly impressed by the company’s achievements, but even more so by its methodology of designing and the concept of Human Centred Design which encapsulates its essence. *The Art of Innovation*<sup>30</sup> is a book that describes all the steps of IDEO’s innovation process. It became our companion to designing the new mKiosk. Innovation is the art of noticing and addressing needs by means of available solutions before others do it. mBank’s organizational culture and its brand’s identity were conducive to IDEO’s Human Centred Design method.

The guidelines are simple:

- Try to understand the market, your clients, and technology. Think about your ideas and their aim. Try to find an added value for the costumer.
- Observe real people in real-life situation. Watch how they use equipment, etc. Concentrate on functions rather than on things.

30 Tom Kelley, *The Art of Innovation: Lessons in Creativity from IDEO, America’s Leading Design Firm*, Doubleday, New York 2001.



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- Construct models. Transform your vision and ideas into prototypes.
  - Assess and improve your models. No model is so good that improvements cannot be made.
  - Communicate your ideas. Implement your solution without compromise.

These steps helped us carry out the project independently. Designing mKiosk was an incredible adventure for all those who participated in it. Results exceeded expectations. The methodology became mBank's legacy and was used on various occasions. It is worth describing the process which was innovative in its own right and can be a useful lesson on innovation for all those interested.



Some of the goals behind the decision to be present in the real world seemed contradictory, for example building banking centres and keeping costs low. It was believed within the company that clients would not take to mBank's move. The decision was controversial and not an easy one to take. But arguments for it were strong and reasonable:

- Expansion on the consumer credit market
- Taking advantage of the potential of shopping centres
- Allowing clients to make cash payments
- Communication in the real world

Functions:

- Counselling and selling consumer credits
- Acquisition of new clients and selling accounts
- Cash payments and withdrawals
- Independent money management



Observations: What can I do?

- Watch mBank in the real world! You are its client, so look through its eyes. We are trying to understand the mKiosk's real image.

- Use it! Try opening an account, learning more about it, taking out a loan, and so on. Share your experiences and thoughts with us, especially your opinion about the quality of service. We are interested in how you feel!
- Ask! About what other clients need. About what problems the staff see.
- We want to know how mKiosks are functioning now, what they look like, how clients are served, what is working in them like, what works and what doesn't.
- Let us know your opinion (not assessment) about your relationship with mBank.

During meetings in which a moderator took part, the new mKiosk's features were defined on the basis of observations. The post-it method helped define the Kiosk's functions from three different perspectives:

- mBank's clients
- Staff
- Third person



Those involved in the project, business leaders and architects took part in the brainstorming session. Everyone brought their experience to the table. The following topics were discussed:

- Maximum benefit and convenience requires looking for better and better solutions
- Verifying functions
- Hierarchization of functions
- Suggesting ideas for functional solutions

The participants put forward their ideas for questions that required answering in order to make mKiosks functional:

- How should we sell?
- How can we make mKiosks secure?
- How should we communicate with customers?

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The aftermath of the brainstorm:

- Selling is mKiosk's primary function. mKiosk must stand out in a shopping centre. A separate area is needed to serve clients comfortably, ideally in a form of a stall and an additional meeting room.
- To make sales effective, there should be room for two salespeople with two separate terminals.
- The main role of communication is to establish strong identity on the basis of mBank's logo. mKiosk should be equipped with cost-effective and removable advertising space.
- Any inconvenience in using Internet terminals must be corrected.
- Every mKiosk should be equipped with cash dispenser and deposit machines.



A prototype was created in a month's time and installed in Wola Park Shopping Centre in Warsaw. After close examination, we introduced a dozen or so improvements. The most important and noticeable ones were:

#### Communication

- The logotype was put up higher
- The front of the stall was changed (doors and graphics)

The posters on the sides were enlarged

#### Functionality / Customer Service

- The counter was extended and a table was put in – another comfortable place to talk to clients
- Phones were installed higher

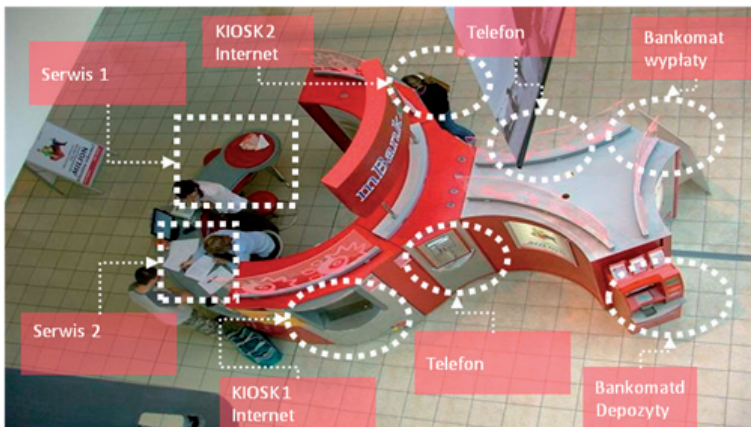


The project planned according to IDEO's Human Centred Design was implemented without delay. The new Kiosk's appearance reflects mBank's character and amply fulfils all business functions.



Its main advantages are:

- Location – shopping centres in large cities;
- Modular structure – it can be adapted to various locations;
- Mobility – it can be transported easily ;
- Attracts customers (opening accounts, identifying clients, documents can be signed here);
- Allows cash to be deposited and withdrawn;
- Self-service point – Internet terminal and phone.



mKiosks' business results are similar to those of traditional banks' average-size branches while financial outlays and overheads are incomparably lower. These facts and figures which sum up one month of activity could make any branch manager dizzy:

mKiosks' business results are similar to those of traditional banks' average-size branches while financial outlays and overheads are incomparably lower.

- 600 thousand zloty – the sale of consumer credits.
- 80 – the number of new personal accounts.
- 900 – the number of mKiosk's users.
- 700 – the number of call to mLine (Telephone Service Centre).
- 2000 – the number of deposits paid into

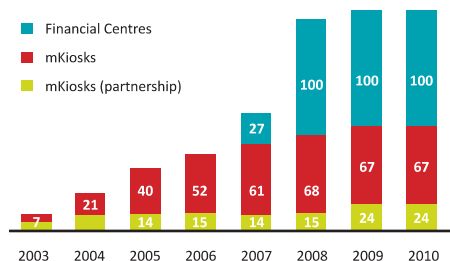
mBank's accounts (3 million zloty)

- 4500 – the number of cash withdrawals.

\*(Average data for a typical mKiosk in the first quarter of 2008)

The kiosk occupies an area of 110-160 sq ft as opposed to 1100-2600 sq ft occupied by a traditional branch. Financial outlays on the kiosk reach 50 thousand zloty compared to 500 thousand to 1000 million on conventional banking centres. Kiosks are run by mBank's partners who operate on the basis of agency contracts. The investment outlay is made by mBank, which retains the right to mKiosk's location, and all operational costs are covered by the partner. mKiosks were effective, had a positive influence on mBank's image, and their number grew rapidly.

### Expansion of the network of mBank's electronic banking centres



mBank can now boast a far-reaching network of distribution which covers the entire country. It has achieved that without giving up its identity of an online bank and its low-cost financial model. Thanks to the network, mBank is one of the major players on the mortgage market and has an opportunity to play a similarly important role on the consumer credit market.

This network of distribution has no parallel in retail banking, and had to be built independently. The development of mKiosk from its humble beginnings to its most recent innovative version shows our team's ability to look for unconventional solutions. The project of designing and improving mKiosk on the basis of IDEO's Human Centred Design was in itself an example of a groundbreaking approach to business challenges. It proves that innovation can be learnt and successfully realized.

## Standing Tall among the Giants

**330 thousand** mBank clients and 1.7 billion zloty in deposits after two years. 1200 customers in Poland. By 2002, it had become clear that Internet banking was a force to be reckoned with.

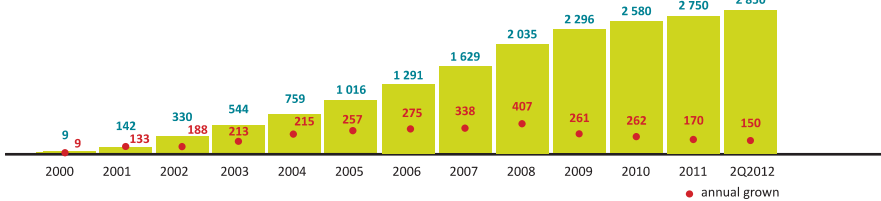
mBank was maintaining its 30-per-cent share in the market. In the following years it confirmed its ambition to become one of the largest banks in the country. In 2003 it already had 542,200 clients. Their number was growing fast and reached 759,600 in 2004. In 2005, mBank welcomed its one millionth customer. During that period, it was the most rapidly developing retail bank in Poland. Every fourth client had opened their account with mBank. There were 2 million clients in 2008, and 3 million in 2010 thanks to the expansion to the Slovakian and Czech markets.

mBank kept up the phenomenal rocketing rate of acquiring clients for eight years running. In the record-breaking year of 2008, the bank attracted 30 thousand clients a month on average. Most clients are acquired through mBank's website and portals cooperating with it. Each year more and more clients had been attracted via the Internet in relation to the total number of customers acquired in the given year:

## Disruption of polish banking market by mBank low cost business model

Rapid mBank customer growth 2000-2012

3rd largest retail bank in Poland by number of customers



2001: 88 thousand - 62 per cent of all acquired customers

2004: 582 thousand – 76 per cent

2007: 1 million 232 thousand – 76 per cent

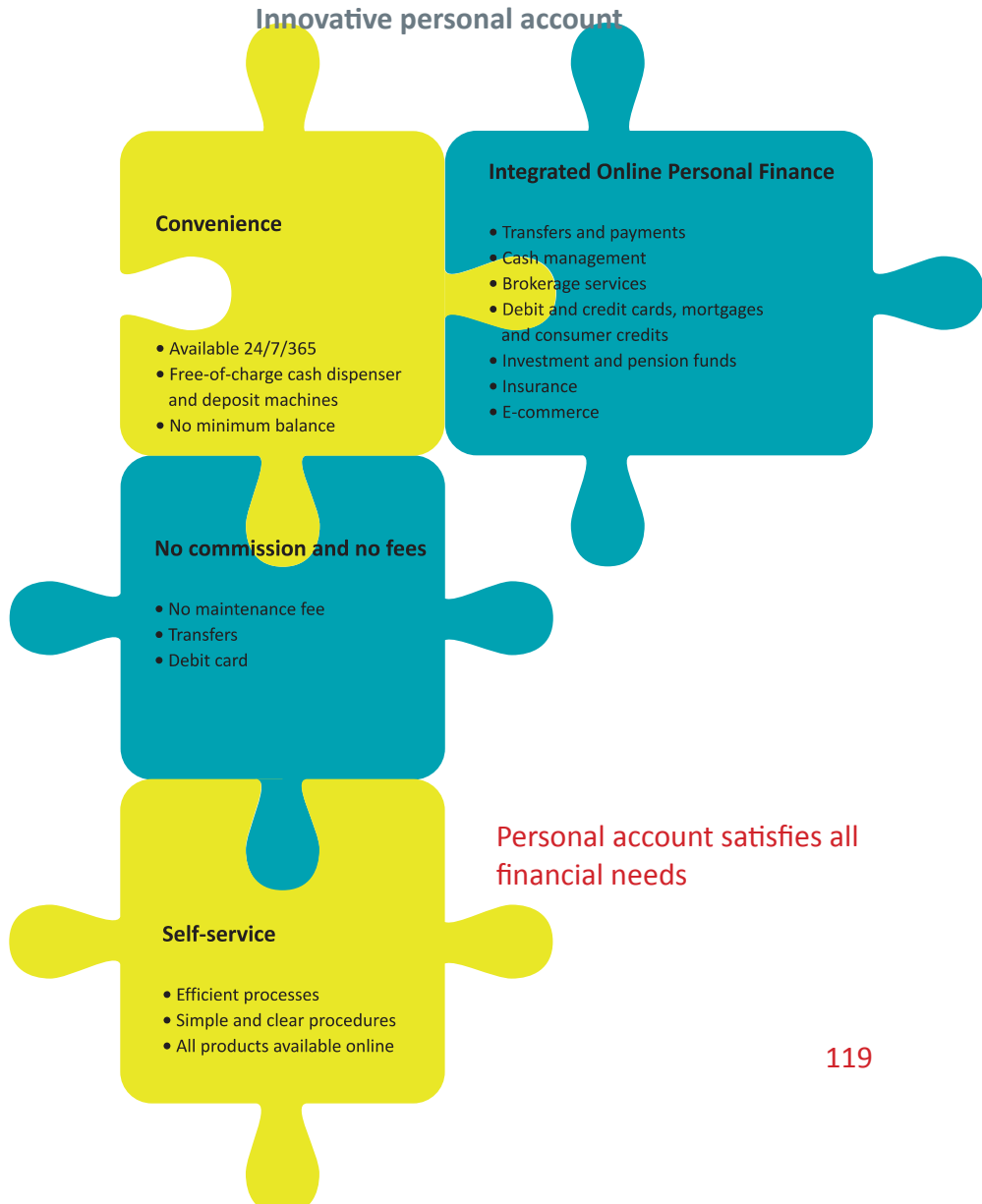
2008: 1 million 465 thousand – 72 per cent

The recent decrease has been caused by the growing number of banking centres and mBank’s presence in the real world.

eKonto has been the strongest magnet for clients so far. Among its many advantages, the biggest one is its integration with the rest of banking products and financial services. The account embodies mBank’s mission: maximum benefit and convenience. There is no maintenance fee. Transfers, debit card and withdrawals are free-of-charge. In the last decade, many banks in Poland and around the world have tried to beat off competition from low-cost online banks. They have introduced similar offers or radically lowered fees on personal accounts. But due to their much higher cost base and fewer and fewer alternative sources of income, they are forced to charge commission and fees all over again. That was the case of Polish bank Alior when it

came into the market. Similarly, PKO BP, the country's largest retail bank, has had to resort to increasing fees lately. Even the biggest American and European banks are forced to stop offering free-of-charge accounts for individual clients. On the other hand, what an online bank offers is based on self-service through remote channels, mainly the Internet, which makes free-of-charge personal accounts feasible.

### Innovative personal account





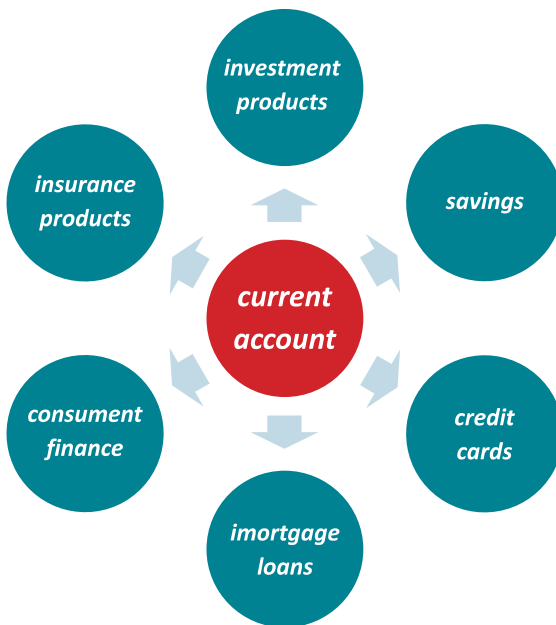
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eKonto is the hub of the client's world of finance. From here the client can manage all their assets, optimize cash flow, invest in funds and on the market, make secure e-commerce payments, control their financial obligations, take out and pay off loans, and get the most beneficial insurance on the market. In addition to that, the account is integrated with the business account, which is of great importance to microenterprises. On top of that, all this can be done 24/7/365 from any place in the world.

**eKonto is the hub of the client's world of finance.**

### mBank Business Model: Full Range Product Offer

Current account as a center of the Bank universe



mBank has changed Polish clients' views on saving. Depositing funds into a Polish savings account used to be much the same as keeping your money stashed under the mattress – the interest on both was comparable.



The only difference was that the money in the bank could not be eaten by clothes moths. eMax shook up the market by offering interest rates comparable to time deposits and gave account holders unrestricted access to money through debit cards.

### eMax savings account transforms the market

#### Convenient access 24/7/365

- Cash dispenser and deposit machines
- Debit card payments

#### Innovation

- Real on-demand savings account 24/7/365 access to money thanks to debit card and integration with current count

#### Maximum benefit

- High interest rate
- Interest on every zloty
- No early withdrawal fee
- Free-of-charge debit card

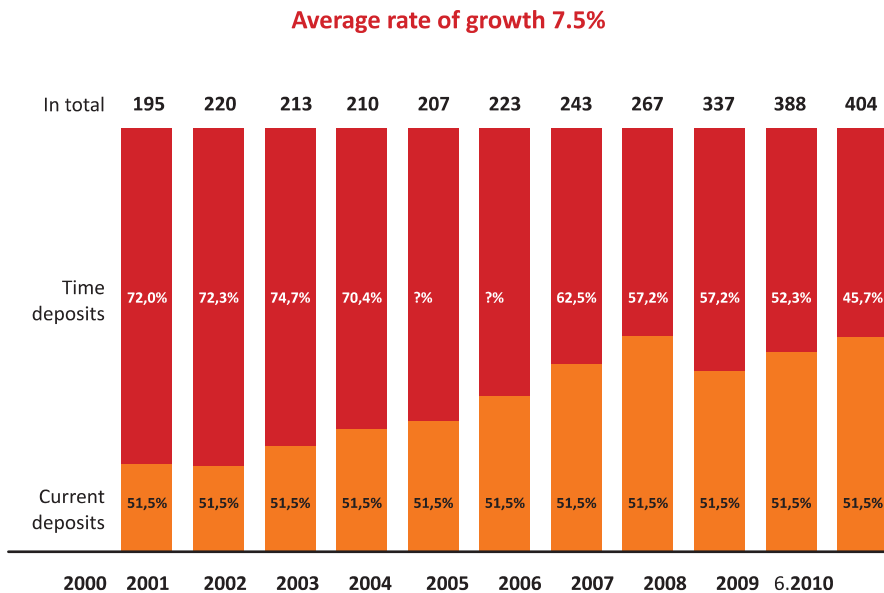
Simple savings account offers maximum benefit and convenience

#### Self-service

- Convenience of using your savings wherever and whenever you wish to do so

mBank's strategy of acquiring deposits revolved around eMax. It has left its stamp on the structure of individual clients' deposits in Poland as it forced other banks to introduce similar products or modify existing ones. This has brought real benefit to clients who are now offered higher interest rates and freedom to manage their money. Currently, nearly a half of Polish households' savings are on-demand deposits compared to just 21 per cent in 2000.

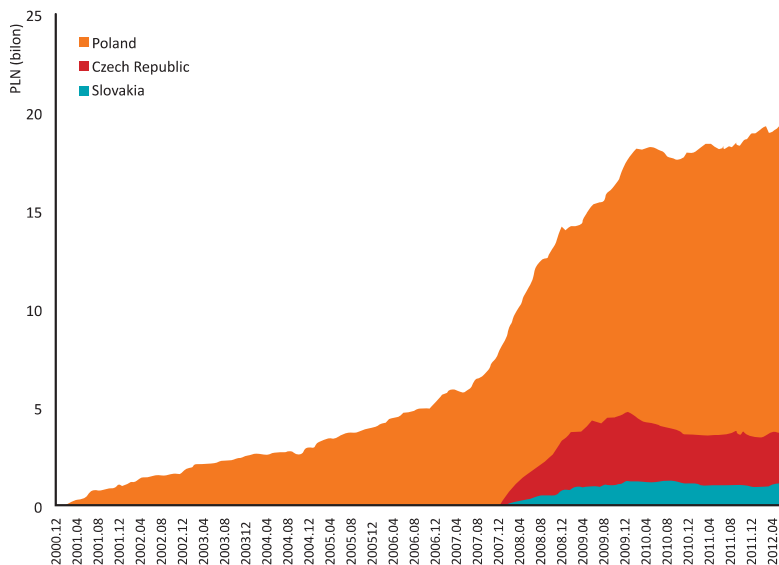
### Time or current deposits? What did Polish households choose in years 2000-2010?



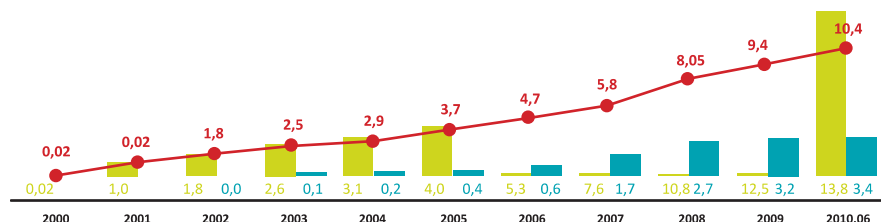
The amount of clients' deposits in mBank's accounts multiplied as the Internet grew in popularity. Between 2002 and 2005 when other banks' deposits shrank, mBank's reached 2 million 250 thousand zloty. In the middle of 2010, the amount equalled 13 million 973 thousand. In other words, mBank had a 3.5-per-cent share in the market.



### Increase in deposits at mBank (2000-2011)



In 10 years mBank has become one of the largest players on the Polish deposit market climbing to 10th place in the banking sector. It is one of few banks at which deposits exceed loans.



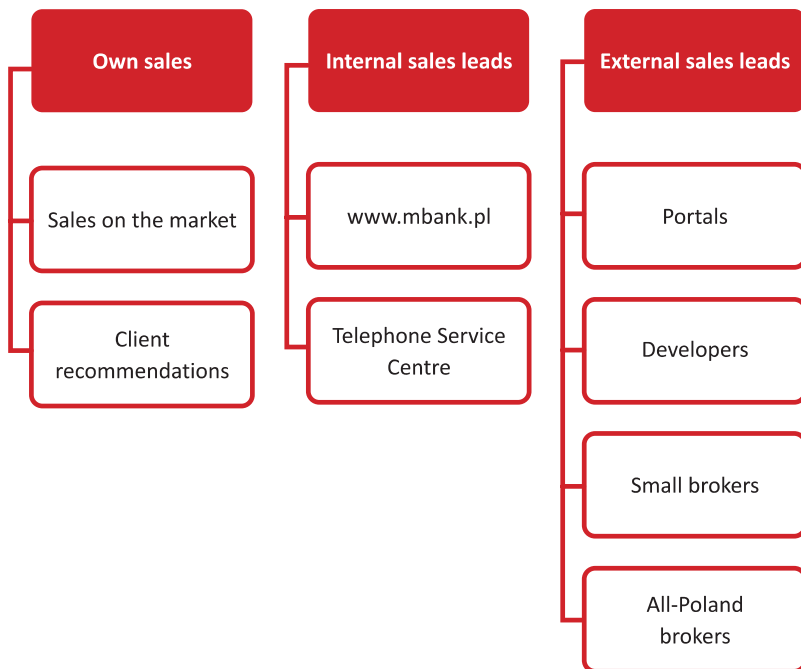
This puts it in a comfortable position on the market characterized by limited liquidity and a struggle to attract individual clients' savings which are the main source for financing new loans.

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## The Art of Crediting Clients of an Online Bank

**Mortgages** have become mBank's strategic product. Their sale had to be adapted to the specific nature of an online bank. A person in charge of that was Krzysztof Tworus, an electrical engineer who had previously worked at a wireless carrier and joined our project at its early stage. Selling was done by mBank's employees (own network), exclusive agents and credit brokers. Different websites and the call centre were part of the sales network as well. Information about prospective clients was collected and then forwarded to mBank's employees who were responsible for selling mortgages (see: lead conversion diagram) for which they received commission. Financial rewards were different for independent sales (guiding the client through the entire process) and for converting leads.

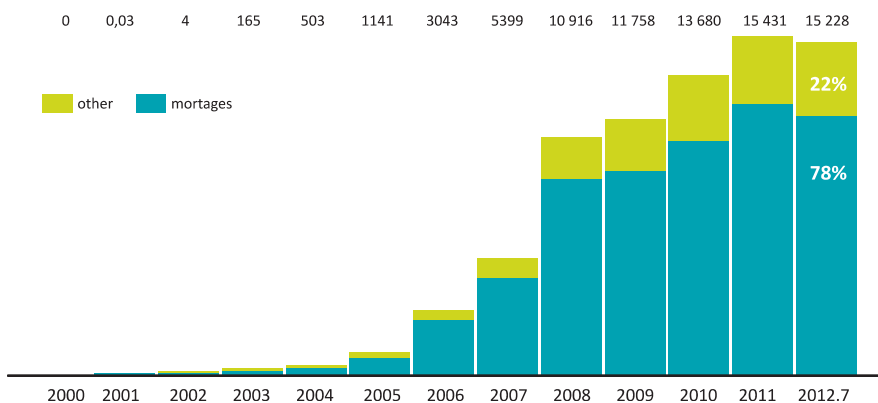
### Sales channels – lead conversion and selling



A final deal would be sealed at mBank’s Financial Centre or mKiosk. Internal advisors had no permanent working place. They met with clients at front offices of mBank’s sparse centres. They did the rest of their duties, such as collecting documents or filling in applications, at back offices at so-called “hot tables”, that is an area shared with other employees. A special evaluation system called mQuality was employed to ensure high efficiency and standard of work. We paid close attention to our advisors’ proper dress code, telephone etiquette, email response time, active sale of mBank’s other products and the quality of credit documentation. The method was effective because an advisor’s quality of service had a direct bearing on their level of commission. For that purpose, we introduced 5 “quality leagues”. An advisor’s earnings were multiplied by a rate that ranged from 1,2 to 0,85 depending on their league status. Each month the following were assessed: an advisor’s product knowledge, clients’ opinions about their work, the quality of documentation submitted to the Loans Department, correct data recording, and the number of complaints.

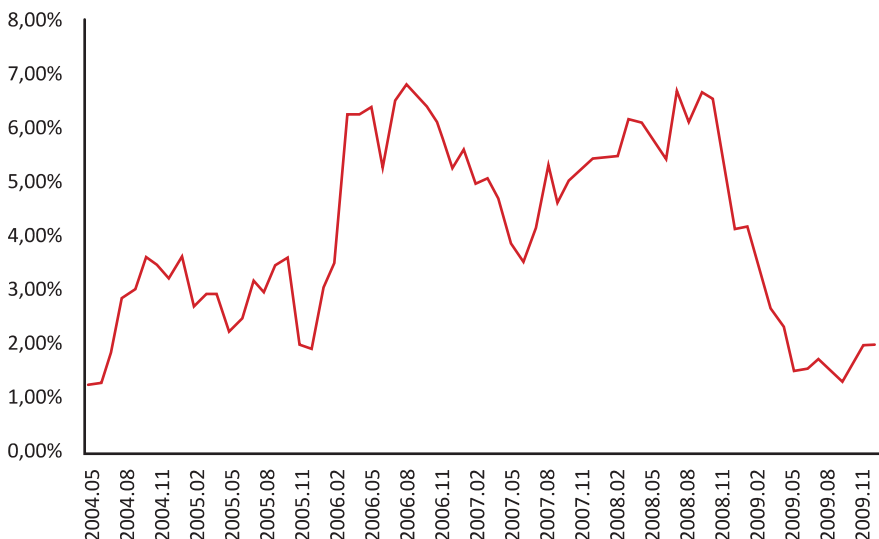
Credit agents play an essential role in the sale of mortgages in Poland. For many of them mBank was the preferred partner owing to its transparent procedures and efficiency. Loan sales software available on the Internet platform is connected with the bank’s IT system, which allows agents to follow the process of an application. Agents have a 50-per-cent share in the total sales.

### Increase in mBank’s credit portfolio



mBank's mPlan offers five types of mortgages tailored to the needs of those wishing to buy an apartment or build a house. A loan secured by real estate owned by the borrower can meet different credit needs as it is in principle the cheapest option. Mortgages have dominated mBank's credit portfolio accounting for 80 per cent of it.

**mBank's share in the mortgage market**



mBank soon became one of Poland's leading banks in terms of the volume of sold mortgages. Its share of the market reached almost 7 per cent during the boom. It successfully competed with its "sibling", Multibank, which specialized in this field. This rivalry resulted in exceptionally effective sales. The two brands of BRE Bank were second only to PKO Bank Polski. It is a remarkable achievement in a field that might seem to be dominated by banks with an extensive network of branches. mBank offers and sells various types of credit loans, including very popular revolving credits (a line of credit with the eKonto), credits on a credit card, cash and car loans as well as loans for the purchase of stock shares (mEmission).

Consumer credits were offered by mBank to a limited extent from the very beginning, whereas cash loans started to be sold on a larger scale much

later, only after seven years. Their rapid increase in 2008 was the result of an expansion of mKiosks and mPoks, and more intensive cooperation with brokers. At that time, other banks, fearing the aftermath of the crisis, stopped cooperating with brokers who generally provided loans of lower quality.

The 2009 drop in loans is connected with the financial crisis, a lower quality of the consumer credit portfolio, unstable market and capital limitations.

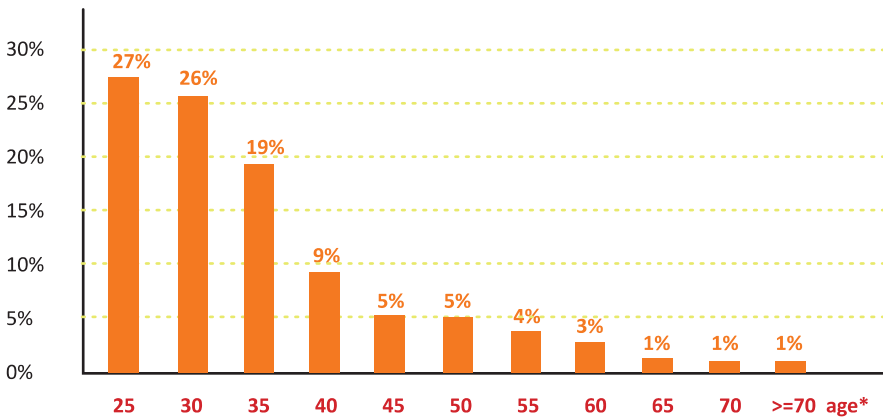
### mBank’s Clients

*Yesterday’s data on customers’ expectations and experiences is only a story. Today’s news on customers’ expectations and experiences are tomorrow’s profits.*

J. Robinson

**Clients** are the apple of mBank’s eye. These are incredibly active, relatively young, and highly educated people. As many as 72 per cent of them are under 35 years of age, and 67 per cent are university graduates. Most of them live in big cities.

Distribution of our clients’ age



\*only the higher figure of a given range is used in the graph i.e. 25 (18-25 ys)





mBank's typical client is:

A male (64 per cent)

25-30 years old

A large city dweller (population above 200 thousand)

Well-educated

Open-minded and active

Eager to use latest technology

An owner of a mobile phone

An Internet user

Values time and convenience

Aware of their needs

Self-directed (makes independent decisions based on rational premises, does not need expert advice).

mBank's customers offer enormous business potential. It can be unlocked by satisfying their financial needs which change with time. They are on average much younger, incomparably better educated, better versed in modern technology, and more inclined to use innovative products than clients of traditional banks. They are now at the start of a bank client's life cycle. Each year will see their commercial value become greater and greater.

As the years pass, they get wealthier, and their credit worthiness increases. They start being interested in mortgage loans and other more sophisticated products, which leads to an increase in earnings and profitability. If a bank can meet clients' demands, both parties benefit from it.



### mBank's vs other bank's clients

	mBank	banking sector
Higher education	63%	24%
Internet users	100%	31%
Credit card holders	24%	10%

**mBank attracts**  
**extraordinary group**  
**of clients:**  
**young, educated,**  
**perfectly comfortable**  
**with modern technology**

If you compare clients of mBank with those of other banks, some crucial differences become apparent. Not only do they lead a dissimilar lifestyle but they also use banking services differently. They visit the bank three times more often than customers of traditional banks, but in their case it simply means logging onto the online transaction system. They are also more frequent users of cards limiting cash transactions to the minimum. 250 thousand clients on average logged onto the bank every day in 2008.

The self-directed are the dominant group among mBank's clients. They make independent financial decisions, and always look for the best products and prices. The qualities they value in a bank are: speed, thorough information, competitive prices, as well as convenient product management.

## Consumers in Poland and other European countries

Group	Description	Financial needs
Independent	They make independent decisions; they look for the best products and prices	Information, price, speed, management
Cautious	Quite big interest in finance; they seek advice in complex decisions	Information, precautions, advice in complex transactions
Delegating	Consider finance boring or complicates, they want others to make decisions for them	Help, advice

	EU7	Poland	Germany	Italy	France
Delegating	10%	4%	3%	21%	10%
Cautious	37%	26%	27%	41%	36%
Independent	45%	58%	67%	25%	44%
Other	8%	11%	4%	13%	10%

Source: Forrester research 2005

It comes as a surprise that Polish consumers of financial products were found to be much more independent than Italians and Frenchmen. They even compare favourably with the average for seven countries of the “old” European Union. This explains the boom in the popularity of online banking in Poland.

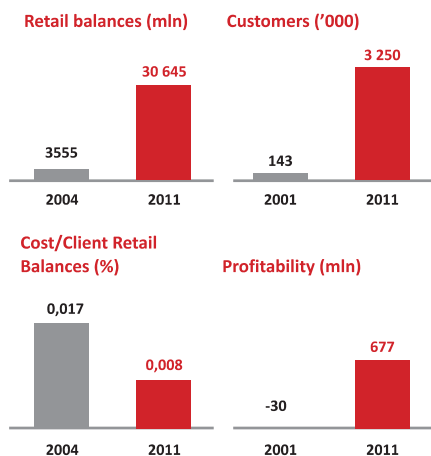
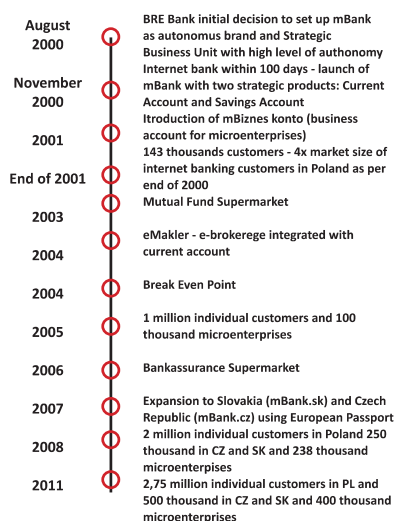
### In the Leading Edge

**Entirely** unexpectedly, the impossible has become possible: in 2010, mBank is one of the largest retail banks in Poland, and one of the biggest online banks in the world. It holds the third place in the banking sector in terms of the number of customers, having a 10-per-cent share in the market. It ranks only behind the long-established giants, PKO Bank Polski and Pekao SA which was created through a merger of four commercial banks. The growth



rate of the number of mBank's clients is the fastest in the banking sector, which means that mBank is closing in on the leaders and moving further away from its direct competitors: BZWBK, ING Bank, Eurobank and Bank Millenium. Taking into account the characteristics of its client base, mBank's growth prospects look extremely promising.

### mBank: a Success Growth Story



mBank had been awarded a number of prizes and top scores in various competitions and rankings for banks in Poland:

2001 – Innovation of the Year – Twój Styl monthly, Dot.Com monthly,

2002 – Financial Innovation of the Year –according to Parkiet daily

2002 – The Best Bank in Poland – according to Super Express readers

2003 – The Best Financial Institution in Poland 2002– according to BusinessWeek Poland

2003 – eKonto: The Best Financial Product in Poland 2002 - according to BusinessWeek Poland

2004 - eKonto: The Best Financial Product in Poland – according to Rzeczpospolita daily

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2005 – Investment Fund Supermarket – Winner of EUROPRODUCT Award of Polish Chamber of Commerce

2005 – Winner of the “Entrepreneur-Friendly Bank” competition

2005 – The Best Bank for businesses according to Pentor

2006 – Silver Emblem of European Trusted Brands – according to Reader’s Digest

2007 – The Best Bank in Poland – eKonto Gold Standard – according to independent Customer Satisfaction Survey

2007 – Credit Limit – the best credit product for businesses according to Forbes

2008 - 1st place in the Miesięcznik Finansowy BANK ranking for “The Best Internet Bank in Poland”

2008 – 1st place in the Forbes ranking for the “Best Bank for Businesses”

2009 - 1st place in the Miesięcznik Finansowy BANK ranking for “The Best Internet Bank in Poland”

2009 – 1st place in the Forbes Poland ranking for the “Best Bank for Businesses”<sup>31</sup>.

2011 - 1st place in in the Newsweek Poland ranking “Best Internet Bank”

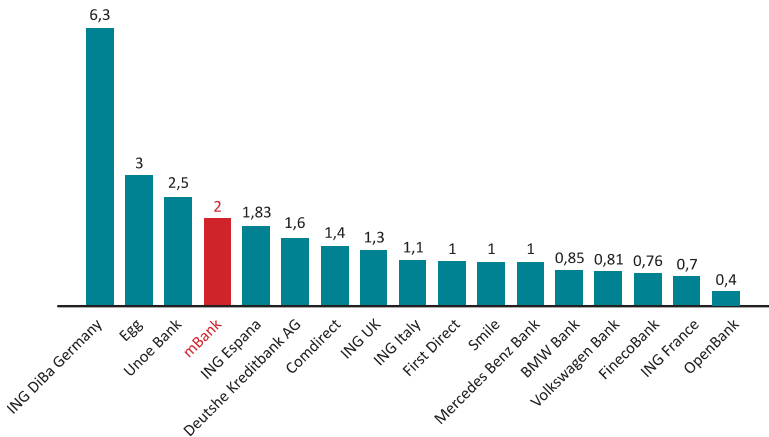
2012 - 1st place in in the Newsweek Poland ranking “Best Mobile Bank”

mBank is Europe’s fourth and the the world’s fifth Internet bank in terms of the number of clients. Data from 2008 have been used for the purpose of the graph below since more up-to-date information is not available for some banks. It is extraordinary that the online bank has gained such great popularity in a country where until recently the Internet was a luxury good and its rate of penetration was much lower than the European and world average for developed countries. Indeed, mBank has the potential to threaten the biggest players on the market in the middle run if it manages to maintain the rate of increase in the number of clients, deposits and loans.

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31 “mBank is in a class by itself (five stars). It held top places in several of our previous <Forbes> rankings. It can boast one of the lowest charges available in addition to the highest interest rate on its business account. Moreover, it promises to give businesses credit just a day after registration”. Forbes, 02.03.2010.

### Online Banks in Europe in terms of the number of clients (2008)



In comparison to its European counterparts, mBank is significantly smaller as regards the number of clients than ING DiBa which is the third largest retail bank in Germany, but trails on the heels of the British bank Egg that belongs to Citi Group and of the Spanish Unoe Bank, a legally independent entity of a banking group called Banco Bilbao Vizcaya Argentaria (BBVA). In the light of published information, outside Europe, mBank is second only to ING Direct USA which is itself smaller than ING DiBa. It is evident that mBank is bettered only by online banks from bigger and more economically advanced countries than Poland, which manifests itself in the notably higher penetration of the Internet in the society and banking

### At the End of the Day It Is Profit that Counts

*Profit is not the explanation, cause or rationale of business decisions, but a test of their validity.*

Peter Drucker

A mission, vision and strategy of operation, which have been discussed at length on the pages of this book, are abstract documents that excite imagination, grab attention, and boost morale within a company. They play an im-

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portant role in communicating with the market and other interested parties: shareholders, suppliers and the immediate environment. They show the right direction as well as define aims which are often remote in time and demand sacrifices; they justify why it is worth making them. They inform about an organization's goals in a clear and engaging way. A more detailed account of how to reach the goals can be found in a Business Plan. It is a simple document that illustrates the development of a business in time, usually 1-3 years in the future. A one-year plan is commonly referred to as budget. It is operational in character, which means it describes ways of performing tasks in detail. In addition to that, operating businesses usually plan for three years in advance, but such Middle-Term Plans are updated each year when a new Budget is prepared. The principal ingredients of both these documents are a market analysis, general and detailed strategic business goals – quantitative and qualitative – as well as a financial plan. For new enterprises a Business Plan is projected for a longer period of 5 years.

mBank was an innovative – in many way unprecedented – project. Creating a suitable Business Plan posed a real challenge. Our projected number of clients was completely different from reality, which shows how difficult it was to plan even the most basic elements under those unusual circumstances. Luckily for us, it proved to be an underestimation.

A Sales Plan contains information that influences costs and earnings. A Financial Plan gathers all essential data, and includes projections of basic financial reports: a profit and loss account, a balance sheet and cash flows. On the basis of these three documents all important indicators can be calculated necessary for a financial analysis and a review of operational efficiency. A bank's financial model is not an easy thing to write. Ours was created by Ewa Głowacka who took part in all crucial projects run by me, as an expert on mathematical modelling and financial planning. The model was so extensive that a simulation of results could last several hours.

“We didn't laze about when it came to creating new financial projections. We were never short of different versions of one-year plans, three-year plans, new strategic projects, programmes, projections,

etc. The reality would constantly prove bolder than we dared to be – the number of everything and everyone was greater than we'd planned: clients, deposits and... unfortunately costs too. Thankfully, the increase in earnings could also be found"

– says Ewa Ewa Głowacka whose magical program produced innumerable simulations of Financial Plans.

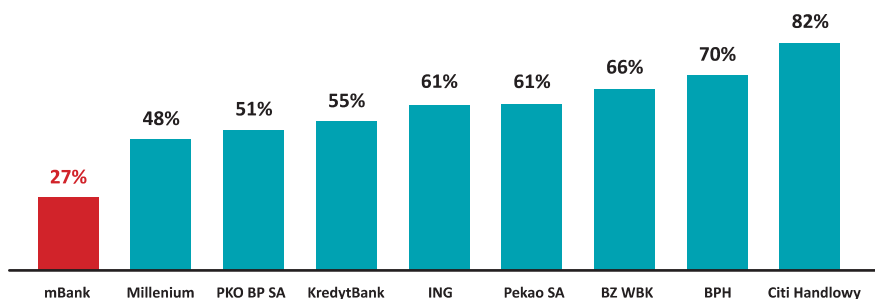
The project was in many ways a journey into the unreal. We would often refer to it as "here on our network" as opposed to "there in the reality". mBank was virtual, but the investor's money and clients' deposits were most real. The confrontation of these two worlds exerted immense pressure on financial results. It was commonly believed that mBank was destined to share the sad fate of online companies who went bankrupt after the 2000 Internet bubble burst. "This bank will never be profitable, it's just a marketing show" – they said. Those were voices of jealous competitors who were not able to offer advantageous prices without incurring loss. Similar comments were made in the press and by some analysts who used mathematical models of financial projections for traditional banks.

Little attention was paid to the fact that the extraordinary price offer was based on a low-cost business model, not on empty marketing campaign. To make a financial model work according to plans, management skills in four areas are required:

- Implementation, current management and the development of a business model based on Internet technology;
- The quality of processes, products and internal as well as external relations;
- Cost control;
- Making benefits for clients and banks compatible by looking for solutions that are advantageous to both parties.



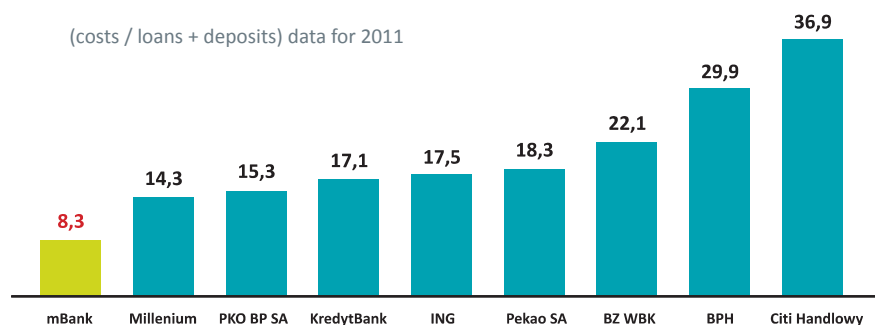
## Cost effectiveness of mBank and its competitors



A lack of an extensive network of branches is of fundamental importance to the financial model, but the client's self-service through remote channels is by no means less important. Both allow to get rid of the lion's share of costs incurred by traditional institutions. Clients gain the obvious right to have a portion of the savings, because they are the ones who contribute to making them. The cost advantage is permanent, but it becomes a strategic competitive advantage only when the quality of products and processes is equal to those of traditional banks. An Internet bank's business and financial model contradicts some basic principles of a traditional enterprise. We have grown accustomed to paying more for better quality. If used skilfully by an online bank and made the most of by customers, modern technology ensures better quality and greater convenience, while at the same time allowing costs to be cut.

## Cost of acquiring 1000 zloty in client transactions (in PLN)

(costs / loans + deposits) data for 2011



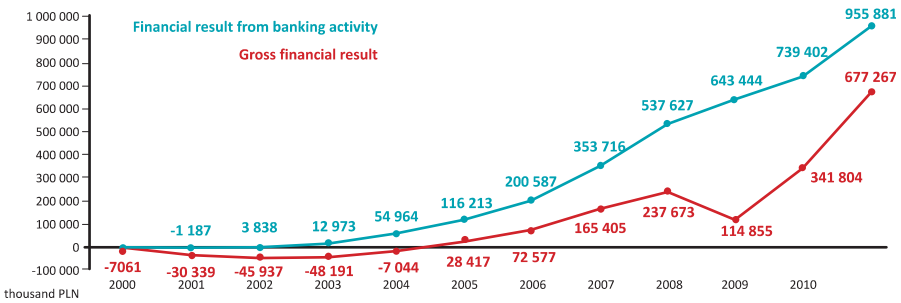
Exceptional determination and discipline is required for these obvious advantages to be reflected in financial results. While being a company with a loose structure that grants autonomy to individuals, mBank has also remained a disciplined and rationally functioning organization since its beginnings. Some marketing experts, such as Arek Jadczyk, found it rather bothersome, and had to get used to it.

“No one could have any doubt that figures were the top priority in that business. Similar to some American scientific campus of the Department of Mathematics, mBank was governed by the cult of numbers. It was hard to find a lover of numerical data greater than Lachowski himself. His almost maniacal approach to counting, estimating projected results, discussing finished and unfinished plans, or analysing a method of calculation freshly devised by a worker, made employees count scrupulously, create models, and revise statistics they studied at uni, or learn it from square one. A mistake in logical thinking or an erroneous calculation seemed more painful than the most horrid high school test. Mistakes would be spotted immediately, and anyone who committed them would drop their head in shame, and go back to their calculations ;-)) and carry on counting until the result was right, which sometimes lasted into the small hours... People had the conviction that here, at the bank, figures required special care. Figures represented money. Money belonged to Clients, and Clients as well as their benefit have been the most important at mBank from the start. But counting was just a part of this peculiar business mathematics. Equally great store was set by the presentation of data and calculations, which then fuelled heated discussions. Monday presentations that summed up the passing week through the prism of the number of newly opened and closed accounts, the flow of deposits (also those that had flowed to our competitors), sold cards, outgoing calls at the call centre, received emails, and so on – evolved into well-structured seminars during which concrete conclusions would be drawn.

The apple of mBank’s eye was a huge data warehouse. It would churn out numerous reports which every employee could order at the IT department. The MIS (Management Information System), which was built consistently over the years, had practical application for everyone – it even enabled a

complicated transaction log analysis. After the entire portfolio of products had been created, the system made it possible to run an association rules analysis as well as check the Client's record of purchases. All these tools made date clear and easy to use, which made them extremely helpful in making business decisions".

The number of clients, and the value of deposits were increasing at an unprecedented rate. There was not a moment of hesitation when an opportunity arose to climb to the top, and join the leading banks in Poland. The initial plan turned out to be scrap paper, just like its two later versions. The number of clients, value of deposits and credits as well financial projections had to be altered. Outlays and costs rose proportionally to the growth of the business. Most importantly, however, the profitability threshold was reached only a little later than planned, and indicators of investment effectiveness soared to a record high.



mBank reached the break-even point in the middle of the fourth year, and the sum of profits exceeded outlays already in the sixth year. A financial surplus of 300 million zloty is predicted in the tenth year of activity. Ensuing years should see even better results as the client base matures and tie-in sale is introduced. 2,5 million clients makes mBank the third in the banking sector. However, it is at the bottom of the top ten in terms of assets, which is understandable taking into account the age structure and life cycle of its clients. So far mBank has been attracting clients by its innovative products: the free-of-charge personal account, high interest rates, commission-free

purchase of mutual funds, brokerage services, and cheap car insurance. As I have emphasized before, our customers are well-educated young people who are looking to become very profitable clients. Their rising wealth, loan credibility and financial needs, which they will satisfy at mBank for obvious reasons, make it highly likely bordering on certain that income and profits will be increasing at an above-average rate in the future.

From an investor's vantage point, current and future return are important, but even more so is the value of an investment. mBank is part of BRE Bank which is a public company of considerable value .

"How do you evaluate mBank?" – I asked Jakub Korczak, who had worked at CAIB Investment Fund Company, and later held the post of a Director for Investment Relations at BRE Bank. He was familiar with the subject.

"Carrying out a valuation of mBank, which I was asked to do, presents a special challenge. It isn't simply a valuation of a separate entity but a part of a larger economic organism. It's nothing hard, is it? In a case like this, an analyst usually performs due diligence and – having access to all data from "outside" – builds their own financial model.

My task was to measure mBank's value without using due diligence and building a complicated financial model since publically available financial information on mBank was relatively limited. Is it at all feasible? Sell-side analysts quite often have to face similar challenges because they do not receive any information or data other than those publically available. It must be stressed at this point that a valuation is based on a series of assumptions which means that the end result is an estimation of value rather than a company's precise worth. Making a connection between the estimation and reality isn't easy. As far as banks go, analysts usually compare a company with its peers, and measure it on the basis of averaged P/E indicators (Price-to-Earnings ratio, or in other words, the price of a share divided by earnings per share, EPS) or P/BV indicators (Price-to-Book Value ratio, or the price of a share divided by book value per share, BVPS). These ways of valuation are considered equally effective to other methods.

Unfortunately, mBank's a case like no other. It is impossible to find an adequate group of peer banks with which it could be compared, because of

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its specificity as an online retail bank. That is why, I will use the comparative method to check whether results yielded by below-mentioned basic methods are plausible.

I have chosen a different method which is of course widely used by analysts and investors on the capital market. It is based on P/BV and P/E multipliers implied by SML (Security Market Line calculated from CAPM – Capital Asset Pricing Model).

In order to evaluate mBank, I had to make several assumptions:

1. mBank's financial results which BRE Bank makes available to the public every quarter give the full picture of its earnings and expenses as well as costs that mBank would incur if it were a separate entity rather than part of BRE Bank.
2. mBank could be sold by BRE Bank as a separate part of the company, and after obtaining a banking licence, would be ready to start operating as a "complete" bank with all resources that are essential to any bank and cannot be outsourced (e.g. risk management).
3. I based interest rates for risk-free assets and an equity risk premium on market consensus published by Bloomberg which was valid on the day of the valuation (October 2012).

I would like to make it clear that my attempt at the valuation is a purely theoretical exercise, an expression of my personal views, and cannot be the basis for any investment decisions.

When constructing my model, I took the publically available data about mBank from 2007-20011 as a starting point. I obtained the following data based on an assumed trend of profit growth (it was halting but was still a two-digit trend), Cost-to-Income ratio (high effectiveness maintained), effective tax rate (20%) and a trend of increase in capital requirement (no more than 10% a year):

Table 1:

**mBank – basic data for purpose of valuation (includes forecast)**

PLN	2011	2012E	2013E	2014E	2015E
Total revenue	931	1 062	1 160	1 252	1 323
Total costs	-254	- 273	-290	-307	-320
Pre-tax profit/loss	677	789	870	945	1 003
Net profit/loss	542	631	696	756	802
Equity	1 095	1 179	1 249	1 318	1 371

Source: Historical data - BRE Bank's investment presentations; forecast – own data.

I then calculated the cost of capital, or in other words, a minimum required return on assets such as mBank's shares. I based a return on risk-free assets ( $R_f$ ) on an up-to-date average forecast for the profitability of Polish 10-year bonds announced by Bloomberg. I assumed an equity risk premium (ERP) expected by investors for assets riskier than bonds to be at 60%. I postulated the beta coefficient (a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole) to be at the level of 1,2x – fairly common for banks quoted on the Warsaw Stock Exchange.

I calculated the minimum required return (R) using the CAPM formula:

$$R = R_f + \beta \times ERP$$

The results for individual years are presented in the table below.

Table 2:

**Minimum required return/ cost of capital**

	2013E	2014E	2015E
Risk free (%)	6,0	6,0	6,0
Risk premium (%)	3,6	3,6	3,6
Beta (x)	1,2	1,2	1,2
Required rate of return (%)	<b>10,3</b>	<b>10,3</b>	<b>10,3</b>

Using the forecast of the net profit and equity, I have calculated the ROE

(Return on Equity) dividing profit for a given period by average equity (a mean for equity at the end of a current and previous year).

Employing the multiplier method, I have counted the implied P/BV multiplier according to the following equation:

$$P/BV = ROE \div COE,$$

where COE is the cost of equity, or the minimum required return shown in Table 2.

Next, using mBank's forecast book value, I have calculated the company's value implied by the P/BV multiplier:

$$EV = P/BV \times \text{book value}$$

The results of my valuation are shown in Table 3.

Table 3:

### Valuation by means of implied P/BV coefficient

	2013E	2014E	2015E
Required rate of return (%)	10,3	10,3	10,3
ROE (%)	57,3	58,9	59,7
Implied P/BV (x)	5,6	5,7	5,8
BV (PLN M)	1 249	1 318	1 371
<b>Implied valuation (PLN M)</b>	<b>6 941</b>	<b>7 522</b>	<b>7 928</b>
<b>2015 value discounted to YE2013 (PLN M)</b>	<b>6 514</b>	<b>7 186</b>	

I used the 2015 value of mBank as a starting point. I have discounted the result in order to obtain the company's value for 2013 by using the minimum required return for 2015 and 2014.

The method of the P/BV multiplier yielded mBank's current value – PLN 6,5 billion.

To check my valuation, I have used another multiplier method based on the P/E coefficient, which I have calculated using this equation:

$$P/E = 1 \div COE$$

I have obtained the second estimate of mBank's value by multiplying the P/E multiplier by forecast net profit:



$$EV = P/E \times \text{net profit}$$

The results can be found in Table 4.

Table 4:

### Valuation by means of implied P/E coefficient

	2013E	2014E	2015E
Required rate of return (%)	10,3	10,3	10,3
Implied PER (x)	9,7	9,7	9,7
Net profit (PLN M)	696	756	802
<b>Implied target price (PLN M)</b>	<b>6 744</b>	<b>7 326</b>	<b>7 775</b>
<b>2015 value discounted to YE2013 (PLN M)</b>	<b>6 389</b>	<b>7 048</b>	

Again, I have discounted mBank's value for 2015, and thus obtained its current value which totals PLN 6,4 billion.

To sum up, I have assessed mBank's value, using the method of multipliers implied by SML (Security Market Line) calculated from CAPM (Capital Asset Pricing Model), to range from PLN 6,4 to 6,5 billion.

At this point, you may feel like asking whether the coefficients, P/BV and P/E, correspond in any way with the market conditions. A way of checking that is to compare them with analogous average coefficients for commercial banks quoted on the Warsaw Stock Exchange. Currently, P/BV for these banks is 1,4x, and P/E is 10,2x . By using the book value forecast for mBank and the net profit projected for 2012, we get a value that ranges from PLN 1,7 billion to 73,1 billion.

Table 5:

### Valuation on the basis of market's average P/BV and P/E coefficients

	P/BV	P/E
Average ratio for WSE listed banks (x)	1,4	10,2
Forecast book value (BV) and net profit (E) for mBank (2013, PLN M)	1 249	696
<b>Indicate multiple valuation (PLN M)</b>	<b>1 749</b>	<b>7 099</b>



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Results of the two valuations based on multipliers fit in the range determined by the comparative valuation based on P/E multiple. It needs to be highlighted, however, that mBank has a much higher return on equity (ROE) in comparison to banks quoted on the WSE. Its projected ROE for 2013 equals 57.3% as opposed to just 13.1% for other banks – this is why P/BV multiple valuation does not come close to mBank’s intrinsic value, as calculated by CAPM

We may start wondering at this point whether the valuation should not include a premium for profitability which is much higher than at other banks. Furthermore, we need to bear in mind mBank’s clients are, on average, much younger than a typical Polish banking client. This means that mBank’s income potential will not be fully reflected by the current financial results. Therefore, in my opinion, a (hypothetical) long-term/strategic investor interested in making such highly profitable investment, at the same time enabling a further increase in profitability, could pay a premium of at least 25% of its market value. In such a case (often referred to as a “blue-sky scenario” by analysts) mBank’s value could reach as much as PLN 8.9 billion”.

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To sum up, I have assessed mBank’s value, using the method of multipliers implied by SML (Security Market Line) calculated from CAPM (Capital Asset Pricing Model), to range from PLN 6,4 to 6,5 billion.

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Jakub Korczak’s valuation is based on average market P/BV and P/E coefficients and forecasts of mBank’s book value on the horizon of 2 years. mBank, however, represents a business model of the future characterized by a rapidly increasing number of clients from a special category. They are the driving force behind the growth in assets, value of deposits, loans, banking transactions, investment operations, demand for insurances,

and, last but not least, the bank’s earnings. As a result, mBank’s value increases exponentially with time. If the trend continues, mBank has a chance to become one of the most valuable banks in Poland, which will reflect its high rank in terms of the number of customers and the level of client satisfaction.

# A Pan-European Dream



*Everything in strategy is very simple, but that does not mean that everything is easy.*

Carl von Clausewitz

**Can** countries like Poland be innovative? The innovativeness of an economy is usually seen through the prism of high financial outlays on research and development, which are funded from both public and private sources. It is estimated that 2/3 of developed countries' growth is linked to introducing innovation. An economy's maturity, high level of GDP and well-developed education system heighten awareness and encourage innovativeness. Poor and medium-developed countries spend relatively little on research and development, and their scientific infrastructure offers insufficient opportunity for making discoveries and designing inventions. It is a vicious circle. The lack of financial resources for research and a brain drain hinder innovation, thus limiting an economy's growth. For years, Poland has been lagging behind in innovativeness rankings, and is simply unable to compete with other European countries in this field <sup>1</sup>. However, the New Economy creates a possibility to seek innovation in ways other than through capital-consuming research. In the age of the Internet, access to information as well as the exchange of ideas is free, and globalization enables people to use invention sand state-of-the-art technology on an international scale.

Innovation is more of an economic or social term than a technical one<sup>2</sup>. Its main si-

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**The New Economy creates a possibility to seek innovation in ways other than through capital-consuming research.**

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1 "The Global Competitiveness Report 2009 -2010" (Poland - 46, Cyprus - 34, Czech Republic - 31, Lithuania - 68, Slovenia - 37); "European Innovation Scoreboard – EU27" (Poland - 23, Cyprus - 13, Czech Republic - 15, Lithuania - 26, Hungary - 22).

2 Peter Drucker, *Innovation and Entrepreneurship: Practice and Principles*, (New York: Harper & Row, 1985).

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gnificance is to raise the efficiency of resources, or in other words, to heighten satisfaction that clients derive from using them. According to Peter Drucker, economic and social innovations have been more notable than such inventions as the steam engine or telegraph. It is the system of vocational training that has laid the foundation for Germany's industrial might, and understanding the weight of entrepreneurial strategy in management has contributed more to the success of Japanese companies than technical inventions. Indeed, economic history proves that Japan managed to rise from the position of a poor backward country after World War Two to the status of the globe's foremost exporter of high-processed goods. In the meantime, Japanese companies have become leaders in modern technology, work efficiency and product quality. Without belittling the merits of Japanese technical thought, it is thanks to their style of management and strategy that the companies have set themselves apart.

Introducing innovation to a business model, management style or strategy does not require additional outlays on research and development, does not depend on inventions and new technologies, but does have the potential to create competitive advantage and lead to success. A business model as a way of combining different but interdependent elements such as a target of clients, products and services that address genuine needs, distribution channels and technology opens up an exceptional opportunity to innovate, which can create a relatively stable competitive advantage. Because these elements are interlinked with each other in complicated ways, even gradual progress, that is a sustaining innovation, is difficult to copy. A disruptive innovation requires a

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radical change of at least one of the elements and the adaptation of others. It is the most difficult one to accomplish, but creates a permanent competitive advantage. Therefore, it is true that exploiting innovations is what leads to diversity in business. It is good news for countries like Poland. What counts is knowledge to which there is unlimited access, talent, hard work, and a stroke of luck.

## A European Bank of a New Generation

*Innovative strategies do not spring from flashes of genius or a meticulous analysis. Most often they originate from deep reflection on current business models and opportunities created by the market.*

Krzysztof Oblój, “On Reflective Management”<sup>3</sup>

*Bureaucrats in Brussels have been going on and on about the European community for decades. And low-cost carriers are on the right track to create one.*

Michael O’Leary, CEO of the Irish airline Ryanair

In 2006, mBank was already a notable Polish retail bank. One millionth client joined it as early as in 2005. It was profitable, and offered a wider scope of products and services than even its best competitors. The announced revolution became a fact. Now it was time to ask whether the business model would prove just as effective elsewhere. BRE Bank was quoted on the stock exchange, and a large number of its investors came from abroad. Direct questions were posed, also by analysts from investment houses who were preparing reports on BRE Bank for investors: What are BRE Bank’s future plans as its value has increasing importance for the BRE Bank Group? A strategic diagnosis carried out by our team left no doubt that, thanks to its approach to low-cost finance, mBank had every chance to disrupt other European markets as well. It was not too late yet; there was no financial institution similar to mBank in Europe! The only point of reference was ING Direct which operated in 9 countries in the world; in Europe, it was Germany, Austria, the UK, Spain and Italy. Its slogan read “simplicity and transparency”, and, fittingly, they offered a small number of chosen products in just a few categories. At that time, ING Direct’s business model was based on a high-interest savings account which was available in all the countries. Other products were offered opportunistically. A personal account, which was mBank’s flagship product, was offered by ING Direct in all three countries. The difference between the two models was fundamental.

3 Translator’s note: The original title is „O zarządzaniu refleksyjnie”. It has been translated for ease of the Reader.

mBank presented all-round retail banking together with investment products and a new generation of bancassurance while ING Direct still remained a banking monoculture, concentrated on one or two products. This was mBank's advantage. It had a well-developed business model which corresponded to all essential needs of new generation clients, and was supported by an efficient and modern IT system as well as reliable processes adapted to the Internet. As shocking as it was, mBank's strategy and operating model creating in Poland, were superior to technical and business solutions employed by the largest most well-known Internet bank in the world, ING.

### ING Direct: products in chosen categories

		Geographical reach of ING Direct's activity								
Product category	Canada	Spain	Australia	France	USA	Italy	Germany	UK	Austria	
Savings	+	+	+	+	+	+	+	+	+	
Mortgages	+	+	+		+	+	+	+		
Investment products	+	+		+	+	+	+			
Personal accounts		+			+		+			
Other products*	+	+	+		+		+			

+ Product is available  
 ■ >10% of available products  
 ■ 5-10% of available products  
 Source: Making Banking Simple; Dick Harryvan, CEO ING Direct; EFMA, Rome, March 30th 2007.

An opportunity like that had to be seized. The best people were delegated to devise the strategy on entering foreign markets. Piotr Gawron was appointed the Project Manager – mBank's boss, a real fighter, a young but already hugely experienced manager whom I had always found easy to cooperate with. Now being the President of BRE Bank, I took charge of directly supervising the project which, I thought, was a great chance for our organization. Our strategic diagnosis showed that a window of opportunity had opened to create a Euro-



pean retail bank of a new generation from ground up. It rarely happens so that there are several equally strong arguments for success:

- a single financial passport, a groundbreaking regulation effective in the EU,
- weaknesses in operating models of international banking groups whose activity is based on long-established practices and corporate culture,
- a new generation of clients appearing on the market,
- a lack benefit from investment in IT,
- an opportunity to create a low-cost business model for a retail bank operating on an international scale which would be based on our own unique experiences.

One of the above reasons would have been enough to consider undertaking the new project, let alone several. The chance was strong and had to be taken.

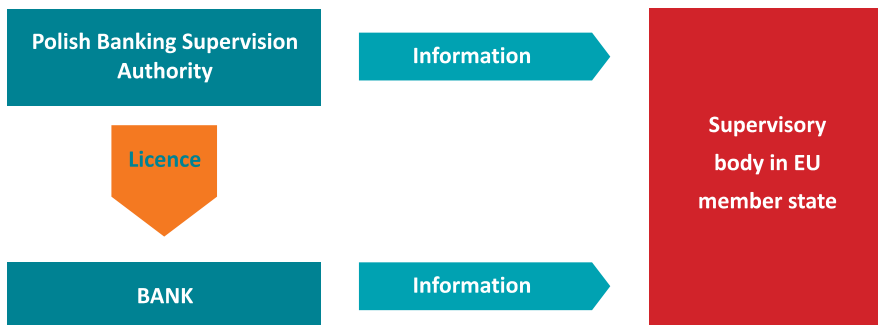
Changes in law are often causes of extraordinary business threats but also chances. In the financial sector, which is tightly regulated, legal changes have always been a sensitive and closely monitored area. The Glass-Steagall Act of 1933 completely altered the financial landscape in the USA leading to a collapse of an American banking giant. It was repealed in 1999, which enabled Citigroup, the world's biggest financial conglomerate, to be founded through a merger of Citicorp and Travellers Group. A foundation for a common market in Western Europe was laid by the European Coal and Steel Community which in 1958 was transformed into the European Economic Community. One of the main aims behind the integration of the EU member states is to create a uniform internal market. A unification of the financial market, which is essential for the success of the plan, is a gradual process. Banking activity in the EU is regulated by the Directive 2000/12/EC of the European Parliament and of the Council of 20th March, 2000. The Financial Services Action Plan, completed in 2005, enabled the consolidation of the financial market in terms of uniformity of regulations. Its aim was to review and compliment an existing legal framework to increase the integration and effectiveness of the European financial market.

A free flow of financial services applies to banking and insurance services as well as securities. Thanks to the single passport rule, that is, a uniform pas-

sport and a mother country's supervision, businesses offering these kinds of services in the EU need just a single permission to operate across the entire Union<sup>4</sup>.

*The single banking licence rule* authorizes a credit institution to offer services in other EU member states. The scope of these services is determined by a supervisory body of a state where the institution's head office is situated. The services can be provided directly by the institution (cross-border operation) or via branches.

Credit institutions in the EU are supervised by those member states which permitted them to operate. When providing services in other countries of the EU, a credit institution is obliged to respect rules of the permission as well as legal regulations of a host country.



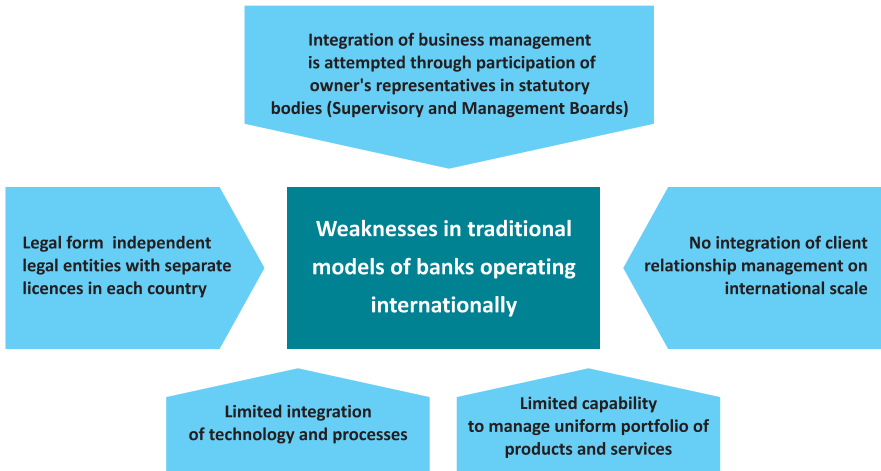
Capital requirements, the solvency ratio, limits of concentration of liabilities refer to funds of a parent not a branch. There are no restrictions in fund transfers between a parent and its branch.

The significance of the single passport cannot be overstated. Banks can operate on an international scale within the EU on the basis of a single licence and control their operations from one place. However, facts show that few institutions have taken advantage of that so far. Those that have do not belong to the top financial league<sup>5</sup>. Without going into the detailed reasons for this situation, it can be generally said that, in the past, strategies of international expansion were based on mergers and takeovers as well as taking part in privatization.

<sup>4</sup> <http://www.mf.gov.pl/dokument.php?const=1&dzial=350&id=29110&PortalMF>  
<sup>5</sup> For example Greek EFG Eurobank Ergasias SA operates in Poland on the basis of the single passport.



What makes it difficult for traditional banks to operate internationally?



Traditional models of banks operating on an international scale display numerous weaknesses. They are usually based on a group of banks dependent on a dominant parent. This is the way the biggest players in the EU operate, including HSBC, Societe Generale, Santander, Unicredito, BNP Paribas, Nordea, Deutsche Bank, KBC, ING Groep. Independence of the dependent banks in individual member states is fictitious even if they are listed on local stock exchanges. This is caused by corporate policy and a series of obvious economic factors. Formal legal autonomy limits a dominant or sole owner's practical ability to control the way a company is run. Outside the EU, there are no other options as far as international expansion goes; a licence is indispensable and it can be obtained only by a subsidiary company. That is why the development of banking in the EU can and should be treated as an entirely different case.

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A new generation of clients is now entering the market, and poses a major challenge for traditional banks, because it stands established strategies and operating models on their head. This is mainly brought about by representatives of Generation Y – young people born in years 1982-1995 who are still relatively inexperienced in personal finance. So far they have used products designed for older generations which do not suit their lifestyles. Young people’s expectations are different, and evolve constantly. They use the Internet all the time; they literally live on the Web<sup>6</sup>. Internet banking is a natural environment for them.

Coming wave of new generation clients		Market phenomena
Traits of new generation client	<p style="text-align: center; font-size: 2em; font-weight: bold;">New genera- tion client</p> 	
Uses new technology with ease		Rapid changes in lifestyles of all client groups (irrespective of age)
Values convenience, chooses handy solutions		
Becomes increasingly more sensitive to product and service quality		Fast increase in independent clients’ participation
Price-sensitive		
Aware of their needs		High tendency to adopt modern consumer-friendly technology
Independent		

Despite significant differences between generations, the new generation of banking clients is characterized by the following key traits:

- Independence, lack of susceptibility to conventional advertising – they

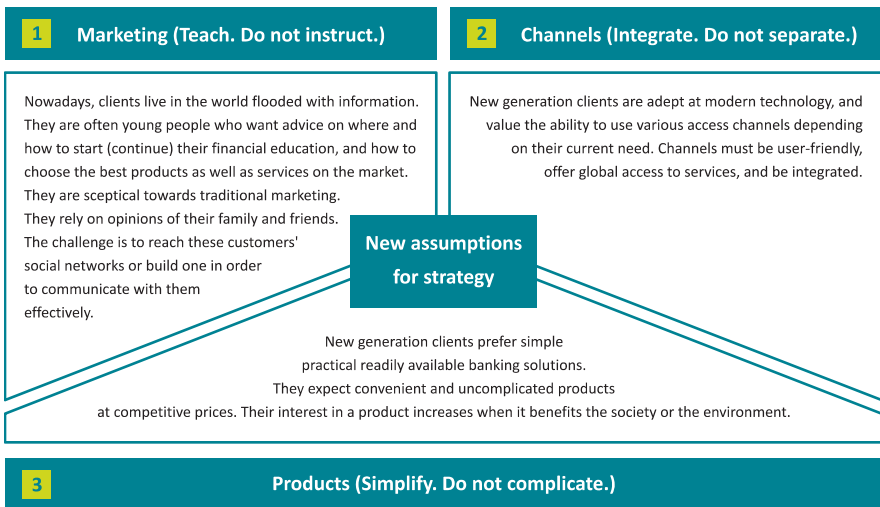
6 Don Tapscot, Grown Up Digital. How the Net Generation is Changing Your World, McGrawHill, New York 2009.

prefer to analyse the market independently before they decide to choose a product or service; they value recommendations of their family and friends;

- Practical, ready for changes – when a new cheaper better offer appears they are offered to change a service supplier. They value convenience, availability and a wide spectrum of products;
- Advanced users of modern technology – they demand the ability to carry out transactions online anywhere and at any time. They dislike waiting in queues;
- Socially-minded – sensitive to environment and social issues.

The new generation of clients comprises not only representatives of Generation Y, but also some members of Generation X (1961-1981) and the post-war generation of “baby boomers”. Older age groups adopt certain behaviours typical for younger ones such as familiarity with Internet banking, susceptibility to traditional marketing, price-sensitivity, or comparing offers and selecting the best ones. The new generation of clients requires making changes in strategy and operating models.

### New assumptions for strategy



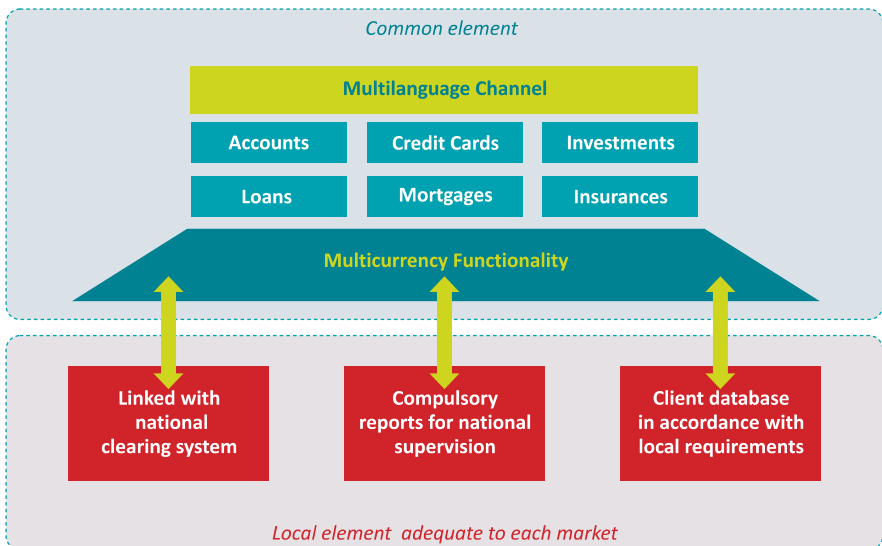
A paradigm shift is occurring in relation to:

- Marketing – education instead of marketing;
- Product offer – simplicity instead of complexity;
- Distribution channels – complete integration instead of specialization.

Banks who invested a fortune in modern technologies in the past now do not have a competitive advantage over start-ups. Quite the opposite. They are not up-to-date with the evolution of IT which is characterized by periods of rapid development marked by introduction of increasingly better cheaper solutions and inventions. Moore's and Gilder's laws state that prices of new equipment and IT services are inversely proportional to increase in computing power. These changes mean that:

- new solutions based on standards and practices of the Internet have a dramatic influence on IT infrastructure in banking,
- the ability to build a modern banking IT system quickly creates a chance for a technological and functional leap into the future.

### Functionality of an IT system for an international European passport-holding bank



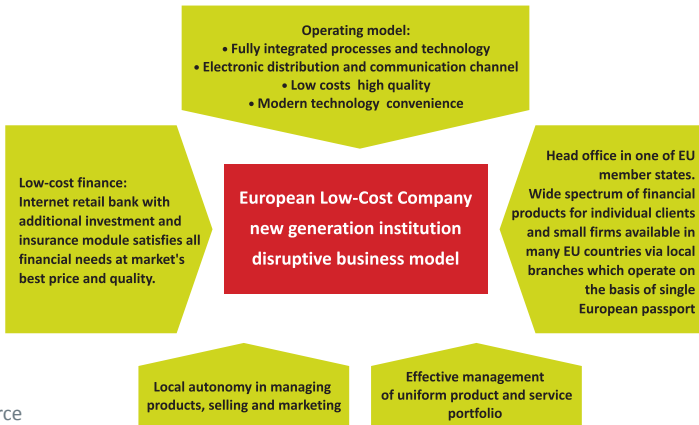
High outlays on IT in the future and well-functioning IT platforms in the present do not constitute a permanent competitive advantage. On the contrary, they can hinder growth and competitiveness in the nearest future. At the same time, it opens up an opportunity for new players just entering the market quickly to implement IT systems which may meet future requirements, without incurring considerable expenses.

High outlays on IT in the future and well-functioning IT platforms in the present do not constitute a permanent competitive advantage. On the contrary, they can hinder growth and competitiveness in the nearest future.

It is in IT that benefits of scale and scope are the most evident. Managing IT system adapted to a country's clearing system, reporting and local market strategy does not pose major difficulties. It enables cutting costs and achieving better product and process quality. Currently, modern IT systems can be built from ground up in no time. Their efficiency can then be increased depending on demand, and adapted to a changing environment. It is good news for start-ups, because they can break into the market, and grow rapidly thanks to being supported by technology that keeps up with business development.

Bearing all that in mind, we can describe the key elements of a disruptive business model for a new generation European bank.

### A pan-European low-cost company Main traits of new innovative business and operating model



Own source

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In a model of a new generation European retail bank, global operation management coexists with adapting products to local demands, local ways of managing distribution channels, marketing, communication and client relations. A new generation pan-European bank uses the Internet as a tool to construct a low-cost business model which can take advantage of progress in IT to create a unique offer of products and services.

Retail banking is generally seen as local business, which is true. It is often oligopolistic in character. National markets in Europe are clearly dominated

**The model of a European low-cost company creates an opportunity to overcome numerous barriers limiting competition on local markets, and to fulfil the hope of building a uniform market of financial services for individual clients.**

by a few, usually home companies. That is why, many of them achieve great financial results which have nothing to do with sophisticated strategy or operational excellence. The model of a European low-cost company creates an opportunity to overcome numerous barriers limiting competition on local markets, and to fulfil the hope of building a uniform market of financial services for in-

dividual clients – with all the benefits that flow from it.

## The Sky's the Limit – Leaving a Niche to Conquer the European Market

*The art of war, then, is governed by five constant factors (...):*

*The Moral Law, Heaven, Earth, the Commander, Method and discipline.*

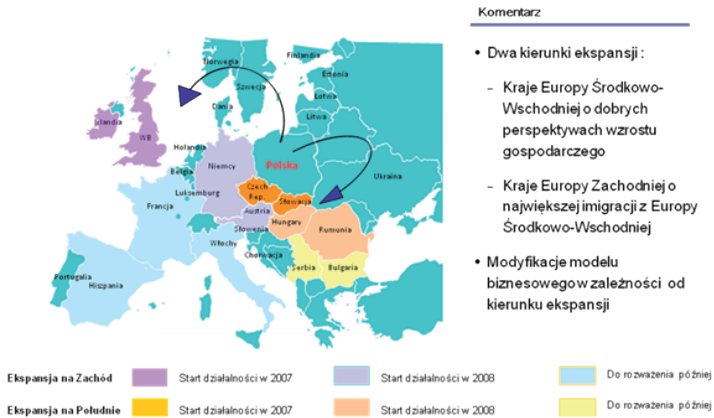
*The Moral Law causes the people to be in complete accord with their ruler, so that they will follow him regardless of their lives, undismayed by any danger.*

Sun Tzu, "The Art of War"

mBank's business model perfectly fits the concept of a new generation European bank. Adequate technology as well as experience of building and managing a low-cost company – it was all there. The only thing left was an international expansion plan and its implementation.



## Directions of mBank's expansion



Two directions of expansion:

- East-Central European countries with good economic growth prospects
- Western European countries with the most immigrants from East-Central Europe

Modification of the business model depending on a direction of expansion

Financial markets in East-Central Europe show a lot of similarities with the Polish market. Thanks to that, mBank's best practice and experiences from the national market could be copied, which enabled a fast roll-out. The Czech Republic and Slovakia became the first target for obvious reasons. It is there that quick pilot launches were to be conducted. Their aim was to confirm the ability to implement our business model according to the idea of a new generation pan-European bank. The next countries to be conquered were Hungary and Romania, which seemed even more attractive. Western Europe turned out to be an interesting direction for expansion, mainly due to:

- temporary economic migration from new EU member states to chosen Western European countries. It creates an interesting target group of clients who cannot find a bank which would address their need for an integrated service in their homeland and country of residence;

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**Our expansion plan envisaged launching mBank in eight countries in two years on the basis of the single passport.**

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- access to markets with higher levels of individual savings which could be used to finance new loans in East-Central European countries.

Our expansion plan envisaged launching mBank in eight countries in two years on the basis of the single passport. It was supposed to be an exceptionally rapid conquest of the European retail banking market completed by a Polish bank thanks to its innovative business model.

BRE Bank had some experience in international expansion since Intermarketbank, based in Vienna, was the largest factoring company in Central Europe with branches in the Czech Republic, Slovakia, Hungary, Slovenia and Romania. Nevertheless, mBank's plan for expansion opened an entirely new chapter operationwise and strategywise. The final decision had to be approved by the Investment Committee of BRE Bank's strategic shareholder, the leading German bank, Commerzbank. At that time, I had many discussions with Martin Blessing, the then member of Commerzbank's Management Board, who supervised BRE Bank on behalf of the owner. It seemed as though the ex-partner of McKinsey in Germany as well as the manager of Advance Bank, Dresdner Bank's Internet branch, perfectly understood the extraordinary opportunity and the disruptive character of our plan. In January 2007, together with Piotr Gawron and the team, I put forward in Frankfurt a sketch of our strategy and a plan of entering the Czech and Slovakian markets. Commerzbank appreciated, even envied, BRE Bank's success, especially its development of retail banking. At strategic business meetings of the highest management staff, it was emphasized with a note of incredulity that, in just a few years, BRE Bank's retail managed to attract as many clients as Commerzbank did in a century, operating in a country twice bigger than Poland. Thanks to that my word, as the President of BRE Bank and the creator of mBank as well as Multibank, carried weight in business discussions with representatives of Commerzbank. During my presentation, they shook their heads with disbelief at our plan to build two banks, in the Czech Republic and Slovakia, from ground up in seven months. Outlays and operating costs of both projects forecast for a period of

three years up until a break-even point were relatively low, in the region of 30 million euros. It did not threaten BRE Bank's profitability in case of failure. It was an investment for the future, and success promised to open the gates to Europe. Mainly for that reason, the project was accepted by a unanimous decision of the Investment Committee. The same people would tap their foreheads during informal conversations showing exactly what they thought about our enterprise. They doubted it could ever come true. It was a small victory on our way to seeing the project through. Achieving that became the point of honour of all those involved in it. The situation reminded us of the time when we worked hard to open Poland's first online bank, and few believed there was any point in it. This made me aware that my personal reputation was at stake. mBank's project, as the enterprise was referred to, became BRE Bank's most important strategic priority. During an inaugurating meeting at the end of February 2007, I handed out books. This time it was contemporary literature and Mariusz Szczygieł's *Gottland*, a collection of outstanding reports on the Czech Republic. The participants were all Poles, without exception the bank's best and most talented workers who had been appointed for the project. Their profiles set the standard for recruitment at mBank.sk and mBank.cz. We did not have experience in conducting multicultural and multinational projects. I was well aware of the threats that posed. That is why the main aim of the project was for employees of mBank.pl to prepare technical solutions, implement the operating model, and finally hand the ready mBank.cz and mBank.sk over to their Czech and Slovakian colleagues. Recruitment of competent workers was the biggest challenge of the project. This area was the cause of the most frequent difficulties and delays. Since it was established they could not be cloned, we wanted to hire people similar to those employed by mBank.

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Recruitment of competent workers was the biggest challenge of the project.

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Prospective employees were required to complete an internship in Łódź where they would gain essential knowledge, and get to know the whole team in the meantime. Thanks to that, they could later recreate to a certain degree mBank's corporate culture in the Czech Republic and Slovakia. Łukasz Matecki lost many nights' sleep over the recruitment process. He was the one respon-



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sible for finding the right people and creating the two teams of mBank.cz and mBank.sk, which would reflect, as far as it was possible, the unique DNA of mBank.pl tested under extreme conditions. Piotr Gawron, the international expansion project manager, would interview each and every candidate:

“We were looking for people with experience and knowledge about banking products, procedures, able to prepare a communication strategy, plan a good campaign, and foster relations with clients. At the same time, we really wanted to take on people open to a different approach to banking; people who would be innovative and think outside the box. The most important, however, was for them to be like us, which was also the most difficult because a different nationality means not only a different language but, above all, different culture, customs and even values. According to our plan, after the recruitment and training an employee would be well-equipped to work in any country.”

Renting two vast villas in Prague and Bratislava marked the start of the project. After having been furnished with second-hand office equipment, brought from Poland, as well as beds and wardrobes bought at Ikea, they served as a work and living place for the Polish project team members. A challenge in terms of logistics was securing appropriate conditions for computer connection with the IT Centre in Poland. But the real hurdle was the safety audit. Eventually, the infrastructure was ready after two weeks, and the project could now enter its final phase. It is hard to believe but our Czech and Slovakian banks were opened in those temporary locations, and it was only after a couple of months later that attractive and comfortable office rooms were rented in the city centre. Legendary companies are known to have been set up in garages, but I have never heard of a bank founded in a suburban villa.

We all sensed an atmosphere of hard work carried out with passion and complete dedication. In contrast to the time when mBank was being built and when it was down to me to persuade others that history was in the making, now everyone was aware that the undertaking was of an exceptional nature.

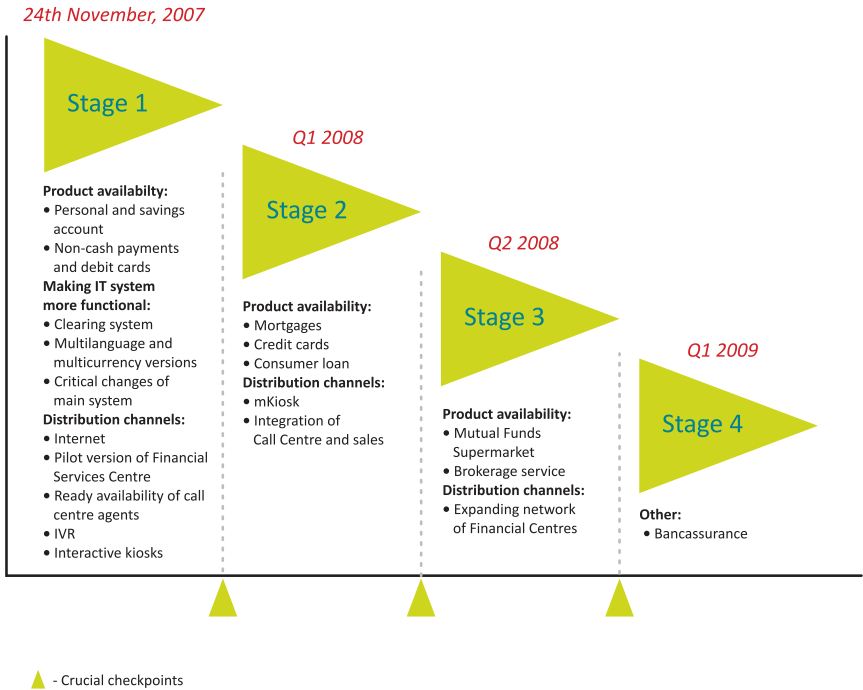


My role was to stop project members from working too hard; unbridled self-motivation could sap the strength of even the strongest. Piotr Gawron, who was mBank's manager in Poland, was also the project leader, and divided his time between the three countries. He worked night and day. One day he fell asleep, unfastened, on the backseat of a taxi which drove him from Bratislava to an airport in the nearby Vienna. The taxi was involved in an accident, and he was taken to the hospital. Even from there, he directed the project by means of his magical computer. Here is Piotr Gawron's account of that eventful period:

"I witnessed mBank being launched in the Czech Republic and Slovakia from a hospital bed in Vienna. The grand opening at midnight of 24th November was supposed to consist in clicking on Polish, Czech and Slovakian flags by Marek Duban in Bratislava, Segiusz Najar in Prague, and President Lachowski in Poland. This was meant to turn on software which would lift tight security and make .sk and .cz portals available. At the last moment, the team prepared a new version of the program by adding an Austrian flag which I clicked at the hospital. This was our principle <one for all, all for one> out into practice".

There were more casualties along the way, but luckily everything ended happily. During late dinner, after a visit to a location chosen for the Financial Centre in Brno, the director of mBank.cz suffered from a heart attack in my presence, most probably because of stress and exhaustion. The worst was averted thanks to immediate first aid and transportation to a clinic where, at once, coronary catheterization was performed and two stents were implanted. He recovered after three weeks of intensive convalescence, and got back to his position on the front line. People who had the chance to get a taste of the project did everything they could to make it to the finish line.

As planned, on the weekend before the anniversary of mBank's launch, 24th November 2007, the bank began its new chapter in Slovakia and the Czech Republic. The implementation of the project was carried out by a team made up of Poles only, but shortly after the opening they all returned to Łódź.



32-year-old Marek Duban was the manager in Bratislava. He quickly got the bug for online banking in spite of his career at traditional banks. Marek spent several summer weeks in Łódź where he learnt perfect Polish which, being a Slovak, he found easy. There he picked up the basic principles of the organization's culture, and, then, he became the leader of the Slovakian team. He infused them with enthusiasm, and convinced them through rational arguments that the new business model would enjoy great success in Slovakia, and render friendly competition obsolete by cutting prices, enabling clients to compare them, and teaching customers about the world of finance.

The project leader in the Czech Republic until 2008 was Sergiusz Najar, a Pole, former top manager of Bank Handlowy, who had had little to do with mBank, but could speak fluent Czech, was hugely knowledgeable about the local banking market, and knew all the most important people in Prague. He had spent a couple of years there at the helm of Citibusiness, Citibank's inter-

net service for medium-sized businesses. mBank's project was for Sergiusz a remarkable adventure, one whose memory he will cherish forever:

“First visits to central banks of the Czech Republic and Slovakia, meetings with representatives of the leading commercial banks and media conferences caused a lot of interest as well as incredulity. It was doubted that BRE Bank would be successful in implementing mBank's business model on exceptionally competitive markets which were commonly believed to be satiated. On hearing about its planned opening date, people would smile sardonically and shrug their shoulders. BRE Bank had no experience in organising foreign branches, recruiting workers abroad, purchasing or leasing equipment – it all required patient explanation, coming up with reasonable solutions, seeking compromise based on our own experiences or simply trust. Cross-cultural encounters between young Poles, Czechs and Slovaks during the project often called for a great deal of agility and patience. Thanks to our half-Czech half-Polish mBlogger Adam Zbiejczuk, we were welcomed by the community of Internet users.”

Indeed, through a chance turn of events mBank engaged a person whose contribution to creating the banking community cannot be overestimated. Adam himself is nostalgic about the period:

“I had poor understanding of banks in August 2007. But I didn't like them and fumed on my blog about problems I had with my personal account. In November 2007, I became one of the key members of the team that had just launched an innovative banking project. It was to change the financial market in the Czech Republic and Slovakia. It is a truly remarkably story which changed my life.

I studied Contemporary Media in Brno but I had always been an Internet enthusiast. At the age of 15, in 1997, I created an Internet newspaper, wrote comments about electronic music in English at music.message (1999-2002), took part in many Web projects (commercial and non-commercial), and my Bachelor's thesis was about art on the Internet.

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Later, in 2005 and 2006, I co-organized the international Zoom New Media Festival in Brno. I wrote my Master's thesis on Web 2.0 (how else!), and it was the first text about this in the Czech Republic, which I of course published on the Web. The article enjoyed popularity and got good response, which was evident at first sight on Google. I had dreamt of working for Google which expanded across the globe. When I had already passed through the sixth stage of Google's recruitment process, I caught the attention of a young woman who was urgently looking for a suitable person to manage the department of web marketing in mBank's project in the Czech Republic.

I was lucky to be at the right place at the right time. I was born in Brno to a Polish-Czech family, and I spoke fluent Polish. I had been running my blog since 2002. I wrote about web 2.0, and knew the Czech community of Internet users pretty well. Being a blank slate in terms of my knowledge of banks and finance, I had an easier task of adapting to mBank's novel, very unconventional corporate culture, compared to people with backgrounds in traditional banking. At the beginning, I couldn't quite believe I had been offered a job at the bank. It seemed crazy to me. My first job interview took place on a Sunday evening of 9th September. At noon, I got a call from Wojtek Bolanowski who was responsible for mBank's marketing project in the Czech Republic and Slovakia. He apologized to have phoned me on a Sunday, and suggested we had the interview in the evening, because, he already had to go to Bratislava the following morning. I was in Brno at that time. Not hesitating for a moment, I got on a bus and arrived in Prague at 6 p.m., more precisely at a villa at 2 Na Sekyrka Street. What I encountered there was beyond my imagination even though I had earlier visited mBank's website, and already knew that it was very different to the banks I had seen before. But surely they didn't want someone who had no idea about banking, did they? Wojtek looked nothing like a banking manager, more like a geek, a slightly older one than me. He told me that he studied medicine and theology, and that he got hired here because he wrote pretty good fairy tales. A shiver of excitement passed through me. We had a long

discussion. When the interview finished, I felt completely won over by the project and the people behind it.

On 1st October, I met fifteen new mBank recruits at the Prague airport on my way to Łódź. We were shocked, because we learnt that there were plans for the bank to start operating in November. Key workers, however, were just coming on board. My stay in Łódź was full of surprises. On the first day, we arrived at the head office in suits and ties, as befits a banker, and we were bewildered at the sight of a crowded open-space office, full of casually dressed employees wearing jeans and T-shirts. In the middle, there was a ping-pong table and a gigantic aquarium. It looked like an Internet start-up in the style of Google rather than a bank. I later understood that it perfectly fits the company's culture. mBank was a success because it didn't function/think/speak like other banks did. The spirit of cooperation was the key to its stunning results. I had a chance to experience its unique character as a participant in the undertaking. Poles on the mBank cz/sk project team worked to the limits of endurance. Standards of dedication and work intensity were raised very high. Soon new colleagues worked just as hard. The awareness that we were taking part in an enterprise which was going to change the banking market in our countries energized us to overcome numerous obstacles on our way to launching the banks in such a short space of time. We made up an amazing team of people always ready to help each other. A Czech-Slovakian Call Centre in Łódź was organized in little but with great effort by Milan "Bolek" Minarik who was fluent in all Slavonic languages, and actively supported Belarusian dissidents in his free time. Ivica Bociek, born in Slovakia to a Hungarian-Czech family and a long-time resident of Łódź, was an invaluable intermediary among the three cultures.

At the time when mBank's website was still in the pipeline, it was decided to open a discussion forum and a company blog. That was an unprecedented initiative, at least in the Czech Republic and Slovakia, but it turned out to be attention-grabbing. At first, it attracted a narrow group of geeks and later the wider public who eagerly discussed quality

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of financial services online. The forum was quickly spotted, and led to a creation of its own community of people open to innovation and interested in a new approach to personal finance. They waited impatiently for details of offers and mBank's launch even though many of them were rather sceptical.

mBank's opening was preceded by a press and TV campaign. I had a lot on my plate at that time. Shortly before the D-Day, our marketing manager and PR specialist left because they didn't accept the unconventional approach to communication at the new bank. mBank was launched and response exceeded all expectation. It electrified the community of Internet users. Their enthusiasm spread over from the virtual to the real world. In retrospect, I think the key to success was the notoriety achieved on the Web. Thanks to feedback we got from Internet users and clients, we could react in advance and solve general and specific problems. This is a place where we can meet our customers "face-to-face". It has its weaknesses, however. It is proven that negative opinions spread six times faster than position ones on the Internet. Satisfied customers rarely visit the forum. Those who want to share a problem are more likely to get involved. The forum is open to everyone; any problems are dealt with swiftly; readiness to cooperate with customers earns their respect and trust for mBank. The existence of such a communication platform requires a different approach to Web marketing positioning. Everything revolves around interaction, which means engaging in a constant dialogue with clients, and learning from each other. And this is what makes it so different from traditional methods of putting up Internet banners as if they were billboards. Empathy, dependability, and readiness to act 24/7 are indispensable to earn recognition. I learnt to find answers to any questions about banking. For the first time, clients encountered a bank which treated them seriously, listened to them and took care of their matters without delay.

Two years' work in mBank gave me an unforgettable opportunity to learn a lot about many areas of banking, which wouldn't have happened



anywhere else. I was in charge of processes and transactions of Internet banking, and played a role of the customer's advocate. We all believed that the concept of low-cost banking was a real revolution, because it allowed an online bank to earn profit without having to charge unwelcome expenses to clients. Even with the changes brought about by the crisis, the concept still remains groundbreaking."

Although preparations to open mBank were extremely intensive, they were precisely planned. It was only after the launch that our business model could be tested under new, not entirely foreseeable conditions. We had a Business Plan which had been devised meticulously on the basis of our knowledge and experience of the Polish market. This was a new undertaking, however, so we had to begin from square one. It was still a step forward compared to seven years before when mBank's Business plan seemed a futuristic forecast, because back then the online bank was a complete novelty. Now we had experiences we could fall back on, but they were relevant to a different market and different conditions. In the period prior to entering new markets, I talked to many managers and presidents of financial institutions in Slovakia and the Czech Republic. They all, without exception, doubted that we could succeed. They asked basic questions suggesting answers that ruled out our project

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They all, without exception, doubted that we could succeed.

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as not being feasible. Do you realize that there is no room for new entities built from ground up on the market that has been divided among the established leaders? Do you know that all banks operating here have well-developed online banking which is nothing new in 2007? Many probably thought that a Polish bank stood no chance against renowned European and world banking brands which had taken control over the biggest local banks and the majority of the market during privatization. Indeed, such names as Societe Generale, KBC, Erste Bank, Unicredit, Intesa, Citigroup and GE Money speak volumes. However, the same brands in Poland did not discourage us from trying to change the status quo, and, most importantly, mBank successfully competed with them.



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President of Central Banks in the Czech Republic and Slovakia welcomed me with unfailing courtesy when I presented the notification of the National Bank of Poland, which is necessary a bank start operating on the basis of the EU single passport. It was an innovative way of entering a market, and the fact that it was paved by a Polish bank came us a surprise. The present business model was received with moderate interest. The process of notification and acceptance for clearing was smooth, largely thanks to efforts to set an intriguing precedent. It also showed an example of good neighbourly cooperation.

But mBank's plans were even more ambitious than that. According to them, the bank would be able to achieve a breakthrough on the market in the middle term, similar to the one it made in Poland.

At the time, when mBank was launched on the new markets, the Czech Republic and Slovakia together comprised a market two and a half times smaller than the Polish one taking into account population, but it constituted 52% of the Polish household credit market and 80% of individual clients' deposits.<sup>7</sup> The Czech market was back then comparable in many respects to those of many developed Western countries. It was distinguished by a high ratio of banking sector assets to GDP, good savings rate and large banked population (a percentage of citizens who have a personal account) which approached saturation point. Slovakia was a retail banking market that resembled the Polish one in terms of macroeconomic relations, share of deposits and household credits in GDP. The only difference was the size of banked population which

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**mBank's strategy abroad was to acquire 5.5 per cent of the individual client market until 2016.**

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was much higher in Slovakia than in Poland in 2005; 82 per cent of Slovaks held a personal account as opposed to 57 per cent of Poles. mBank's strategy abroad was to acquire 5.5 per cent of the individual client market

until 2016. The value of mBank is its clients: satisfying their needs allows us to develop a relationship with them, and is a source of profit. Their number determines the worth of deposits and loans. Just like in Poland, the products that

<sup>7</sup> Data for 31st December, 2005 according to NPB, CNB, NBS, ZBP.

were supposed to attract clients to mBank were the personal account (eAccount) and the on-demand savings account (eMax). The situation in 2007 was different to when the first Polish online bank was launched in 2000. The Internet became common, and e-banking stopped being the latest fad that caught clients' attention. At the start, it was high double figure interest rate that enticed customers to set up an account at mBank. We gained a critical mass in no time at all, and later when interest rates fell, and recommendations of satisfied clients, the brand's prestige and bringing together many financial products in one place did their job; growth accelerated even more. Low-cost base of an Internet bank gives an opportunity to offer the best prices on the market as long as competitors do not promote their products by subsidizing them. The retail banking market displayed all the features of an oligopoly, which had not changed as a result of privatization and foreign investors joining it. There was no price competition, banks charged fees and commission on each operation, even on transfers sent to clients. According to international rankings, the level of commission and charges in the Czech Republic and Slovakia were among the highest in Europe. Just as earlier in Poland, interest rates on savings accounts were much lower than those on fixed term deposits.

Our offer was a response to conditions encountered on the market. A free-of-charge personal account and a high interest savings account brought new quality to the party. And it would not go unnoticed. The message we conveyed through the media was straightforward and hit hard the soft underbelly of the competition.

“mBank offers its Clients a unique combination of **a current account, mAccount, and a savings account, eMax.** A completely free-of-charge mAccount, no fees on online transfers and no commission on cash withdrawals abroad is a revolution on the Czech and Slovakian market. A free debit Visa Classic comes with mAccount. Savings account eMax offers a more flexible way of saving money than conventional fixed deposits. Thanks to the highest interest rate on the market, it enables Clients to multiply their funds without any restricted access to them.

Apart from deposits, mBank offers loan services – Clients can take out a cash loan (mPUJCKA) or a mortgage (mHYPOTEKA).

mBank plans to acquire a minimum of 164 thousand Clients in the Czech Republic by the end of 2010. The forecast value of loans and deposits is 840 million and 219 million euro respectively. As far as Slovakia goes, mBank intends to attract not fewer than 100 thousand Clients. The projected figures are 500 million euro for loans and 91.1 million euro for deposits. mBank aims to exceed a break-even point in the Czech Republic and Slovakia by the end of 2012 at which point the sum of investment in both countries will have reached 29 million euro<sup>8</sup> .

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In a letter sent to employees on the day mBank started operating abroad, I could proudly announce that:

“mBank, now not only in Poland but also the Czech Republic and Slovakia, is made up of people who pursue their ideas boldly and bravely, strive earnestly to achieve their goals, and are guided by values. They create a unique corporate culture.

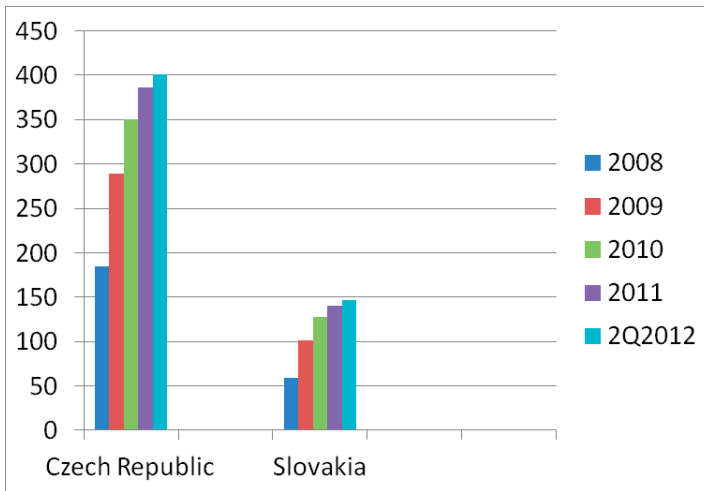
It was the tirelessness, dedication and enthusiasm with which we took

8 From BRE Bank's press announcement that marked the opening of its branches in the Czech Republic and Slovakia.

on the new challenge that enabled us to complete the undertaking in such a short period of time. Neither BRE Bank nor, even more so, the young mBank had any experience of such projects. It was a demanding task in every respect: concept-, technology-, operation-, process-, logistics-, and management-wise.

It gave mBank a second life. Its business model and product offer can prove a breakthrough on the Czech and Slovakian markets thanks to the same features which caused such a stir in Poland, which created its permanent competitive advantage, and which enabled it quickly to join the elite of the largest Polish retail banks ”<sup>9</sup>.

### Acquisiton of clients in the Czech Republic and Slovakia



In the following months, the reality exceeded our plans and boldest expectations. mBank grew quicker in the Czech Republic than it had ever done in Poland, which was a huge surprise for everyone. We counted more on Slovakia. Our

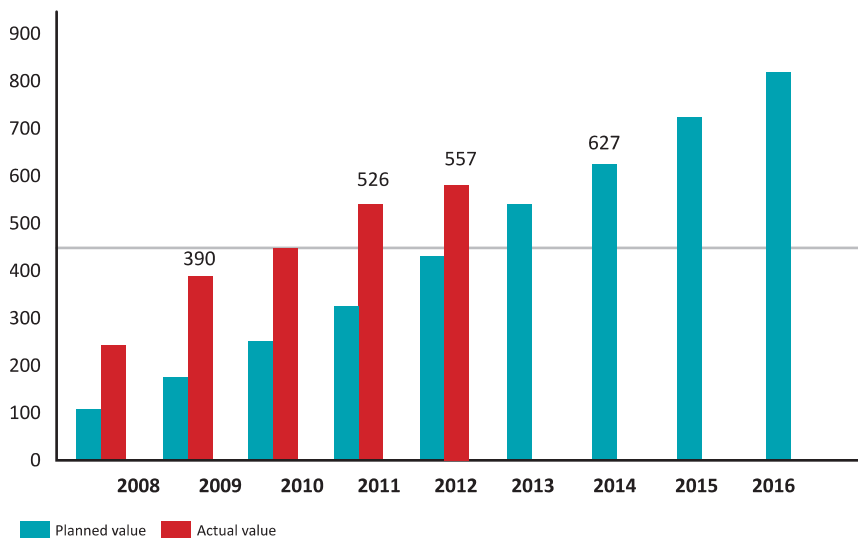
**In the following months, the reality exceeded our plans and boldest expectations. mBank grew quicker in the Czech Republic than it had ever done in Poland.**

9 A letter to BRE Bank's employees marking the opening day of the Czech and Slovakian branches.

initial projections were better there, because its market seemed more open to innovation. In the first year, the number of clients in the Czech Republic reached 185 thousand at the end of 2008 and 58.6 thousand in Slovakia, which in relation to the Polish market is equivalent to 703 thousand and 410 thousand clients respectively<sup>10</sup>. In the record year of 2008, mBank acquired 406 thousand clients in Poland.

The new bank was recognized by experts and customers alike who awarded it the highest distinctions of Zlata Koruna in the Czech Republic and Zlata Minca in Slovakia in recognition of the mAccount. In the years to come, mBank was regarded as the most dynamically growing bank in those countries. In 2010, Global Finance distinguished mBank as the best online bank in the Czech Republic, and clients awarded it with Zlata Koruna, this time for the mBusiness account.

### The planned versus actual number of mBank's clients in the Czech Republic and Slovakia



<sup>10</sup> The Polish population is 3.8 and 7 times larger than in the Czech Republic and Slovakia respectively, so achieving a comparable growth in the number of clients requires the acquisition of  $3,8 \times 185 = 695$  thousand and  $7 \times 58,6 = 410$  thousand customer.



The value of deposits at the end of the first year, that is 2008, reached 610 million euro in the Czech Republic and 185.6 million euro in Slovakia. We managed to achieve all this in the period of a dramatic drop in trust in banks, crisis in liquidity of financial institutions and war of deposits on the market. The financial crisis changed the conditions under which banks operated as well as their strategies. Owing to BRE Bank's capital limitations during the crisis of 2008-2010, or perhaps a lack of determination and courage, mBank in the Czech Republic and Slovakia stopped granting loans even though it enjoyed structural overliquidity. It ceased to expand its business model. Despite that clients found its initial offer appealing and mBank noted the largest growth on the market. In the middle of 2010, the number of customers was close to 450 thousand, and exceeded the plan for 2012. The value of deposits after the first quarter of 2010 equalled 1170 million euro, which approximated the level projected for 2015. Unfortunately, due to the reasons mentioned above the value of credit portfolio reached only 217 million at the end of the first quarter of 2010, leaving 898 million euro in overliquidity completely unused. If mBank had utilized that money to give more loans, it would probably have reached a break-even point on both markets as soon as 2010, a lot earlier than planned. The loan market for individual customers was a hard nut to crack at the time, but mostly because of a capital barrier and financing through deposits. The latter was not a limiting factor to mBank.



# Disruptive Innovation in Finance



*For any organization, innovation represents not only the opportunity to grow and survive but also the opportunity to significantly influence the direction of the industry.*

Tony Devila, Marc J. Epstein, Robert Shelton,  
“Making Innovation Work”

**Financial** services sector has never been among the leaders of innovation in the economy. There are numerous reasons as to why innovation in finance has different characteristics and occurs slower. Banks and insurance companies are institutions of public trust, but this alone cannot explain the crawling rate of change. Understandably, technological innovations are adopted after they have proven their worth elsewhere. Process and product innovations take longer to be introduced due to banking bureaucracy. Innovations in business models are the result of fundamental changes in regulations such as Glass-Steagall Act in the USA or the transformation of the centrally planned economy in Poland, which rarely take place but have a tremendous impact on the way financial institutions operate. The deregulation of financial markets in the 1990s and at the start of this century led to growth in competition from outside the industry and enforced greater flexibility and effectiveness. The financial sector displayed exceptional stability and resis-



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tance to change in the world without for a long period of time. Crises that arose from time to time could shake the foundations of the economy but not of the financial sector, which, paradoxically, was made stronger by them. Even when financial institutions were main culprits of economic difficulties, a state would not let them go bankrupt acting in the overriding interest of its citizens. This was the case during the Great Depression and the economic crisis of 2008/2009. Naturally, small and middle-sized banks as well as insurance companies would go out of business, sometimes even large ones; those whose insolvency did not pose a threat to the stability of the financial system. But if it was in danger, states were forced to adhere to the rule that “the large one cannot go bust”, and made a mass-scale effort to rescue them. It directly leads to cementing the phenomenon of moral hazard when entities do not bear full responsibility for their actions. That is why, for decades, even centuries, the main players in this trade have remained the same. Some

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**Banking and insurance are characterized by high barriers to entry and friendly competition within the sector.**

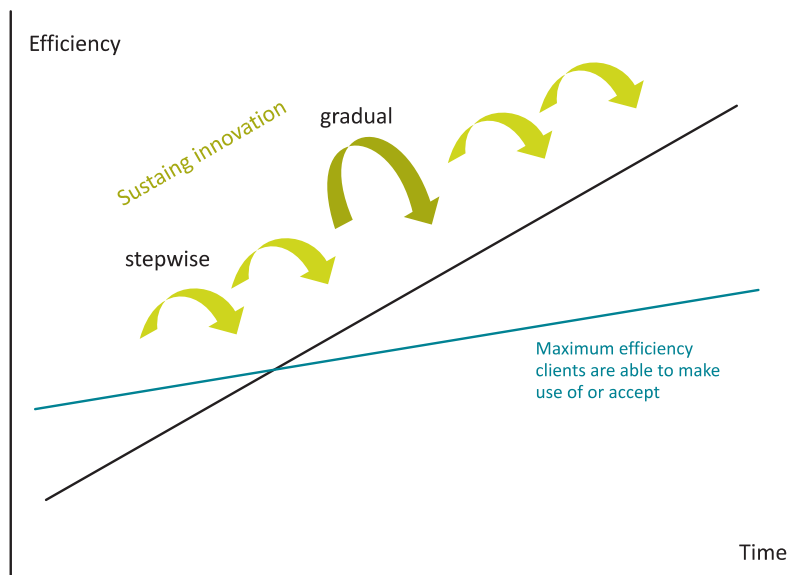
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names have changed as a result of mergers and takeovers, but purely for reasons of marketing. The lifespan of companies in the banking sector, at least among front runners, is unmatched in the whole economy,

where entire industries can lose their significance, and leading firms vie for positions every day. Banking and insurance are characterized by high barriers to entry and friendly competition within the sector. Legal regulations, high capital and know-how requirements make it a tough industry for outside competitors to go into. This impacts the nature of innovations in the financial sector. Sustaining innovations are the most prevalent ones, by means of which improvements are introduced gradually.



## A sustaining innovation is not always in the client's best interest



Source: Innosight

Many a time innovations like these introduced on principle have been suspected of overcomplicating things for clients by making products less clear though more profitable for banks. The matter is especially important in retail banking where lack of transparency is seen as purposeful. Banks are believed to prevent customers from comparing options, which allows them to sell what is most advantageous to them rather than clients. Throughout the last decades, sustaining innovations have dominated the financial sector; examples of disruptive innovations are few and far between<sup>1</sup>. Only several disruptive innovations have been launched in the sector of financial services for individual clients since 1930:

- A credit scoring system developed by Fair Isaac (1956);
- Schwab's business model of low-cost brokerage services (1974);
- The securitization of mortgage portfolios (1981);
- A business model of low-cost retail banking on an Internet platform (1996)

<sup>1</sup> Disruptive Innovation and Retail Financial Services, BAI, Chicago, 2002.

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The financial sector has undergone constant evolution which has been influenced to a great extent by changes in regulations. Those have ensured better security for customers and the economy. Some examples include insuring individual clients' deposits, a rise in capital requirements and in accountability to supervisory bodies, control over the activity of financial institutions as well as relations with clients. In the meantime, a product and service offer for individual customers steadily expanded owing to progress in technology and its implementation in finance. Personal accounts, which enabled non-cash transactions, became commonplace. Credit and debit cards made paying easier, and offered remote access to credit. Brokerage services provided an alternative to saving money and banking deposits. Telephone banking services allowed customers to make arrangements without having to visit their local branch. Integrated IT systems sped up internal processes, and thanks to them the client could be served at any branch not only the one where their account was held. All this increased the quality and efficiency of banking products as well as customers' convenience making it possible for all players on the market to adapt to undergoing changes.

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**Disruptive innovations change the rules of the game. Under their influence, new leaders are made and dawdlers are broken.**

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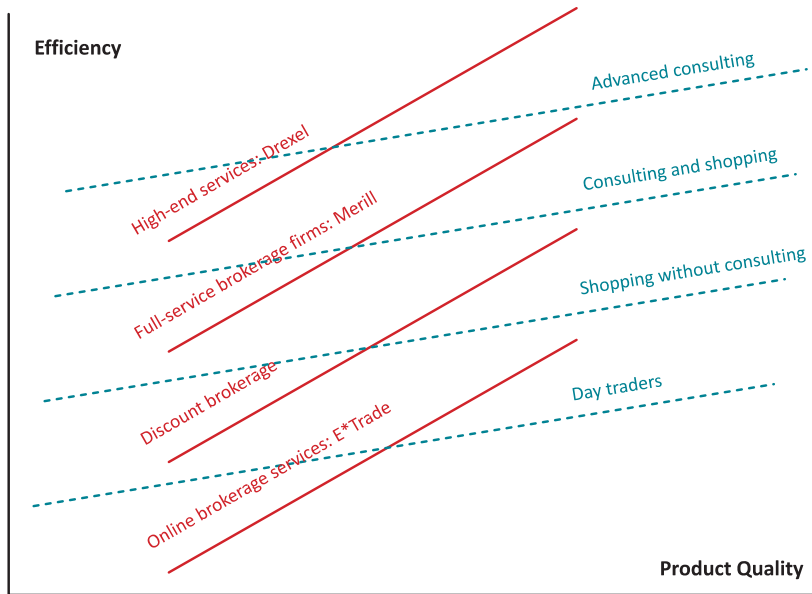
Disruptive innovations change the rules of the game. Under their influence, new leaders are made and dawdlers are broken. The brokerage services market witnessed several innovations which disrupted the existing order. First, in 1912, Charles Merrill offered brokerage services to the less well-off wishing to make Wall Street more accessible to ordinary people. That led to the creation of the well-known investment bank Merrill Lynch & Co three years later. Investment banking and well-developed capital market soon became the hallmark of the English world's financial system. Brokerage firms and investment banks earned far more than commercial banks, and one of their main sources of income were high commission and fees in securities trade. "Greed and paranoia" ruled the brokerage industry<sup>2</sup>. In April 1973, once again fixed charges

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<sup>2</sup> John Kador, Charles Schwab. How One Company Beat Wall Street and Reinvented the Brokerage Industry, John Wiley & Sons, Hoboken 2002, p. 19.

were raised by 10-15 per cent as proposed by brokerage firms. Soon afterwards capital market deregulation freed prices, and opened up opportunity for negotiations. The initial reaction of dominant companies, including Merrill Lynch, was to increase rates. A brokerage company set up in San Francisco in 1973 did not follow suit. It was called Charles Schwab & Co. Its move was to introduce charges with an 80-per-cent discount in comparison to the existing fixed rate. Before long, big players lowered their fees but only for large institutions and wealthy private investors while Schwab offered discount to everyone, including retail clients.

### Waves of innovation in brokerage services



Source: Innosight

Schwab could offer such low prices because it did not offer investment consulting services. However, it gave clients an opportunity to put in orders via phone. In years to follow, the discount brokerage expanded its network of branches to over 300 in the USA, so that 70 per cent of its potential customers could reach the nearest branch after one hour's drive. The firm took

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advantage of modern technology to provide its clients with maximum convenience by presenting them with a wide spectrum of services. In the middle of 1980s, Schwab made it possible to buy securities online thanks to special software the client had to install on their computer. After connecting to the company's system, they would also gain access to financial information – stock exchange listings, analyses, commentaries – furnished by the stock exchange and specialist news agencies. The company's mission was to enable investors to experience full benefit offered by the financial market while enjoying unrestricted access to information and transactions, without a conflict of interest, by means of both electronic and personal service. Schwab embarked on a crusade against the dominant players on the market (Merill Lynch, Morgans Stanley Dean Witter, Bear Stearns, Salomon Smith Barney). It stood against traditional business practice of intermediating and consulting at the same time, rewarding employees according to how much they sell, or forcing one's own products on customers. In 1992, Schwab launched the first mutual funds supermarket which revolutionized the way shares were purchased and sold. Up until that point, customers had had to buy them directly from distributors; the procedure had lasted up to 10 working days, and redemption of shares had had to be authenticated by a notary. The One-Source supermarket was a platform where 200 funds belonging to 25 mutual fund companies were made available. Customers could buy and sell over the phone, computer or at a branch without front-end fees which was the bane of investors. The clients was offered brand new quality: free choice, convenience and maximum benefit, all in one place.

The low-cost, constantly improved business model allowed Schwab to control over 50 per cent of the discount brokerage market. It move up the ranks to occupy the top place among USA's brokerage companies for individual clients in 1999. It maintained 6.2 million accounts with total assets of 592 billion dollars. Riding the wave of its success, Schwab shortly overlooked the changes that came with the development of the Web. In 1994, E\*Trade was the first to offer trading in equities online via America Online and CompuServe portals and set flat commission at the level of 14.95 dollars while Schwab's average commission equalled 65 dollars. The leader and pioneer

of discount brokerage had been challenged by a strong competitor. Initially, Schwab disregarded the whole situation believing that its model of service created an added value for the client which justified the premium, and that the brand enjoys trust thanks to proven reliability and service of the highest quality. However, online brokerage services are not only about low price but also about access to information, convenience, a vast array of choices available in one place, etc. And everything that makes this business model stand out harmonizes with Schwab's basic principles. Luck had it that one of its workers came up with an ingenuous idea of launching the company online. After several failed attempts to persuade his superiors, he managed to put it across directly to the Board and immediately won them over. The concept was implemented straightaway in the form of a separate entity called eSchwab. It aims to sell all products available at branches via the Internet. Flat commission of 29.95 dollars was an attractive enough incentive to acquire clients on the rapidly growing market. During its first year of operation, in 1996, customers opened 1.2 million accounts and decided to invest 81 billion dollars. In one year only eSchwab overtook E\*Trade. Success was heralded. Within the company, however, trouble was brewing. There was an ever-increasing conflict of interest between eSchwab and its parent, the online part of the company and the traditional model of distribution through branches and phone. eSchwab grew swiftly owing to the development of the online market, and also the migration of customers from the traditional part of the company. In order to prevent the conflict of interest strict separation between the two was introduced. eSchwab's clients could not use consulting services at branches, and their contact with the traditional part was limited to one call per month. Branch clients, on the other hand, had no access to the online service. This revealed a fundamental clash between continuing the company's traditional activity and the parallel development of the disruptive innovation (the low-cost distribution model) as part of a single business, even if the two seemingly operated as separate brands. Schwab solved the problem in a unique way, hence we devote so much space to discussing it. In January 1998, after barely two years, eSchwab was integrated with its parent as an online company. eSchwab's transaction fee was introduced for all

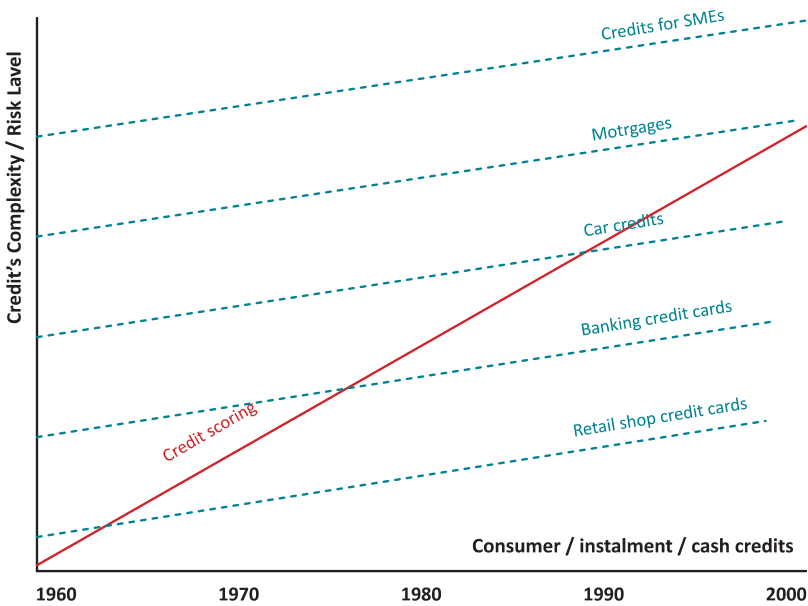
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of Schwab's clients. It was a hard and exceptionally brave decision. A drop in income was easy to calculate in the short term, but benefits resulting from an increase in the number of clients, transactions and value of managed assets were difficult to predict. When decrease in profit of Schwab & Co was revealed in the first half of 1998, the company's exchange quotation dropped by 20 per cent, and its market capitalization declined from 11.1 to 8.7 billion dollars. Nevertheless, its transformation and focus on the Web bore fruits in the middle term: the number of accounts doubled from 3 million to 6 million in one year, and so did the number of transactions while unit costs fell. Stock prices stabilized, and then began to increase; market capitalization reached the level of 23 billion dollars by the end of 1998, which was better than that of Merrill Lynch. Short-lived suffering caused by the change in the operating model brought in the future harvest of success. Schwab is a rare example of great skill in managing a disruptive innovation which flies in the face of one's own, often contradictory, traditional business interests. The company gained its status thanks to the unprecedented growth on the basis of a low-cost business model. When threatened by another disruptive innovation on the brokerage market, online brokerage services, it was able to transform its operating model, and take advantage of new technological and process solutions to fuel its development.

Retail banking, which satisfies individual clients' financial needs as far as settling payments, saving money and loans are concerned, is comprehensive business. Despite that, few innovative changes which can be described as 'disruptive' have been observed in the last decades. The automation of credit risk assessment, first for consumer credits/credit cards and later for small and medium-sized enterprises, completely changed the way loans were granted, shortened the process from many days to hours or even minutes, lessened inconvenience to clients, and reduced unit costs. As a result, there was a marked increase in the volume of banking loans and debt on credit cards. New entities appeared on the market: specialist institutions offering credit cards (monolines), retail networks with their own credit cards and credit brokerage companies. Half the credit card market in the USA belonged to narrowly specialized credit card issuers towards the last decade of 20th

century. There were only 6 retail bnks among the top 15 issuers. It was then that General Electric, the largest industrial conglomerate in the world, entered the financial sector offering a limited range of products, mainly consumer credits, credit cards and mortgages. Currently, GE generates 40 per cent of its profit from financial services in a broad sense.

### Consumer credit scoring



Source: Innosight

Credit scoring initially used for the introduction of credit cards issued by retail shopping networks was soon employed by banks, and became widely regarded as the main tool for credit risk assessment in the case of cash, car and instalment credits as well as mortgages. It was a just question of time before it was applied to standard credits for SMEs.

Securitization was first witnessed in the USA in 1970, and only had to do with mortgages. The UK became the European pioneer in 1987. Other countries started using it as late as in 1990s. Presently, securitization is a form of paying outstandings which is very popular on developed markets. The fol-



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lowing are already commonly securitized:

- mortgages
- consumer credits
- credits for companies
- future outstandings
- gas and electricity charges
- insurance liabilities.

Securitization gained popularity as a method which enables lowering costs of lending activity by means of acquiring funds through assets which are rated higher than their issuer. Banks benefit from securitization as it frees their capital which can be used to finance new loans. In the USA, securitization is a tool employed by the state to support the growth of the mortgages market where specialized institutions, Freddie Mac and Fannie Mae, were set up to ensure the purchase of securities from banks. In Poland, the securitization of credits is at an early stage, and mainly concerns the portfolio of low quality credits of specialized debt collection agencies and restructuring funds.

## An Online Bank: Low-Cost and Disruptive

**Internet** banking used to be seen as a threat to a traditional business model. Old-line banks were so anxious about it that they were prepared to spend the Himalayas of money just to put it into practice.

Innovative projects of online banks were undertaken as strategic initiatives. They were meant to ensure the survival of the ancient financial institutions under a new guise in case predictions about the Web's destructive force for traditional businesses came true. Everyone was aware of a conflict of interest between a conventional and online bank. They tolerated it, however. It was regarded as an inevitable "cost of an insurance policy". If the prediction had not materialized, it was clear that the new creation could have counted on nothing more than liquidation or absorption. We need to remember that all this occurred when people's perception of the Internet's future were fuelled by fanciful forecasts which resembled science fiction more than

reality. The speculative bubble burst known also as the “Internet bubble” led to a quick sobering up on financial markets and the real economy. The pendulum swung the other way, and reactionaries declared a return to the sources: doing business according to the old tested rules. Nearly all independently operating banks – daughters of established financial institutions – were immediately closed. No mercy was shown. The majority of projects were terminated instantaneously regardless of previous financial outlays. Nowadays, you can learn about Wingspan, Citi f/i, Advance Bank, DB24 from Wikipedia. You would waste your time trying to find information about them on their mother institutions’ websites, even in the sections devoted to their history. Some of the daughter companies were still up and running, but being neglected they had little chance of competing on the market. Only very few undertakings were successful, and now set the standards for the world’s retail banking. Such examples as ING Direct in Canada, the USA and Germany or mBank in Poland demonstrate that low-cost online banking is a disruptive innovation.

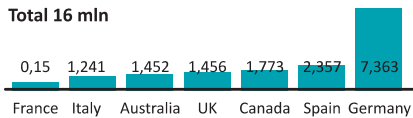
### ING Direct - Low Cost Finance business model in retail banking based on Internet and fair, transparent pricing for customers

#### Customer value proposition

- limited number products
- consistent, transparent, fair pricing
- customer-centric process management
- break-through simplicity

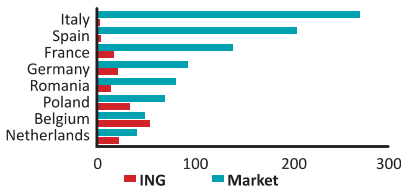
#### Fast growth of customer base from 2000

ING Direct customers 30 Sept. 2011 (x 1000)



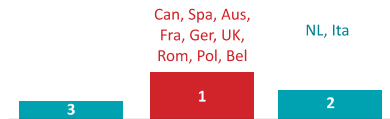
#### The lowest fees in most markets

Costs for current account



#### Loyal customer base

Net promoter score



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Results achieved by a low-cost business model when compared to those of traditional banks prove that it is indeed a disruptive innovation:

1. An online bank creates a financial services market for new generation clients who do not want, and do not need to be served at branches, who are independent, make thoughtful financial decisions, and choose options which bring them “maximum benefit and convenience for a good price”.
2. An online bank is a low-cost institution whose distinct cost structure and lower unit costs ensure a long-term strategic advantage.
3. An online bank is a classic disruptive innovation. Initially, it offered a limited number of basic products of a relatively low quality but at very attractive prices.
4. The quality and range of financial products available at the online bank has increased so much that it can now successfully compete with traditional banks in this respect by offering lower prices.
5. At present, the accessibility of the Web and the quality of data transmission satisfy even the choosiest Internet users. The Internet is now a universal commodity.
6. An online bank causes a paradigm shift in retail banking: offers greater convenience, better quality and all necessary products at the lowest prices on the market.

Over 90 per cent of banking clients prefer checking their balance, and 60 per cent making payments via the Internet. In countries like Sweden, Finland, Germany, the UK as well as Poland more than 50 per cent of customers are independent, feel no need to consult their decisions. They look for the best products in terms of quality and price, and attach importance to transparent information, speed, added value and being able to take control of their own finances<sup>3</sup>.

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3 Tim van Tongeren, “Forrester Research, Segmenting Financial Consumers”, 2006.

## New Generation of Customers



An Internet bank created from ground up on the basis of modern IT integrated with the Web targets the most demanding consumers, typical representatives of the Information Age who are conscious of their power in relations with distributors of products and services. Their strong superegos naturally put them at the centre of the universe.

The new generation of banking clients are not only young people who are just entering the banking market. It is also the result of changes in lifestyle and education of the elderly. The Internet is nowadays used eagerly for many reasons and banking is simply one of them. Some clients consider conventional banking centres to be dispensable and even in conflict with their philosophy of using financial services. A low-cost business model has confirmed its worth in various fields, and there is every reason to believe that it will prove just as valuable in financial services. Retail sales and cheap airlines are only some areas of business that have been profoundly altered by this new approach. Discount shops dominate markets in mature economies. Such brand names as Wal-Mart in the USA or Aldi in Germany are synonymous with success in busi-

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**A low-cost business model has confirmed its worth in various fields, and there is every reason to believe that it will prove just as valuable in financial services.**

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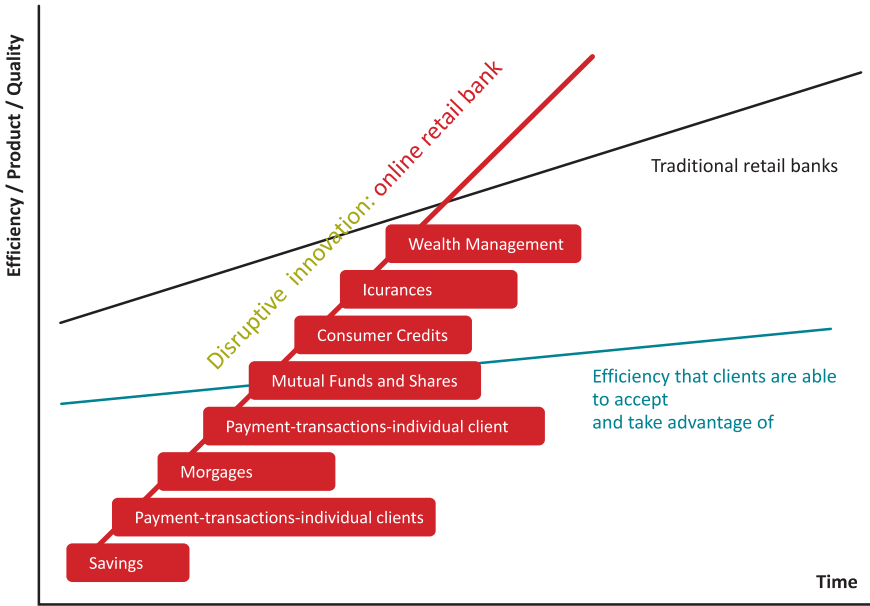
ness. The same is true for passenger carriage. The most eminent example is Southwest Airlines which paved the way of cheap flights. At one point, its market capitalization was greater than that of the four largest traditional carriers altogether. A well-oiled business model wins over both customers and investors. The former are attracted by relatively low prices as well as good product and service quality, while the latter are lured by high profitability, which is the result of the key elements of the business model: distribution, logistics and latest technology.

What is more, the cost-effectiveness of online banks is much greater than that of their traditional competitors because they do not maintain branches. Unless conventional banks close their centres, they will not be a match for Internet banks. This, of course, is not remotely possible. That is why, apologists for the traditional model attempt to demonstrate that personal service is irreplaceable. According to them, branches are an indispensable component of the retail banking distribution network. There is no indication whatsoever that this point of view has a universal and timeless appeal. Examples to the contrary show it to be false. The international success of ING Direct and mBank prove that a bank based on remote access via phone and the Web can not only find its own niche but also compete and win against traditional banks.

The history of online banking already spans a dozen or so years, which allows broader conclusions to be drawn. The Internet bank like any disruptive innovation offered a small number of basic products at the start whose only advantage was a low price and the convenience of using free but unstable Internet access. The fact that online banks at least some of them grew at a remarkable pace testifies to the great power of this business model. Its main strengths are: price, quality, simplicity, convenience, innovativeness and community spirit.

Its strategic advantage over the traditional model does not consist in the Internet alone. After all, conventional banks use it as an additional access channel. Just like cheap airlines which use the same planes as traditional carriers.

## The development path of an online bank's business model



## Internet Bank - Low Cost Business Model in Financial Services Internet Retail Bank

### Core components of the value proposition

	<b>price</b>	is going to be main market advantage
	<b>quality</b>	despite low price, bank offers high quality products and services
	<b>simplicity</b>	products and processes are as simple and clear as possible to enable self-management
	<b>convenience</b>	Internet as a main access channel will assure a accessibility in the 24/7/365 model
	<b>innovation</b>	true Internet bank i.e. that bank operating mainly on the Internet is able to provide clients with full range of financial products
	<b>community</b>	is crucial for web 2.0 marketing, partnership, co-operation and education; various Bank activities (internet forum, on-line chats, sporting events) are able to build community

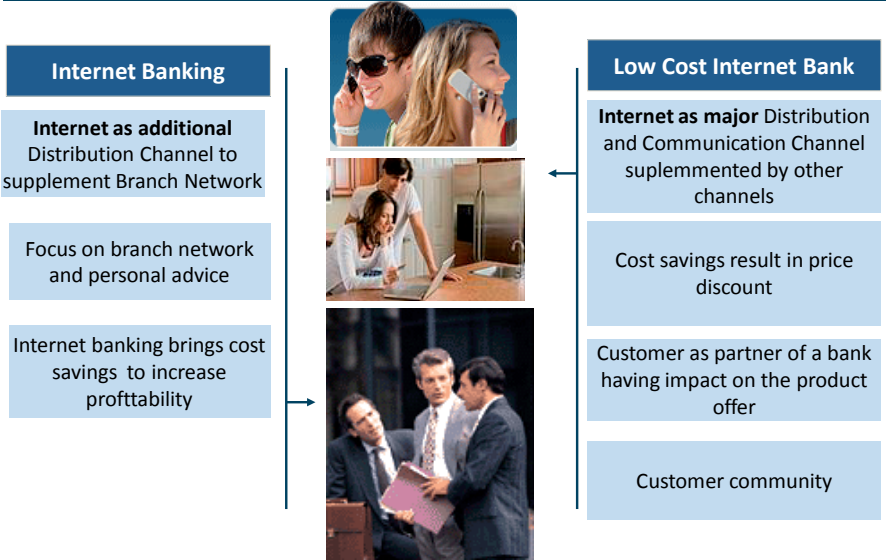
It is not the Internet but how it is utilized that determines success. The business model of low-cost banking is made up of four basic elements: the target customer group, products and services tailored to their needs and lifestyle, distribution channels as well as technology. Initially, target clients

The business model of low-cost banking is made up of four basic elements: the target customer group, products and services tailored to their needs and lifestyle, distribution channels as well as technology.

were e a niche segment, but that changed fast. Thanks to technological progress they soon left traditional banks behind. It is worth noting that the online bank does not increase its range and quality of products by simply making them available online. It designs new ones making sure that they satisfy the needs and lifestyle of new generation customers.

### Internet banking vs Internet Bank

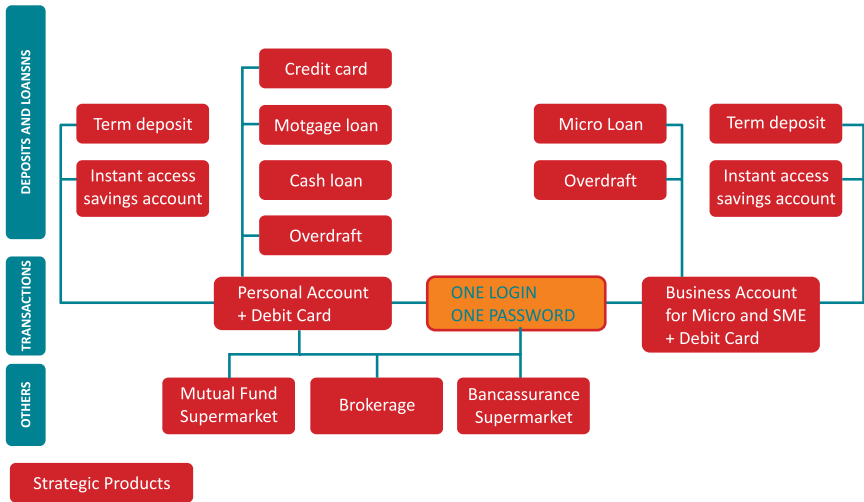
## Low Cost Finance: disruptive business model based on Internet



Owing to that, new products introduced by online banks are destined to become disruptive innovations in their categories, just like mBank's Mutual Fund Supermarket which has changed the investment fund market. Its open structure, lack of front-end fees and commission on sales put it on the other end of the scale compared to other distribution models in the industry. Similarly, the model of the brokerage service which is based on an integration of a brokerage and personal account. Car, life and property insurances available through the bank's Internet platform are a completely novel solution in bancassurance; it provides clients with competitively priced products, and allows insurers to manage risk more efficiently.

### Low Cost Finance Business Model

Integrated platform with current account as center of financial world universe is very efficient tool of financial management - low cost, convenient and easy to use. Value proposition focus on products.



Source: S. Lachowski



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Taking ING Direct and mBank as examples once again, it is evident that discount prices have an increasingly greater impact on the larger picture of the banking industry. A question remains: what will be the role of low-cost online banks in the development of the banking sector in the future? The answer is a complicated one. It ought to analyse prospects for developing existing undertakings, and also take into account the possibility of new such banks being set up. A disruptive innovation such not be taken for granted. Its distinguishing features need to be looked after and skilfully developed. For example, leveling the prices with those of traditional banks will automatically undermine its low-cost model. More and more clients know this business model from other areas of the economy (cheap airlines, discount shops), and, being familiar with it, they do not hesitate to embrace it in finance. But they do require companies to be loyal to its principles. When consumers realize that the promise of low prices is just a marketing stratagem, their trust is lost forever. They are prepared to accept restrictions and inconveniences connected with using low-cost services, but they demand competitive prices in return.

Disruptive innovations are put into practice by newly found companies. It is rarely the case that long-established entities are willing to take the initiative. The barriers to entry in the financial services sector are very high which makes start-ups extremely difficult or even impossible undertakings. The main hurdles are:

- Regulations in the financial sector are far-reaching and concern all areas of operation, which gives great control to supervisory bodies;
- Financing –minimum capital required to gain a banking licence and ensure financing relatively large investment expenses and maintain solvency at the right level;
- Interest in its proliferation.

The cardinal problem for initiatives to create new banks is financing. Capital needed to cover outlays on infrastructure and maintain solvency at the right level before reaching a break-even point is 100 million euros in exceptional circumstances and under normal conditions even more. Since banks are institutions of public trust, supervisory bodies require them to

have the necessary capital at starting point. This is a sine qua non for getting a banking licence. The first stage of financing involves gathering a sum that exceeds capability of the largest venture capital funds, which in principle focus on providing start-ups with financial resources. This becomes an insurmountable difficulty because it goes against the investment policy of private equity funds which have substantially more assets. They finance already mature projects that need more capital to grow. What is left is family funds which invest according to different criteria – the owner has the final say. Naturally, such undertakings can be funded from internal resources as development projects. It is possible only when an enterprise does not lead to a conflict of interest, that is when it does not become its parent's direct competitor. Thus, a disruptive innovation is caught in a vicious circle. Everything goes awry when it comes up against the stumbling block caused by systemic contradictions. It is seldom the case that family funds or individual investors decide to support them. Initiatives launched within existing financial institutions are unlikely to succeed due to conflicts of interest. There are countless examples to prove that. High barriers to entry make it barely possible for external competitors that use disruptive innovation to appear on the market. The existing traditional business model nips them in the bud, and innovation cannot penetrate to the banking sector. Customarily, banks jealously defend their status quo, which ensures their high profitability. That is why the role of Internet banks is less significant than their potential. However, this state of affairs is unlikely to be sustainable. Popularity of online banking is snowballing: in Finland and Sweden already as many as 70 per cent of clients of financial institutions use the online access channel on the daily basis. In Western Europe the figures is approaching 50 per cent, and is still increasing fast.

## Internet banking in the EU and a forecast for Poland in 2014

	Population +16 [M]	Banking population [M]; 2008	Internet banking users [M]; 2009	Internet banking users in per cent of population +16 [%]	Internet banking users in per cent of banking population [%]
EU 15	272	258,4	89,8	37%	39%
Czech Republic	8,9	7,7	1,2	18%	21%
UK	50,4	48,4	19,2	45%	47%
Germany	70,9	68,1	26,9	41%	43%
Sweden	7,6	7,4	4,9	71%	72%
Finland	4,4	4,4	3,2	72%	73%
Poland (2009)	32,3	26,2	5,5	21%	17%
Poland (2014)	32,3	27,5	10,2	31,8%	37%

Source: Eurostat, ZBP, NBP, own calculations

In both Germany and Poland the market position of Internet banks is influential as ING DiBa and mBank are ranked third in terms of the number of clients. Despite the difficulties mentioned above, together with penetration of online banking the low-cost model will invariably become tough competition for traditional banking. It is simply a matter of time because conventional banks are not able to offer any alternative because of their rigid cost structure. They will be helpless to defend their position in the future. Such threats do not go unnoticed by the leader of traditional business. However, in order to respond to disruptive innovations that appear sometimes on the market, they would have to contradict their way of operation which proved itself in the past and still yields satisfying profit in the present.

# Putting the Client in the Spotlight



*A customer is the most important visitor on our premises. He is not dependent on us. We are dependent on him. He is not an interruption in our work. He is the purpose of it. He is not an outsider in our business. He is part of it. We are not doing him a favour by serving him. He is doing us a favour by giving us an opportunity to do so.*

Mahatma Gandhi

*What you've created here is better than communism, better than socialism could ever be, better than even capitalism. I like to call what you've got here "enlightened consumerism", where everybody works together as a team and the consumer is the final king.*

Sam Walton, Made in America

**The philosophy** of mBank had been formulated at the very beginning, long before we started building the Bank's operation model. Its main tenets can still be found on mBank's website.

***Banks are there to serve clients, not the other way round...***

*mBank's central principle is to offer products and financial services that you really need. We do not promise to offer everything that is available*

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*in the world of finance. But what we do guarantee is the highest quality, best prices and practical usefulness of our products.*

***Our clients can expect mBank***

*never to mislead them with a complicated fee and commission system. But they can expect always to be served by a dedicated team of people for whom the client is always in the spotlight.*

mBank's philosophy is a publicly stated vision of a company which is the customer's champion. mBank targets the client of the new generation who is independent, wise, discriminating, and aware of their advantage on the market. A partner relationship with the client is a novel idea in banking, but seems only natural to the mBank team; so few of us had to break habits from the past. We understand success in business as a win-win situation for both parties, but if and only if the interest of the client comes before the interest of the bank. This approach makes mBank in some sense a dropout. It was the first to challenge deep-rooted and long-established principles of cooperating with clients.

## How to create a strong brand and earn clients' loyalty on-line

**Challenges** facing online companies impact their style of marketing. "Marketing isn't going to go away. Nor should it. But it needs to evolve, rapidly and thoroughly, for markets have become networked and now know more than business, learn faster than business, are more honest than business, and are a hell of a lot more fun than business. (...)By listening, marketing will re-learn how to talk"<sup>1</sup>. These words apply to mBank. The role of its marketing, its functions and aims evolved as the Brand matured, and the number of its clients as well as products grew. But some aspects have remained unchanged to this day, and form a solid foundation for communicating with clients.

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<sup>1</sup> Doc Searls, David Weinberger, Rick Levine, Christopher Locke, The Cluetrain Manifesto. The End of Business as Usual, Perseus Basic Books, New York 2000.



Communication on the Web as a natural environment for the Brand has become our main goal. At the beginning, however, this was not easy at all. It may seem as if an online company should base its communication purely and simply on Internet tools. Unfortunately, fewer than 12 per cent of Poles between 15-75 years of age had Internet access in 2000. In the early years, it was obvious that clients could only be reached by means of conventional marketing (television, radio, press, etc.). The plans to create an Internet bank which had all the traits of a disruptive innovation struck a chord with the traditional mass media. The online bank dovetailed with the transformation of the Polish economy. It embodied Poland's aspirations to draw level with the West. It was different: colourful, modern, and inspired by world-changing innovations. Being an outsider, it had the courage to defy the entrenched rules of competition. Shrewd marketing in the real world triggered much discussion on the Web – a textbook example of whisper marketing. Ideally, customers should learn about new products from other customers by reading blog articles and forum posts, or from family and friends. A better method of attracting customers is yet to be devised. After all, it is our friends and family whom we trust most. We often like to know what they are doing, and it is their decisions that encourage us to buy something.

mBank has attained this ideal. Clients have become its strength. Open-mindedness and honesty about our brand have played a major role too. We have never been afraid of admitting that we are “not perfect, but we have no hang-ups about it, and we don't try to hide anything”. This frankness has won the hearts of Internet users and cemented our enduring relationship with them.

We had to be frank. A model of an online bank was only being developed at that stage. There were no examples abroad that we could follow. Our only option was to seek cooperation with clients counting on their kindness and commitment, and to learn from our own mistakes. mBank has learnt how to listen to clients, draw conclusions from their criticism, and take their opinions into account. Thanks to that it is able to provide customers with a unique banking experience.



According to research, mBank has been one of the most heartily recommended banks in Poland for many years.

According to research, mBank has been one of the most heartily recommended banks in Poland for many years. Paweł Kucharski, the present CEO of mBank, mentions this in an interview:

“Reichheld suggests that customer loyalty should be measured with a single question which can replace complicated questionnaires. The question is easy: would you recommend the company to other people? Reichheld’s years-long research proved that it was effective. We ask our clients this question every month. 88 per cent of them say that they have already recommended or would recommend mBank to their friends and 56 per cent of those would be very likely to do it. It shows that clients are loyal to mBank and pleased with our offer not only in the field of finance but in other areas as well. Independent researches on customer satisfaction conducted by PENTOR in 2004 and IQS Quantum Group in August 2005 confirm our results. Both demonstrate that we are the undisputed leader in this category. mBank enjoys the best reputation among clients of all the banks in Poland!”<sup>2</sup>.

2

“Ciągły czat z Klientem” – Marketing przy kawie – 2005. <http://www.marketing-news.pl/theme.php?art=336>

It is surprising because it shows that our clients are also the most loyal. It has been generally believed that clients of online companies are the least loyal ones, because the Internet offers them the widest choice and they are always one click away from rival firms. As it turns out, it all depends on the quality of your offer and your relationship with customers. For a number of years, mBank has consistently been awarded the highest marks for quality, and is the unquestionable leader in this category as well<sup>3</sup>. In more general studies mBank is described as one of three banks that Poles trust the most<sup>4</sup>.

mBank's Net Promoter Score is decidedly higher than average. Our business philosophy and concept of SWOT (Strengths – Weaknesses – Opportunities – Threats) have stated from the start that outstanding quality of products and service would foster a unique relationship with clients, and give mBank a strategic advantage. We focused all our efforts on achieving that. At the beginning, comparative studies on customer satisfaction carried out by specialist marketing companies did not indicate that mBank had an edge over other banks. Their methodology was based on asking various questions, and the greatest significance was attached to the relative index of unsatisfied clients. The differences between banks were marginal. Unless the number of clearly unsatisfied clients exceeded 25 per cent, even the worst banks would not be concerned about it. Despite not being pleased with service, customers were not inclined or able to leave a bank. That is why many financial institutions had remained self-satisfied for so long that their laurels had withered. And little did they notice it was their competitors that now wore fresh wreaths.

Enthusiastic posts on Internet forums and our own research showed that exceptionally satisfied clients were the driving force behind mBank's unprecedented growth rate. The source of clients' satisfaction was our business model, and the service we provided. Our low prices and high quality were appreciated by clients who started spreading the word about mBank.

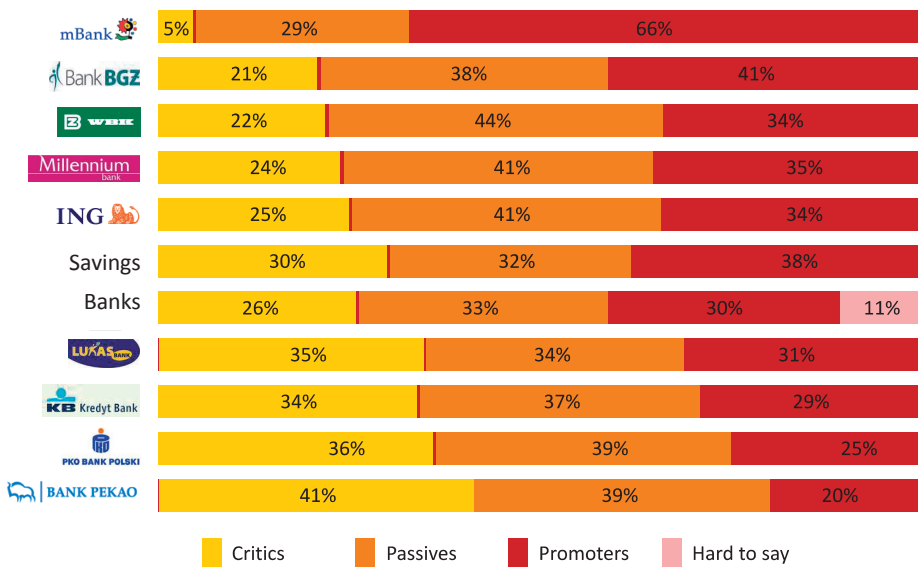
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3 mBank's blog – December 2009 <http://www.mbank.pl/blog/arttykul,538,dziekujemy-ze-polecacie-mbank.html>;

4 [http://wyborcza.biz/biznes/1,101562,7155955,Badania\\_\\_najbardziej\\_ufamy\\_PKO\\_BP\\_\\_Bankowi\\_Pekao\\_i\\_\\_\\_\\_.html](http://wyborcza.biz/biznes/1,101562,7155955,Badania__najbardziej_ufamy_PKO_BP__Bankowi_Pekao_i____.html)



## Net Promoter Score Index for the largest banks on the Polish market in 3Q2010



Source: Retail Banking Audit 1Q 2010 vs. 2Q 2010 vs. 3 Q 2010, Pentor Research International

It was only after a few years, when first researches based on the Net Promoter Score were being published, that mBank's phenomenal growth was explained. Convinced that mBank offered nothing short of excellence in price, product functionality, convenient access and the quality of service, clients did not hesitate to recommend it to their family and friends. Our own research showed that over 90 per cent of clients joined mBank on recommendation. Thus, our business philosophy has repainted the landscape of Polish banking.

## I recommend mBank

**Knowing** that customers have a high opinion about our offer and trust the Brand, we acquire new clients through member-get-member schemes. Instead of running costly advertising campaigns to lure clients with prizes, we encourage current members to recommend their bank to other people. No advertisement can ever be as effective in convincing us about the quality of a product or service as a person whom we trust. We have motivated our clients to recommend mBank by running a series of contests such as “The Pustelnik Trophy” in which they could win various prizes, the main one being an expedition organized by the well-known Polish climber Piotr Pustelnik. mBank’s prize-winners climbed mountains in the Himalayas, Karakorum, Patagonian Andes, Alps and Tatras. This marketing strategy is very different from the one employed by traditional banks which encourage their clients to take part in lotteries enticing them with luxurious cars or big sums of money. Another common strategy is to pay clients for opening a new account. mBank’s campaign, on the other hand, is aimed at current clients, and the prizes are unique. Our scheme has sparked much discussion on the Web:

“Help me to win a trip to the Himalayas. When you open an account at mBank, please give my reference number <b00224248>. If I win, I’ll send postcards from Nepal to all those who’ve helped me.”

Regards, Rysiek Babiarz

“You could’ve at least justified your cheeky plea for help.”

Łukasz Kowalczyk

“I want to see and experience the HIMALAYAS!!!!!! If anyone thinks my plea’s too forward, then I am SORRY!!!!!!!!!!!!!!!!!!!!!!”

Rysiek Babiarz

“All right, that’s convinced me :) I don’t think it’s too forward. If I were

to open a new account at mb, I'd provide your number (unfortunately, I have one already)."

Łukasz Kowalczyk" <sup>5</sup>.



**mBank**  **mBank Pustelnik Trophy II**

**! Weź udział w konkursie, wygraj najnowszy iMac'a lub iBook'a i wyjedź na wyprawę do Ameryki Południowej**

**mBank Pustelnik Trophy II**

**mBank** rozpoczął się kolejny Wielki Nabór na Wyprawę z Piotrem Pustelnikiem trwający od 1 maja do 31 sierpnia 2002

Aby wziąć udział w konkursie wystarczy posiadać rachunek w **mBanku**. Zasady konkursu są proste:

Nasi Klienci prezentują **mBank** i jego produkty rodzinie, przyjaciółom i znajomym. Każda osoba, która dzięki tym działaniom zdecyduje się zostać klientem **mBanku** powinna, składając wniosek lub umowę o otwarcie rachunku podać osiem ostatnich cyfr rachunku, którego posiadaczem jest ten Uczestnik konkursu, który pozyskał Klienta.

Tak wypełniony wniosek Klient powinien wysłać z naszej strony internetowej. Jeżeli Klient wypełnił umowę wydrukowaną z naszej strony internetowej powinien wysłać ją za pośrednictwem Poczty Polskiej wg instrukcji opisanej na stronie informacyjnej umowy.

Nowym Klientem **mBanku** jest osoba nie posiadająca do tej pory rachunku w **mBanku** (eMAX, eKONTO, izyKONTO).

Jako nowego Klienta traktujemy również każdą osobę otwierającą mBIZNES Konto. Posiadacz jakiegokolwiek rachunku w **mBanku** otwierając dla swojej firmy rachunek mBIZNES Konto również bierze udział w konkursie, pod warunkiem oczywiście, że wpisze osiem ostatnich cyfr swojego rachunku w **mBanku**.

Uznajemy, że Uczestnik konkursu pozyskał Klienta, gdy na rachunek Klienta wpłynie co najmniej 500 zł.

- wniosek eMAX, eKONTO
- umowa
- wniosek mBIZNES Konto

In the early years, we attracted customers by running many similar campaigns:

"When I joined mBank, there were 50,000 accounts. Then things got crazy. More and more clients were opening accounts even though our competitors weren't wasting time. Deposits skyrocketed so suddenly that our hair stood on end. There were more and more people eager to go for a walk with us and Robert Korzeniowski in Karków's Planty Park. Various contests and promotions were run, new records were set, and finally it happened. On 27th July, eight months after mBank's launch, we already had 100,000 accounts! We even baked a celebra-

5 The pl.biznes.banki discussion group

tory loaf bread to mark the occasion. A bitter-sweet period began. We were very happy about the result. But on 1st August we had to cut interest on our accounts, meaning that interest rates on eAccount and eMax would be identical.<sup>6</sup>

Our last “Polecambank”<sup>7</sup> contest took place in autumn 2009. mBank had acquired hundreds of thousands of clients thanks to its previous editions. It is one more proof of how important a close relationship with customers is to the way the Bank operates.

It is interesting that each contest caused great excitement, and left everyone with a lasting impression. Some prizes have passed into legend:

“My wallet’s worn out. I won it 8 years ago when I took part in some contest (probably The Pustelnik Trophy) organized by mBank. The wallet has the mBank logo on it. It’s a Wittchen wallet. Perhaps you could organize some other contest so that I win a new one?”<sup>8</sup>

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6 Arek Jadczyk – mBank’s first anniversary blog

[http://rocznica.mbank.com.pl/rocznica\\_mbanku.pl](http://rocznica.mbank.com.pl/rocznica_mbanku.pl)

7 Translator’s note: a coinage made by joining the words of the Polish phrase “polecam mBank” which means “I recommend mBank”.

8 Parapano – mBank’s forum – 12-03-2010 <http://www.mbank.pl/forum/read.html?f=1&i=933575&t=933546&cat=21>

## All Roads Lead to Rome – www.mBank.pl

Right from the start, mBank has been taking full advantage of integrated marketing which combines the freedom of online communication with clients' trust in the traditional media such as television. This cocktail of modernity and tradition allows a marketing budget to be adapted in response to market changes. Below is a schematic diagram of communication in mBank:



www.mBank.pl



The client learns about a product from different online sources –usually from several ones in this day and age. It encourages the client to investigate further: to either visit the brand’s website or to browse the Web for a product. Generally speaking, if a marketing campaign is shaped by the factors on the left-hand side of the diagram, it requires large outlays and the cost of acquiring clients is high.

All roads of mBank’s communication lead to its website [www.mBank.pl](http://www.mBank.pl).

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From the very beginning, mBank’s web portal has played an important role in the Bank’s communication and development. Its structure and character have evolved in harmony with the Bank’s growth and changes taking places outside of it. It has been absolutely essential to mBank’s activity. Suffice it to say that at the early stage there was no other way to contact mBank except via its website or telephone. The website should achieve certain aims in order to be effective:

- Simplicity
- Reliability and clarity of communication
- Innovativeness
- Security and education.

In addition to those, it must fulfil legal requirements. Terms and conditions as well as information on rates and charges must be included. We tried and managed to achieve these various, often contradictory, goals. The fruit of our efforts was the first portal launched on the Bank’s opening day in November 2000.



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Back then, mBank's priority was to make the website secure. This should come as no surprise since prospective clients were worried about carrying out transactions using a medium which was still not popular at the time.

The online service was extraordinarily simple and functional. Bearing in mind how commonplace modems were back then, it was very "light". From the beginning, the website has included photos of employees to convey that the "virtual bank" has been created by people and for people. This important aspect of mBank's philosophy has been reflected by each of the portal's four editions.

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The website allows you to chat with employees and compare prices of mBank's products with those offered by competition.

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The portal is at the centre of mBank's communication strategy, and as such needs above all to be transparent and accessible. The website allows you to chat with employees and compare prices of mBank's products with those offered by competition.

There used to be a Cyber Café which included a collection of interesting facts on mBank. The website had also some features of a social networking service, for example you could watch employees working through an Internet camera. This openness, which has been the key aspect from the start, has undoubtedly influenced the character and image of the developing Brand.

We also used the portal to ask clients about their preferences and opinions with regards to new products, processes and even pricing. An online questionnaire allowed us to collect tens of thousands of comments in 1-3 days. Getting opinions from a representative sample of clients was just a matter of a few hours. It was an incredible tool to produce client-friendly solutions. As Joan Robinsons puts it, "Yesterday's data on customers' expectations and experiences is only a story. Today's news on customers' expectations and experiences are tomorrow's profits". Most importantly, however, it has made clients aware that their opinions do matter.

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One of the most important ingredients of



a successful website is the language. mBank has altogether dispensed with the traditional form of communication which is often riddled with incomprehensible jargon and sounds like newspeak to a layman. All information on our website is meant to be easily grasped by the client. We use simple, everyday language. Formal language is used only when it is absolutely necessary. Wojtek Bolanowski used to be mBank's web master for a number of years. This is what he has to say about our communication:

“At the beginning, I was the author of texts on the website. There was a time, fairly recently, when every single word was written by me. I wanted to make the texts transparent and less formal so that they would stand out from contents of other websites which were peppered with jargon. I was successful in the end, but I was often corrected by banking experts at the start. You shouldn't write like that, It sounds too colloquial, You're departing from the truth here, they said. One time we had a discussion on whether you can have your finger on the pulse of expense. After all, expenses do not have a pulse. Eventually, the phrase was accepted but my <how to use a cash machine> instructions which opened with a description of a phone were less lucky. In the end, however, mBank's website was approved. Clients were very complimentary about it.”<sup>9</sup>

The following version from 2003 put emphasis on product presentation. The homepage includes a news section which is hugely important to any on-line institution.

### News section on mBank's website



9 “Piąty rok od wybuchu super nowej” – Marketing przy kawie 2005 <http://www.marketing-news.pl/theme.php?art=209>.



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As the product base and trust for the brand increase, the issue of security recedes to the background, and education about products and processes comes to the forefront. Owing to the fact that the bank is virtual, its portal becomes one huge universal self-service banking branch. You can find a scale of charges here, learn about product details, talk to their creators, or make an application.

Links to the most popular sections and information about new products are highlighted on the homepage. The bank is based on self-service, hence education becomes a key aspect. In addition, the greater the number of products, the more changes there are to terms and conditions, interest rates, etc. It is all about making information easily accessible to the client.

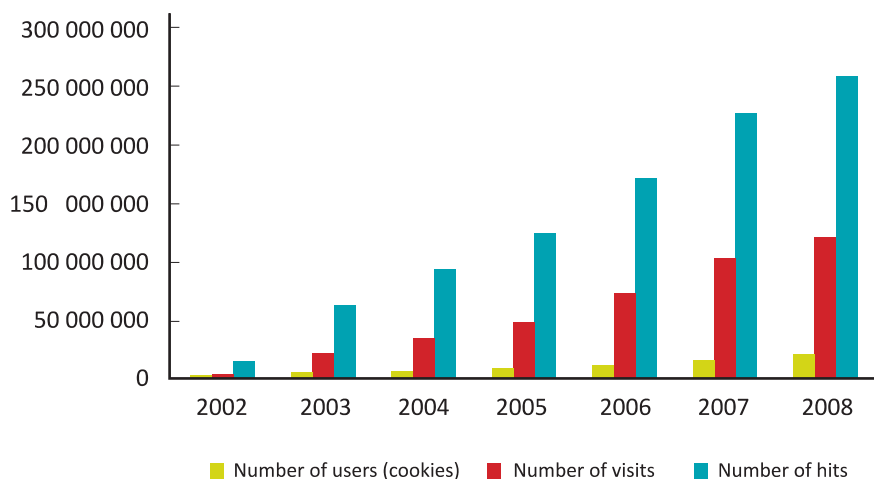
The beginning of 21st century sees a gigantic civilization leap in Poland. Broadband Internet access becomes commonplace. In the USA, the beginning of the Web 2.0 era is announced. It is the time of the dynamic growth of online companies such as Google, Facebook, MySpace and Wikipedia. In Poland, Nasza-Klasa<sup>10</sup> appears on the scene and wins Polish hearts. Huge portals lose their importance. The Internet becomes complex. It is no longer exclusive but becomes accessible to Everyman. We start to approach information on the Web differently. We stop reading and start scanning. This has a strong influence on marketing which is now characterized by garish titles, capitalized headlines, and many other tricks and stratagems. It is reported that in some countries outlays on online advertising have exceeded expenditure on TV commercials. Naturally, all this impacts mBank: acquisition of clients increases from year to year and their profiles change. Owing to the Internet's popularity clients are more diverse. Online banking becomes the first choice for many people. On the one hand they want to be given information quickly, but on the other, they expect it to be exhaustive. They want to use online tools they are familiar with. That is why each edition of our website lays heavy emphasis on the most useful information and includes interactive elements, films, etc. Clients can search for information and their nearest ATMs through our Google-based browser. Our blog serves an information/educa-

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Translator's note: Nasza-Klasa is a large Polish networking service bringing together students and alumni.

tional role with its news and instructional articles. mBank is the first Polish bank to start blogging. Every month the blog is read by 200 thousand people on average and many of them post comments below articles. In 2008, it is chosen the best company blog of the year. In 2002, mBank's website is visited 14 million times, and a staggering 260 million times in 2008. It is a reflection of the civilization leap that Poland has made in the last decade.



Source: Gemius

At this point, it is worth saying a little more about people who create the website. mBank has a special team of experts in different fields – communication, remote sales and online marketing – who are in charge of the portal. The team has been at the heart of mBank's marketing, and shapes the way the Bank communicates with clients. This is where the winding paths of sales, communication and marketing cross, hence its interdisciplinary nature.

Great responsibility rests with the team. Speed is critical because all necessary information needs to reach clients on time. Even a small error may cause chaos in communication and paralyze the bank. That is why the team members have to be able to work under extreme pressure and cope well with crisis situations. Even though the team is one of the biggest in our marketing department, it comprises only several people.

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Achieving such demanding aims would not be possible without proper technology and work organization. mBank enlisted the help of external companies to create its portal. 90 per cent of changes, however, were introduced by the Bank's staff. Owing to the nature of mBank's activity, our clients' expectations and time constraints for publishing materials, we decided to stop cooperating with external companies in 2003. We introduced our own content management system which is used to this day.

Tomek Lipiński, who is currently in charge of online marketing, gives us a fascinating insight into what the work on the team is really like:

"Overall, working in the online marketing department of mBank has taught me great flexibility. I knew what it meant to be flexible when I joined the team... or so I thought. I had been working for a few years with different clients on the other side of the barricade in an interactive agency, which had been pretty demanding. I quickly learnt, however, what <mBank's time scale> meant - a term coined by one of the members of mBank's discussion forum.

I remember my first day. I had an appointment with Paweł Kucharski who simply told me he had two pieces of news for me, a good and a bad one. Naturally, I wanted to know what the latter was first. I learnt the team I was supposed to manage had been disbanded (its members had been transferred to other more pressing projects). Projects I was meant to carry out had already been completed. I joined mBank two weeks later than planned so the work had to be done by someone else. Now, my goals were different. I had a month to prepare an information portal and another three months to bring it to life. Good news was that Małgosia Kowalska who was responsible for communication would still be working with me, and that I was allowed to employ Arek Jadczyk who used to be part of mBank's marketing department. I was also given free hand to recreate the team. The first two weeks were absolutely crazy, filled with working among hundreds of other people, getting to know new procedures, new faces, workshops, collecting data, recruitment and so on. I learnt mBank's philosophy the hard way and understood the source of its success: the legendary 100 days. Time flows differently at mBank. My morning coffee would, as if

by magic, turn into a 5 o'clock cup of tea at a blink of an eye. Despite that maddening pace, we did it. In two weeks, we had drafted a document containing our ideas on what should be changed and how. It took us another two weeks to polish it. I also vividly remember meeting Mr Lachowski for the first time. I met him at a business trip at which I was meant to present my ideas on changes in mBank's communication and the website. For three days, I had been trying to avoid a "close encounter" with the CEO. I really did not want to be asked the question I could not for the life of me answer: <When will the portal be implemented?>. Unfortunately, I dropped my guard for a moment on our way back. Suddenly, while I was talking to a colleague, a hand rested on my shoulder. <When's the launch date?>. I answered without giving it much thought: <in three months>. Whenever I thought about the project, that hand's touch turned into a viselike grip. There was nothing that could motivate me more. The portal was all systems go after three months."

## mBank's portal created in the 2.0 era

The screenshot displays the mBank website interface. At the top, there is a navigation bar with links for PRZEWOZNIK, FORUM, BLOG, and WITRYNA. Below this is a search bar and a language selector (PL). The main content area is divided into several sections:

- OFERTA INDYWIDUALNA / OFERTA FIRMOWA**: A navigation bar for different types of offers.
- Product Categories**: A row of links for mRACHUNKI, mLOKATY, mKARTY, mKREDYTY, mINWESTYCJE, mEMERYTURA, mUBEZPIECZENIA, mTELEFONIA, and mZAKUPY.
- Main Offer**: A large banner for "Teraz kredyty samochodowy dostępny również w CHF" (Now car loans also available in CHF), featuring a red car and bullet points: "szybka decyzja kredytowa" and "do 100 000 zł bez wkładu własnego".
- Logowanie**: A login section with options for "Bezpośrednio" and "Demo".
- Zostań Klientem**: A section to "Otwórz eKONTO" with a "Więcej" link.
- Dlaczego mBank?**: A section with bullet points: "Co nas wyróżnia?", "Porównaj nas z innymi", "Jaki obszar?/rachunek?", and "Aktualne promocje".
- Przenieś konto do mBanku**: A button to transfer an account.
- Other Promotions**: Several smaller boxes for "Gwarancja najniższej ceny", "Gotówka na specjalne okazje", "Chroń swoje oszczędności z ubezpieczeniem NIW", and "ochrona 24h".
- Aktualności**: A news section with a date "10-05-2010 18:20" and a "Więcej..." link.
- Footer**: A red bar containing contact information, legal notices, and a "powered by intercom" logo.

The new medium not only has an influence on marketing but also the company's entire organization. The Internet which has empowered the cli-

ent has also given birth to a new category of firms which are often referred to as 2.0. In contrast to the previous generation companies, these businesses do not focus solely on independent growth but also try to get the client involved in the process. This is what mBank is like. It is Poland's first bank to create such a business model and define a new standard – Banking 2.0.

### Web 2.0 in banking

Banking 2.0	Banking 1.0
Focus on client	Focus on bank
Developing products in cooperation with clients	Products are created by bankers
User-friendly, intuitive	Complicated, process- and technology-oriented
Basic services are free-of-charge, “no usage – no fee”	Fees are ubiquitous, aggressive pricing, charges regardless of usage
Open financial platform and flexible strategy	Closed system, long-term unchanging strategy
Key value: <b>clients</b>	Key value: <b>resources</b>

Feeling a vital part of mBank's community, the client gets intimately involved in building the Bank and streamlining its processes. This is known as “crowdsourcing”. The neologism was first used by Jeff Howe in June 2006 in a magazine entitled Wired, “(...) it means drawing knowledge, ideas and inspiration from <the crowd>, that is ordinary people. It is consumers not marketers who know best what they need. Giving them a chance to say what they think about a product they are using or would like to use guarantees getting fresh insights into problem areas. This may in turn lead to improvements tailored to the needs of a specific target group”<sup>11</sup>.

Listening attentively to the client and customizing products and processes to their needs became the foundation for building mBank's brand.

This what Tomek Lipiński says about clients' integration with mBank:

“It is important to get clients involved in the process of making products and banking services, which is now called <crowdsourcing>.

11 “Marketing w praktyce” – February 2009.

We have been doing that for 9 years! mCouncil as well as clients in general contribute ideas during discussions, on our blog and forum, and supervise their implementation. The client's everyday engagement in the bank's development strengthens their relationship with it. mBank's offer was, is, and will continue to be heavily influenced by clients' opinions. They form the basis for our activity"<sup>12</sup>.

Initially, we got clients involved spontaneously through the pl.biznes.banki discussion group. More refined tools were developed later. Clients took part in many projects run by the marketing department in which they could use their creativity. Our advertisement festivals attracted hundreds of artists inspired by the slogan "You don't have to trust ads done by others! Do one yourself for mBank." All editions enjoyed huge popularity; thousands of people voted for commercials. What made them even more valuable was that artists promoted their films on their own by posting videos on different websites, and in that way advertised our bank.



"Choose Wisely", author: Facetious. Winner in mBillboard category in 2009<sup>13</sup>  
We'll knock any offer out! mBank - the heavy hitter

12 Tomek Lipiński – "Pojawienie się mBanku było pewnym przełomem". <http://www.gadzinowski.pl/pojawienie-sie-mbanku-na-ryнку-było-pewnym-przełomem-czesc-1-wywiadu-z-mbank/>

13 Source: [www.mfestival.pl](http://www.mfestival.pl)

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The commercials sparked a lot of discussion, which made clients even more involved. In 2008, a film that won the audience award was broadcast before Fakty TVN.<sup>14</sup> We ran further competitions such as “The Faces of mBank” in which clients were asked to send in their photos. We chose fifty and then displayed them on our website. “mBank of Inspiration”, was aimed at fine arts students whose task was to design mBank’s payment card. Right from the start, clients have been crucial to the development of our bank. Threads such as the one below appear regularly on our discussion forum:

“Suggestions on how to improve transactional processes. If you have experienced any inconvenience while using your account, here is your chance to express your dissatisfaction. Also, please share your ideas on how to make mBank’s service better. (...)”<sup>15</sup>.

Every new thread gives rise to dozens of ideas.

“Hello,

You could think about adding/changing the following.

1. Add information on currency and amount as far as international transactions go (if you could add currency rates as well, that would be great).
2. When this error report shows up:  
BGE7009 OPERATION FOR THE GIVEN NUMBER DOES NOT EXIST  
you should be redirected back to the list of transactions rather than to the accounts section (a trifle but an annoying one).
3. Being able to decide if you want a one-time password for transactions or not (I’ve mentioned that already).

Have a nice day,

Tomek”<sup>16</sup>

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14 Translator’s note: Fakty TVN („fakty” is Polish for “facts”) is the flagship newscast of TVN, one of Poland’s major television networks.

15 mBank’s forum October 2001 <http://www.mbank.pl/forum/read.html?f=1&i=71023&t=12456>.

16 forum October 2001 <http://www.mbank.pl/forum/read.html?f=1&i=71023&t=12456>

mBank had introduced this form of cooperation with clients long before large brands launched their social networking services to contact customers, e.g. Dell's "Idea Storm" or "My Starbucks Idea".

"(...) nowadays when everyone knows how important it is to build a community and engage in a dialogue with clients, and how the Internet functions, they try simply to take advantage of it. For us, it is like breathing. It is our environment. So we can't be said to have <built a community>. As an online company, we get very clear feedback from our clients on what they like, what they do not like and what they want to discuss. mBank encourages clients to share their ideas. They take part in its development and often test new solutions before they are launched on the market"<sup>17</sup>.

## Education above All

In 2004, mBank's direct marketing campaigns were in full swing. Right from the start, they were meant to educate clients in the world of finance. One of the first campaigns was called "Steps". It introduced clients to mBank's products and services. Step 1 was like learning how to walk. It was a "welcoming" campaign available on the first login. It helped clients learn how to use the eAccount and how to customize information such as standing orders. The next Steps were launched to inform clients about more refined products and services once they had increased their activity.

Educating and gathering information to improve processes and products have been our main goals in communicating with clients via the Internet and call centre. mBank takes every opportunity to engage in a dialogue with the client making sure it does not intrude on their privacy.

Numerous direct marketing campaigns have given us a chance to get to know our clients' in-

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**mBank takes every opportunity to engage in a dialogue with the client making sure it does not intrude on their privacy.**

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<sup>17</sup> Anna Moszczyńska – "Pojawienie się mBanku na rynku było pewnym przełomem" <http://www.gadzinowski.pl/pojawienie-sie-mbanku-na-rynku-bylo-pewnym-przelomem-czesc-1-wywiadu-z-mbank/>



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dividual needs. Customers eagerly take part in mBank's questionnaires because they are certain that the main purpose is to improve the quality of service. When conducting sales campaigns we do not clog our clients' emails because we target only those clients who are likely to find the information useful. Our most important communication channel is [www.mbank.pl](http://www.mbank.pl) and the transaction service which is a one-on-one platform enabling effective interaction. Important information cannot be overlooked by the client because it appears on the screen immediately after logging in, which reinforces the impression that it is personalized. Communicating important information in this way makes the client use the service more actively. This form of marketing is also used to sell new products but only when information about the client suggests that they may benefit from it.

The number of campaigns has increased over the years, and target groups have become smaller thanks to our more and more accurate methods of analysis and prediction. Currently, several hundred various campaigns are carried out each year. They range from *information campaigns* thanks to which clients learn about new products or terms and conditions, all the way to test *campaigns* aimed at improving products and communication. Campaigns that encourage clients to be more active and those that prevent them from leaving mBank are no less important. It is one of the most difficult forms of communicating and has always been at the centre of mBank's attention. Last but not least, it is hard not to appreciate sales campaigns which have often helped change mBank for the better.

Sales campaigns were most effective when they were conducted in different ways through different channels. It was especially important for pre-approved campaigns in which clients received an offer of a credit with a certain limit. The first such campaign was carried out in 2005. 1800 clients were offered a revolving credit. In spite of the fact that information about it was only available through the transaction service, the campaign was a success and showed us how to develop our bank in harmony with our clients' needs.

Our campaign to sell credit cards was a milestone. At that point, our communication with clients turned into sending out contracts. But before doing so, we would inform the client through the transaction service. In addition,

if the client decided not sign the contract, a telephone conversation was held with them to answer all their questions. The campaign resulted in many cards being activated.

Not only campaigns for loan products have proved successful. Also the ones promoting the sale of insurances are interesting to many clients. Information on whether the client owns a car and when their insurance policy is due to be renewed are collected on the basis of their spending pattern and questionnaires. E-mail and text message campaigns which promote our offer of mobile top-ups also yield above average results.

In the last six years, we have managed to carry out about two thousand campaigns which helped foster our relationship with clients. The methods have evolved but the aim remained invariably the same: to satisfy our clients' true needs and create an added value for them.

## mBank's Community

*A **virtual community** is a social network of individuals who interact through specific social media, potentially crossing geographical and political boundaries in order to pursue mutual interests or goals.*

Wikipedia

*And for seizing the reins of the global media, for founding and framing the new digital democracy, for working for nothing and beating the pros at their own game, TIME's Person of the Year for 2006 is you.*

Time

**Creators** of online commercial enterprises dream about building a community of clients. Paradoxically, the emergence of mBank's community was unplanned. It is a natural result of the way the Bank has communicated with its clients, and its achievements in the product sphere.

We need to remember that building a community requires devotion, adapting the way an organization communicates, and, above all, patience and consistency. Many marketing agencies claim that they can build com-

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munities to order, but this is just clever advertising. It takes years to do that. Short-lived stormy relationships more often than not fail miserably. An abandoned community may turn into a mortal enemy of the brand. The term “virtual community” was most likely used by Howard Rheingold for the first time in 1994<sup>18</sup>. “People in virtual communities use words on screens to exchange pleasantries and argue, engage in intellectual discourse, conduct commerce, exchange knowledge, share emotional support, make plans, brainstorm, gossip, feud, fall in love, find friends and lose them, play games, flirt, create a little high art and a lot of idle talk. People in virtual communities do just about everything people do in real life, but we leave our bodies behind. You can’t kiss anybody and nobody can punch you in the nose, but a lot can happen within those boundaries.”<sup>19</sup> These words put in a nutshell what goes on inside a community which we can build with a bit of luck and consistency. In short, a community possesses great power that springs from emotions of its members. All you need to do to give rise to an online community are two people and a suitable Internet platform. Sometimes a momentous event is enough for things to change. This is what happened in mBank’s case. When it was launched, Internet banking took off like a shuttle. With the right amount of high-quality rocket fuel to keep the engines going, that is improvements and new products, not even the sky is the limit.

At the time when mBank was being created, life on the Web was flickering on countless websites. They had mushroomed during the period of the Internet bubble. No one could have expected back in 2000 that pl.biznes.banki would play such a vital role in the development of a new bank, which would become the embodiment of a shift in financial trends. This is how Piotr J. Ochawał, mBank’s first client and an active member of pl.biznes.banki, recalls those events:

“(…) The initiative caused an earthquake in the Polish world of retail banking. From that moment on, the word was growing increasingly

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18 Wikipedia.

19 Virtual Communities: Abort, Retry, Failure? by Jan Fernback & Brad Thompson <http://www.well.com/user/hlr/texts/VCcivil>

popular not only among Internet users but also journalists.

For an entire week, we were regularly checking the website hoping that BRE Bank would launch its service a bit earlier. But only BRE Bank's logo kept staring back at us. Members of pl.biznes.banki were quoting press reports at length, discussing the feasibility of the enterprise, especially the lack of charges for most transactions. They were also wondering how secure it would be to deposit money in a bank that in reality <would not exist>.

Impatience was at its peak on the Saturday evening of 25th November. Sceptics doubted that <if they said so, they would do it>. A couple of minutes were left until clocks struck midnight. BRE Bank's logo now looked somewhat spectral on the blank page as the bewitching hour neared. I started clicking the refresh button on my browser.

...et habitavit in nobis...

Midnight struck. The logo was still there but now it winked at me cheerfully. The website was up and running! mBank had been launched! Oh, there's even an <open an account> link. I click on it and an application appears. But wait a minute... Why isn't it https? There must be some telephone number somewhere. Here it is. I dial it. I'm kept on hold. Oh, good, someone answers. A really frightened guy. I give him my personal details. He tells me what my account number is and says that the contract will be sent by post. I choose my password: *Ohfudgeit*. It works! Next, I order a transfer to be made through Home-Cash. I want to see whether the money gets there. And when :-)) I sit at my computer until three in the morning. There are more and more people at pl.biznes.banki who boast that they've just set up their accounts. I try to find out who the first one was. In six months, the bank would inform me officially that I was the lucky one.

Yes, Piter was right. After that night, Polish banking will never be the same."

Pjo<sup>20</sup>.

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20 The excerpt comes from "mBank's Chronicle" published online to celebrate mBank's first anniversary: [http://rocznica.mbank.com.pl/rocznica\\_mbanku.pl?site=kronika&podstrona=2](http://rocznica.mbank.com.pl/rocznica_mbanku.pl?site=kronika&podstrona=2).

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Those lengthy discussions about the new bank did not cease after its opening. The opposite usually happens. Online discussions resemble burning straw. Flames engulf it quickly but die down just as fast. But it was not true for mBank. Day after day new threads and comments sprang up all over the Internet. Some of them spread silly gossip. It forced mBank to publish a letter on 16th January 2001 on [pl.biznes.banki](http://pl.biznes.banki), only several weeks after its launch. The real reason for the letter was to establish a direct relationship with Internet users who knowledgeable discussed the problems of the Polish financial sector. mBank understood the value of their opinions. The letter was absolutely unprecedented:

“On behalf of the mBank team, we would like to thank all those who share their views on the [pl.biznes.banki](http://pl.biznes.banki) discussion group for helping us develop (improve) mBank.

Following the group’s discussions has been our duty from the start and has enabled us to satisfy our curiosity. It is impossible to dream about building a successful enterprise in the New Economy – an Internet bank in our case– if its creators are not convinced about the importance of fostering a harmonious relationship with customers.

<Banks are there to serve people, not the other way round>. We have not made that our credo for nothing. In order to be true to our belief, we need to listen to what clients say about us, our products and our service. Whenever it is possible we must react without delay to correct our mistakes and introduce improvements to ensure a positive banking experience for our clients.

It is hard not to appreciate the significance of the Internet in this context. [pl.biznes.banki](http://pl.biznes.banki), Poland’s only thematic discussion forum, is a source of information and priceless comments from highly qualified experts/enthusiasts and Internet users.

We follow all the comments with great interest, sometimes with bated breath and humility. They are often a catalyst for improvement, sometimes a confirmation that we are headed in the right direction. We hope you will notice the changes we have already introduced, such

as mLine. We will try to implement most of your suggestions for improvement by the end of February.”

This letter caused quite a stir on the Web. For the first time in the history of the Polish Internet, managers decided to join the discussion in such a direct way. It was a crucial moment. It kept the discussion alive, and made the institution and its employees accepted as part of the community:

“I must admit I’m astonished by the letter. It’s the first time I’ve witnessed an institution appreciate customers. It would be unthinkable for most of them to answer questions or express opinions on Usenet. What a surprise! It wasn’t painful, I hope. If not, then I ask for more and wish you all the best. Keep up the good work – it’s worth it<sup>21</sup> .”

It was like crossing a barrier into an unknown and forbidden territory. No brand had ever addressed customers so candidly. Below, Ania Moszczyńska, one of the guardians of mBank’s community, recalls those early days:

“Being Internet users, we created what we would like to use ourselves. Obviously, the Web was different at that time. We did not apply any magic formula. The community was the result of our cooperation with clients and honest discussions on what we need and how we would like the bank to operate. At the beginning, discussions were carried out on external websites. We were mentioned on pl.biznes.banki. It was a gathering place of people with alert minds who wanted to have their say. First they observed us, and then worked together with us. Those people spoke and thought like we did, so there were no artificial barriers separating us (the bank vs. the community). The first networking service we introduced was the mForum”<sup>22</sup> .

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**It was like crossing a barrier into an unknown and forbidden territory. No brand had ever addressed customers so candidly.**

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21 pl.biznes.banki discussion group

22 “Powstanie mBanku było pewnym przełomem”.

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Our first year of activity was all about spontaneous contact through e-mails and the said discussion group. The number of threads devoted to mBank accounted for about 20-40 per cent of all the threads at pl.biznes.banki. All sorts of subjects were covered from security to technology, from processes to pricing. There were also threads which perfectly showed how imaginative Web users can be. A good example is this discussion about mBank's logo:

"I learnt at a meeting that people interpret mBank's logo in different ways. I thought it was pretty straightforward, but it turns out people are more imaginative. So what do you think it portrays? Maybe we the designer could tell us what it's supposed to be. I'm just curious:-D".

Wojtek Frabinski ICQ 50443653

"A kind of nice new age flower".

sceptyk

"Come on, people! It's a BANK after all! Surely, it's a colourful CLOVER (to tell you how lucky you are to get their interest rates). Best of luck!

Mariusz -=maVox=-

"I always thought it was a flower..."

bas

"Me too. Some allegedly think it's a rooster. Can you believe that :-)  
? It turns out my mother is one of them. And a friend of mine sees a pinwheel :-))) Maybe there is someone from mBank here who knows what this sign's meant to represent and can enlighten us? Just my silly curiosity ;-)".

Wojtek Frabinski ICQ 50443653

"I see a little mole with a punk hairdo :-)".

Łukasz Kowalczyk

“Off topic – during my visit to mBank I pointed out what I thought their logo was: a lopsided pinwheel ;-).”

Pjo

“My little daughter thinks that it is a ladybird (it’s a different word in her cute baby babble, though)

My regards”.

pawgra

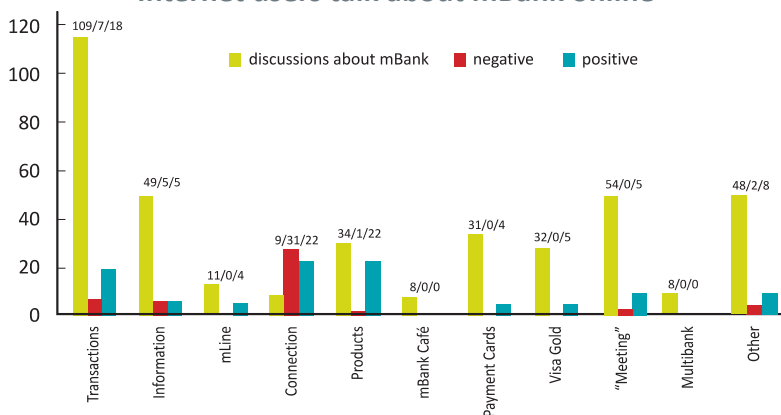
“It’s totally a FLOWER!”

“I’ve always thought that, but since Wojtek told us that some believe it to be a rooster, the longer I look at it, the more it looks like one craning its neck :-).”

PGR<sup>23</sup>

mBank employees would read all threads with flushed faces and draw creative inspiration from them. Today we have special software to monitor discussion groups. Back in the day, handwritten reports devoted to them were the highlights of our daily and weekly briefings. Comments and opinions posted on the Web were unbelievably detailed. Clients were real experts carefully assessing our activity.

### Internet users talk about mBank online





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It is true that “Expertise now resides in fanatical customers. The world’s best experts on your product or service, don’t work for your company. They are your customers, or a hobby tribe.” (Kevin Kelly). Their help, constructive criticism and, most importantly, their perceptiveness of what was going on at mBank persuaded us to tighten our relationship with clients. We decided to find the Customer Council which took shape over the following two years. The first meeting was held in Łódź on 18th April, 2001.

### Our first meeting with clients



The invited clients were well-prepared for the first meeting:

“I’ve created an FTP server at my humble abode, on which I uploaded a file called `mbank_wishlist_v1.doc`. If anyone feels like it, they can download the file and add their own suggestions on how to improve mBank. We’ll then present the file on the meeting with the mBank team in Łódź on 18th April. Please save your version of the file under a different name (your version’s number should come at the end of the file name). The day before the meeting I’ll try to create a single file and save it on my FTP server. Please tell me what you think about it”<sup>24</sup>.

Piotr Ochwał, a member of the Customer Council, gives an account of the meeting:

“We arrive in Łódź, and then have some trouble finding the place, because our companion pjo gets street names all mixed up. Eventually,

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pl.biznes.banki M.Dudek 13th April, 2001.

we reach our destination. There we're introduced to mBank's system and technology (Accenture), ask questions which remain unanswered (Accenture), and more questions that are answered in great detail (Mr President Lachowski and company). Then, we're given "small" plastic gifts. The President and pjo have a souvenir photo taken commemorating the first printed contract. Next, a trip around mBank, some peeking at busy people, a visit to the <diary room> where our posts are analysed, back to the conference hall, gluttony and bacchanalia. After that, we walk to the <big BRE> on Piotrkowska Street, admire the rooftop view and take some photos, and visit the Call Centre. Of course, SebMal activates his gift right away while pjo shakes hands with an agent who set up his account that memorable Sunday night :-). We're in a hurry because it's nearly 6 p.m. and we're still far from Piotrkowska Street 77. So we go as fast as legs can carry us. Marcin and the President sing out of tune along the way ;-). It turns out that every girl and laddie is there already. Beer and tales flow freely. The President doesn't avoid the most difficult questions. He calls his workers and asks them follow-up questions if necessary. More eating and drinking. It's impossible to get through all this... At last, Piotrek Gawron arrives and helps us tremendously with food and drink consumption.

I, too, was there indeed, drank the wine and the mead because drive I did not, and at nine on the dot I went home from the spot <sup>25</sup>. Woe unto them who were not there.

I know the letter seems a bit brown-nosing, but I've experienced such treatment of (admittedly inquisitive) clients only twice in my lifetime. The first time was in 1998 when the numero uno of Elsag Solutions AG took us for a night ride around the neighbourhood (+ lots of food and drink). The second time was in Łódź on Wednesday".

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Pjo <sup>26</sup>

25 Translator's note: a playful reference to the final lines of a famous epic, Pan Tadeusz, by Adam Mickiewicz who is considered Poland's finest poet.

26 pl.biznes.banki, 21.04.2010

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The choice of the Council members was mBank's independent decision. They were elected from people involved in the community of clients on different planes. This how Shuriken, a member of the second-term Council, describes the Council's aims:

"<mCouncil> is the name for the semi-official team of advisors whom mBank has chosen according to criteria known only to itself. One can suspect that those who are active on all forums connected with mBank and finance are elected. One can also assume that mBank isn't interested only in flatterers and toadies but also barkers (my election is the best proof of that ;-) ) The team will comprise up to 20 people (good news for those who are fans of the slogan <mBank is a woman> - a few ladies are also members). It is meant to operate in the virtual world (via a mailing list), but there are also plans for mCouncil to meet in Łódź.

mCouncil (in contrast to mBank's Board of Clients) is concerned with both mBank and MultiBank. Some projects, products, marketing ideas and so on will be presented to the Council. BRE Bank (or its daughter institutions) can but does NOT have to take the Council's opinions into account.

Some enterprises will be top secret so I won't be able to write about everything here (but I'll fight tooth and nail for the right to do so).

Working for mCouncil is a social obligation (for mBank's and MultiBank's community). The benefits for its members are slight - I'll write more on that soon (I've been asked to be discrete for now). Personally, I'll use only one basic privilege. I hope that other members will remain independent and loyal to the community" <sup>27</sup>.

A special virtual discussion list which could only be accessed by employees and the Council members enabled day-to-day cooperation. In October 2003, clients' motion was passed and the Council's status became more formalized. We laid down the "mCouncillor's Code of Conduct".

"mCouncil is a body of mBank's clients and members invited by the Bank.

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27

"mRada - cóż to takiego?" <http://mbank.kzp.pl/index.php?artykul=s0202>

Its purpose is to advise and opionate on matters of great importance for the development of the Institution. mCouncil is established pursuant to the Code and comes into effect on 30th October, 2003.

mCouncil's aims:

- building and popularizing client-friendly institution,
- active participation in creating mBank's image and in its development,
- dialogue between mBank and Clients,
- deepening trust for online banking and mBank"<sup>28</sup> .

This model of cooperation is used to this day. In November 2009, the Council started its sixth term. Its character and purpose have not changed much over the years. This is mBank's first line of contact with clients and online banking enthusiasts. mCouncillors are volunteers. They are often the first ones to test new products and services which thanks to their opinions are perfected and then made available to all the clients. This is how Marek Jedziniak, a current mCouncillor, recalls the process of testing mBank's credit card:

"I think it's worth describing an mCouncillor's' duties in more detail. I'll tell you how we took part in testing the Orange credit card in 2006 before mBank (and Orange) started offering it to Clients.

At the start, we got an email through mCouncil's list. For those of you who many not know, m Councillors contact each other via a mailing list, that is every email sent to a specific address is forwarded to all the mCouncillors as well as mBank's workers. The email was sent on Friday, 25th August at 15:27. We were asked to answer it... on the same day. Luckily, delayed replies were also accepted (I myself got home late in the afternoon). Then, we waited for further instructions which were sent to us in the following email. We were meant to check not only whether the card works but, most importantly, whether the unusual process of issuing these cards functions well. The instruction said that a customized offer would be sent to us by post and by email to save us the wait. I got the email on 5th September. The attachment contained a flyer which looked like a cardmailer and a welcome letter.

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The post arrived on 14th September. The next stage was waiting for a call from mBank which I received on 5th September as well. First, an mLine researcher described the advantages of the offer and then asked me if I'm interested. I was, so I applied for it. A day later I received an email confirming that my application had been successful. Obviously, everything was planned from the start ;-) but for the sake of the test the whole process had to be exactly the same as the real one.

In the meantime, we a sample application form, contract, and the credit card were delivered to us by courier on 25th September. I read and signed the contract in the presence of the courier and the copies were sent back to mBank. Most importantly, though, I got the envelope with a black and orange piece of plastic. At that point, I spotted one tiny mistake. The names of streets from my permanent and temporary addresses were mixed up in the documents.

The next stage of the test began. We were supposed to do two things on the day we received the cards. Our first task was to use the non-activated card. I tried to make an online transaction which was naturally rejected. Then, I activated the card and went to a local shop to complete the second task. It turned out that I wasn't able to pay with my card again even though it was now active. But it was supposed to be like that – the signed contract had not been received by mBank yet. A couple of days later everything worked just fine. Our last task was to test whether Profit points were counted correctly. There were no surprises here – more or less in the middle of the month the previous month's points would show up on the Profit account.

This shows how simple the tests are but also how important for the introduction of a new product or service. They're useful for spotting slight flaws and errors, such as the ones that were exposed in our test: some inconsistencies in the mLine's presentation of the offer, the error in the address, and other tiny mistakes which were quickly corrected. The entire process was polished until it shone and the project Orange Credit Card was launched to huge success. :-)

Let's hope another card project ends in success too. Naturally, also thanks to the tests – in a couple of days a courier is going to knock on my door again...”<sup>29</sup>.

It may seem as if our contact with the mCouncil is reduced to an exchange of pleasantries. Quite the contrary. Our meetings and debates are often stormy; the Councillors are inquisitive, critical and exceptionally demanding. The mCouncil's periodical reports frequently contain criticism and suggestions for improvements:

“(…) 4) mCouncillors are far from satisfied with the unstable functioning of the eBroker. We hope that mBank will ensure that similar events do not take place in the future.

5) In spite of what we have been told, clients still need to wait for currency account cards and it appears the wait will be rather long. (…)”<sup>30</sup>.

Many mBank's workers begin their day by looking through the mCouncil's discussion list, which is a source of information and assessment of the current activity – a channel for clients' opinions.

It is our responsibility to keep our promise of holding a constructive dialogue with clients. Lack of response or delay can cause evident frustration among our customers. Meeting customers' demands requires great dedication from mBank's employees. Even though we all had constant access to the Internet, employees from time to time had to go back to work at night to send out information from the Bank's address so that it would be reliable. Technology and people have changed over the years, but basic principles remain the same. Małgosia Kowalska, who is in charge of mBank's microblog, confirms that this is true:

29 “This is how products are born” – mBank's blog, <http://www.mbank.pl/blog/artykul,56,tak-rodzi-sie-produkt.html>

30 mCouncil's report for March and April 2007,

It is our responsibility to keep our promise of holding a constructive dialogue with clients. Lack of response or delay can cause evident frustration among our customers.

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“We blog all throughout the week during working hours. But sometimes we get so engrossed in it that we don’t even notice when midnight strikes. There are no rules saying that we have to blog at night or weekends. Some visitors are surprised to find out that a new post has been added at hours other than 8-5”<sup>31</sup>.

It is worth mentioning at this point that our contacts with clients in the real world are not limited to our cooperation with the Councillors. On several occasions our workers travelled around Poland meeting customers and telling them how mBank operated. It helped us understand each other better.

“Hello,

I’d like to make it clear from the outset that there’s a lot of good stuff about mBank here, so the faint-hearted are asked to look away. =) I’ve just come back from an mBank meeting in Warsaw (my first physical contact with the bank) and I have to say it was very nice. After having successfully scoured my wardrobe for my Sunday best T-shirt (there’s a barcode with broken bars on it and the word “freedom” in place of digits), I managed to sneak to the Bonanza pub for a quarter of an hour before the meeting. I somewhat regret missing the part where charming mLine girls were checking the names off. It turned out that around 50 people had turned up when I got there. More than in previous meetings in Łódź, as I was told by Wojtek Bolanowski, a paediatrician. During the meeting we watched presentations intermingled with contests (I won a much-coveted mBank mug in one of them) and very interesting comments from President Sławomir Lachowski (he wore a black T-shirt!). As far as up-coming products and changes go, everything had been mentioned at the Friday meeting in Łódź (interface corrections and a card to buy stuff on the Web in September, a credit card at the turn of 2001 and 2002). Unfortunately, when it comes to pbb folks I managed to identify only BAH (who – if I’m not mistaken – won a very elegant pair of mBank boxer shorts).

In conclusion, those who weren’t there should regret it (Wojtek

Pięćek, for example, was nowhere to be seen...); the meeting was a success – I hope that there'll soon be a chance to see the pretty mLine girls in their seductive red hats in Warsaw again (in November perhaps, on mBank's birthday?).

All the best

-- Shot <sup>32</sup> .

Our positive experience with the pl.biznes.banki discussion group inspired us to create mBank's own forum as soon as the second half of 2001.

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Our positive experience with the pl.biznes.banki discussion group inspired us to create mBank's own forum as soon as the second half of 2001. The Bank's activity on the independent discussion group could have met with a negative response. What is more, there was a need for something more accessible to the wider public, not only a group of banking enthusiasts. All those dilemmas were resolved once we had launched Poland's and the world's first discussion forum on a bank's official website. Our clients' suggestions were invaluable:

"(...) I'd really like to see (that would be revolutionary no doubt) a forum open to the public where people could point to flaws and put forward their ideas for enhancements. A forum where:

- you could see what problems have been reported by others so that the same problem wouldn't be reported twice;
- info about solutions to problems/implementation of proposed enhancements would be announced;
- people could even vote on <what problems I find the most troublesome/what modifications I would really like to be introduced>" <sup>33</sup>.

The address of mBank's forum was [www.cafe.mbank.com.pl](http://www.cafe.mbank.com.pl), a website created specifically with cybercafés in mind. More and more people moved from the discussion group to the forum. It was an ideal platform for all

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32 pl.biznes.banki 6th August 2001.

33 pl.biznes.banki Marcin Kasperski 17th January 2001.



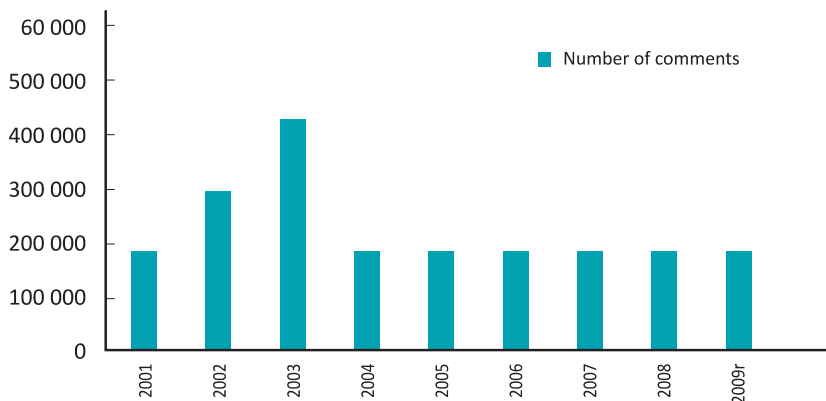
those eager to cooperate with us to make the Bank better. Here clients had a chance to report any inconveniences, put forward their ideas, and leave positive comments about the solutions they liked. The forum is still in use today.

It also plays a valuable educational role as it attracts many people with great experience in banking, and clients who have been with mBank for a very long time. The launch of our forum coincided with an impressive increase in the number of clients who were getting their feet wet in online banking. mBank's information portal has played an important role in educating them. However, it is an imperfect tool due to its limited reach, and some clients may not be completely au fait with the Internet.

The forum has provided a solution to these problems. No one can be a better educator than an experienced client who is competent in banking and knowledgeable about their bank's products and services.

The forum is often referred to as the Polish encyclopaedia of personal banking. Convinced about the importance of transparency, we allowed unrestrained discussion on our competitors' products from the start. Heated debates take place on the forum about differences between mBank's and its competitors' products.

Tens of thousands of people have visited the forum in the last ten years. 40,000 people have posted comments. A far greater number of Internet users have read them. The activity on the forum in different years is presented below:



Source: mBank's forum



As shown on the graph, the number of comments rose steeply during the first three years, and then it decreased worryingly to 30,000 in 2007. This is an exemplary case of

Another milestone in mBank's history was creating a chat room.

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what happens when a community is not properly stimulated. The year 2007 was especially difficult for mBank because nearly half of its resources were earmarked for building branches in the Czech Republic and Slovakia. The activity of the forum dropped significantly as a result of that. Partnership obliges. The dialogue with clients should be continued; the community does not want to launch into monologues. Therefore, it should come as no surprise that the following comments appeared:

“People of mBank!!! Save this forum... There used to be a time when it was buzzing with life... You could learn many interesting things here. What has become of it??? A few posts per day and the same questions over and over again... Write people, write!”<sup>34</sup>.

Under no circumstances should cooperation with a community be stopped in mid-way! Undoubtedly, it was a painful side effect of immediate priorities. Luckily, we identified the problem quickly enough and drew conclusions from it. In February 2007 we appointed one more guardian of the community, but it took nearly a year to rebuild the forum's activity.

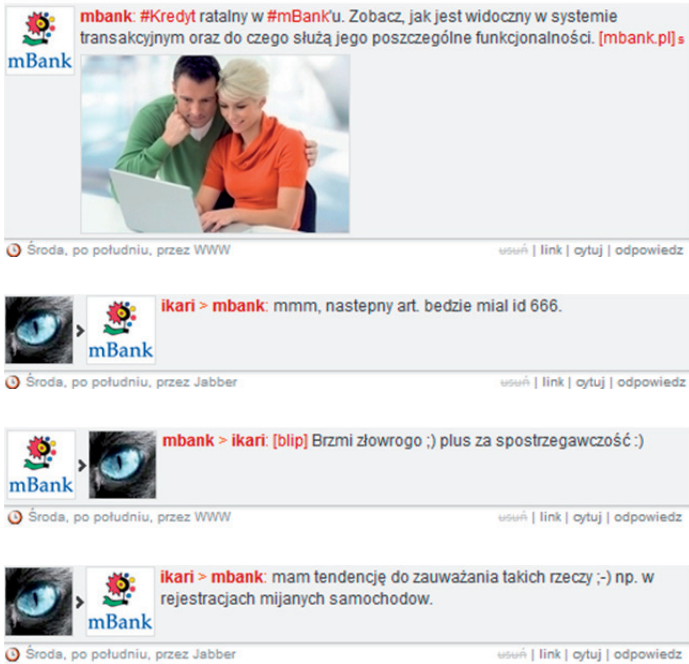
Another milestone in mBank's history was creating a chat room. At the time when mBank entered the market, chat rooms were very popular among Internet users, and were available on nearly all of the largest portals. Unsurprisingly, we decided to take advantage of this tool to communicate with clients. With time they lost their previous popularity and significance, which simply resulted from the evolution of communication tools on the Web. People devoted more and more time to online communicators, and stopped using public chat rooms. “Real Time Web” is the *dernier cri* now. To some extent it is a combination of blogs, discussion groups and communicators. In Po-

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Forum mBanku – Autor Moro 03-11-2006 rok. <http://www.mbank.pl/forum/read.html?f=1&ci=777904&t=777526>.

land, Blip and Facebook are fashionable. mBank has profiles on both of them. They allow it to communicate with its clients in real time.



Instalment credit at mBank. Learn more about mBank's instalment credit at [mbank.pl](http://mbank.pl).

The next id will be 666 hmmm...

Sounds sinister ;) Extra points for perceptiveness :)

I have an eye for these things ;-), e.g. license plates of passing cars.

In 2007, it was decided that a company blog would be added to mBank's wide array of tools. Until then, it had been unusual for banks to run blogs. There were blogs written in Poland and abroad by people closely connected with banks (such as analysts, experts, people from management) whose aim was to promote these institutions through professionalism and workers' expertise. That model of blogs was preferred by banks, because they did not run the risk of losing their image by being overfamiliar with clients or letting

an author express their private views. Seldom can a company afford such open communication on its website, and banks tend to be the most conservative in this respect. Thanks to its seven years' experience of discussion forums, mBank was prepared to take on the challenges of launching a company blog. This is how Tomek Lipiński, who put forward the idea, recalls its creation:

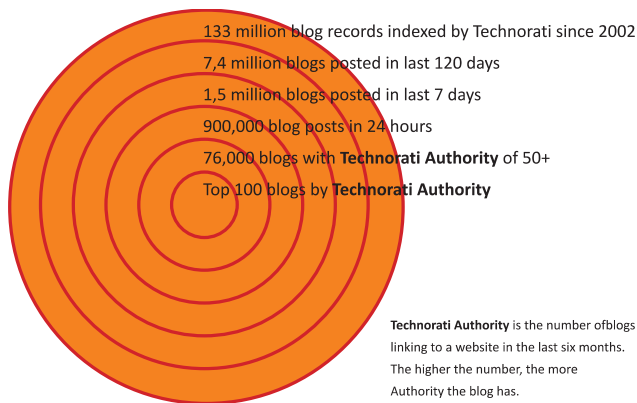
“While working on a new portal, we realized that the forum was a well-functioning means of communication, but not all those who were reading it were also taking active part. The forum had become an encyclopaedia of banking, and we wanted to create a more universal educational tool. Seeing how Clients were using the forum, how they revelled in dissecting every piece of information, we believed that the blog could become a place for my structured discussion. Each month some really important information appears on the forum, for example about interruptions, changes in interest rates, etc. Why couldn't it be inserted in the context of a <diary> and blogged about? It would be somewhat revolutionary. This would go beyond dry conventional PR announcements. Why shouldn't these announcements be open to discussion? Everyone would be able to express their opinion, ask a question, and post additional information. I remember one meeting at which we discussed our ideas. It was filled with an intense debate in which everyone raised “for” and “against” arguments. When I presented my idea of replacing the new section of our website with a company blog, silence fell over the room. <So do you want to write a diary?> someone asked. At that time, blogs were perceived that way. They were seen as something private – a kind of diary, a way to give vent to your feelings. It is worth mentioning that mBank had already had experience with such tools. The blog is run by the mCouncil to this day. It can be visited at [mbank.kzp.pl](http://mbank.kzp.pl)”

35.

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**Another milestone in mBank's history was creating a chat room.**

Writing a company blog requires a clear idea of what you want to achieve. Contrary to popular opinion, effective writing is not easy. In 2008, there were some 130 million blogs in the world, but only few managed to stick in the minds of Internet users. Fewer than 76 thousand deserved to be called opinion-forming <sup>36</sup>.



Company blogs range from those run by workers whose subject matter is a mixture of private and work life, to those written by experts. Each requires its own strategy which needs to be chosen carefully. A strategy is a lighthouse; a blog is a cockleshell on the rough seas of the Internet. It will shatter on rocks without a guiding light. Your writing must attract, engage and inspire your readers, in this case both clients and employees. And it is dedication of the latter that can keep your blog alive.

Our strategy was to create a blog where experts in various fields would promote their organization as the leader and innovator on the market. By experts we meant not only people employed by the Bank. Articles written by clients and external specialists are also featured here. That makes the blog accessible to everyone. Clients benefit from comments posted by other customers who paraphrase product information in simple terms.

Freedom of expression is an essential aspect of the blog. An author takes full responsibility for discussions sparked by their article which may take

36 The state of the blogosphere in 2008: <http://technorati.com/blogging/article/state-of-the-blogosphere-introduction/>.



any form from comments posted below it to an exchange of emails. One article is often a point of departure for another one. Clients are quick to spot unclear information they eagerly elucidate. Not everyone is a born writer, so expert guidance came in handy when clients composed their first articles.

mBank's blog has twice become the Laureate of the competition entitled "The Company Blog of the Year". It boasts several hundred articles written by nearly 70 authors in 20 thematic categories. It is visited by as many as 400 thousand people a month.

## Partnership Obliges

*When customers are faced with a choice between companies with similar service capabilities and rates, they choose the provider whose interactions are most human, i.e. treats them best. Initial trust is either confirmed and strengthened, or is disproved and decreases, based on the customer's service experience.*

John McKean, Customers are People... The Human Touch

*Just remember: Customers won't care whether their activities make you more money (that's your job)—they'll just want a superior product and experience, and perhaps even a cut of the revenue.*

Don Tapscott, Anthony D. Williams, Wikinomics

**The** partnership between mBank and its clients took years to build. Like any close relationship it has been put to the test more than once. It can now be said that we have successfully established a rapport with our clients which is based on meritocracy, reliability and kindness. Our clients have rewarded us with trust and the strongest loyalty in the banking sector. The Bank is no longer perceived as purely a place where financial transactions are made, but as a platform which allows the client to communicate with both employees and other customers, strike up acquaintances, express opinions, and become involved in the company. It is certainly unique in the world of business where relations are reduced to one-dimensional contracts between two or more parties. Until now, a bank as an institution was a stronger party, and

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could craftily use that to its advantage. Financial service is a business based on information. Every individual decision hinges on information about prices (fees, interest rates), product features, detailed terms and conditions, and comparison between different competitors. Rational financial decisions – transactions, investments, loans and resource allocation – demand reliable information which must be available on time. Nowadays, there is a gold mine of information everybody can access. It is called the Internet. In the past, financial institutions would benefit from the lack of transparency on the market and the asymmetry of information. Now, however, they are forced or will be forced to rethink their strategy. mBank owes its growth largely to its partnership with clients. It considers them an integral part of its business model, a group which is not only a source of income, but takes active part in decision-making. In order to make the partnership work, the bank needs to:

- recognize the client as someone who holds power,
- listen attentively to the client's criticism, and introduce corrections as soon as possible,
- introduce improvements suggested by the client,
- create a positive experience for the client,
- regularly provide thorough information,
- understand the client's genuine needs,
- recommend the most essential products to clients,
- be fair when solving problems.

Meeting these requirements was a driving force behind mBank's growth and the source of its success. Disregarding these rules jeopardizes what is priceless to any online company: trust and reputation. mBank owes its phenomenal growth to its business model which has been tailored to an extremely demanding and homogenous target group. This group comprises well-educated, open-minded, active and independent people who always look for the best solutions. These customers have chosen a bank which pledges never to betray its principles of partnership, reliability and transparency, and always to serve its clients' interests. Everyday life verifies mBank's unique philosophy. Competitors, the media and, above all, customers keep a watchful eye on

the Bank's every move. Any departure from the rules is immediately spotted and condemned. For every action, there is an equal and opposite reaction. This makes mBank transparent to the world outside, whether it likes it or not. Every mistake is pointed out, and lack of reaction is penalized. These are the rules of the game on the Web.

**This makes mBank transparent to the world outside, whether it likes it or not.**

mBank has its share of mistakes. But when it admits to making an error freely and straight away before anyone manages to notice, people tend to be understanding. But if it tried to pass it over in silence, or even worse, played dirty tricks, it would be publicly denounced. The model of an online company and the philosophy firmly anchored in values enforce discipline. Compromising your principles qualifies for a death penalty on the Web. Adhere to them or perish.

Partnership with the community is based on ordinary relations between people. It goes through the same cycle as any other relationship.



Storms blow up in any social group, but they are usually weathered and lead to a renewal of relationships. A period of good partnership follows. We are all familiar with this merry-go-round. A similar cycle is true for online communities, which is sped up by the capabilities of the Internet. Storms are the most difficult period in the community's life: they can gather strength with lightning speed and pose a major threat to a brand's reputation and clients' loyalty. It can even happen to companies regarded as icons of modern



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technology. In October 1994, a professor of mathematics, Jonathan Nicely, discovered a mistake in Pentium 5 processors. He then asked his colleagues to check whether his calculations were right. After some time, the case began to be discussed in the media. Intel was forced to take a position on the issue, and claimed in an official statement that the flaw indeed existed, but had no influence on the functioning of the microprocessor. The risk of it malfunctioning was statistically negligible. Intel, however, came under fierce criticism on the Web and, shortly afterwards, in the real world. IBM decided to resign from installing Intel's chips in its computers. The value of Intel's shares plummeted, and as a result it announced in December that it would replace the defective microprocessors. In reality, few owners expressed their willingness to have them replaced, but Intel revealed that its income would be lower than previously expected by 475 million dollars as a result of reduced sales. There are many known examples of companies incurring considerable losses due to negative opinions and criticism on the Web. When such a situation occurs, it needs to be dealt with speedily.

The Internet is a global medium that lends power to customers. Their awareness of this sometimes manifests itself in their demanding attitude. Some clients are convinced that they can exert boundless influence on a brand and enforce their own demands. This approach collides with reality which is far more complicated. There are limits to client advocacy. Partnership obliges both parties to act reasonably and control their emotions. For various reasons organizations are sometimes forced to make unpopular decisions which can be seen by the community as breaking promises. This leads to a phenomenon which we often refer to as a mutiny on the Web.

Our relationship with clients has turned stormy on several occasions during the last ten years. The seeds of the storms lay in mBank's activity or neglect. Overburdened Internet connections or an inefficient IT system limited our clients' ability to make financial transactions. These were difficult moments for a bank like ours which ought to be available from any place at any time. But our courage to admit mistakes, willingness to inform clients about their causes, and the way we went about correcting them were appreciated by our customers who have the skill of drawing objective conclusions. Thus,

an unwritten rule emerged that clients are the beta testers of mBank which is a constant experiment and a never-ending series of innovative solutions.

Some storms were also brewed by unpopular business decisions. One such critical moment occurred in 2004 when fees on transfers were introduced. An account with no charges for maintenance, transfers and debit card was an important element of our business model from the point of view of marketing. Naturally, the Bank itself incurred the expense of maintaining the account, and had a limited influence on the cost of transfers, because this depends on fees paid to the National Clearing House. Profit made on other products was used to subsidize the costs of those which were considered strategic for mBank's image as a low-cost company. The decision to introduce a charge for transfers was purely economic. We wanted to maintain prices at the level of costs, and give up our profit margin. Nevertheless, customers interpreted it as a breach of rules because it made one of the most widespread products less attractive and, what is more, affected all clients without exceptions. A thunderstorm erupted. Customers expressed their strong feelings on the discussion forum:

“It all started out pretty well, (...) mBank was lovely – it was cheap, even free, offered its clients independence, convenience, and <equality in the law> (regardless of whether you were a VIP with huge savings or an undergrad with a meagre scholarship paid out irregularly by your uni), kept in touch with them on the forum, mChat, cybercafés and commercials you could and wanted to identify yourself with.

The decision to introduce charges could have been avoided by optimizing other areas of operation, drawing up savings plans, and encouraging clients to be more active (...)”<sup>37</sup>.

In the Bank itself fierce debates raged on whether the transfer fee meant going back on the principles of an online company. The Internet was treated back then as an environment where everything was free-of-charge. Online

<sup>37</sup> mBankforum –January 2004, author: Gizmo - <http://www.mbank.pl/forum/read.html?f=1&i=116794&t=116794>

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editions of newspapers, downloading music files via peer-to-peer platforms, email and social networking service accounts as well as open-access software were all free. Most traditional businesses earned money in the real world, and considered their presence on the Web to be a type of marketing, which justified free gadgets. However, since the 2000 bubble burst the days when money from website advertising was the main income source have been gone. In contrast to conventional banks, mBank was entirely online-based and had had to follow strict financial discipline. It had to seek the right balance between costs and income. The introduction of transfer fees broke a taboo and was an act of courage. Client's perception of an online account was clear – everything free: An online bank with fees on transfers. Ridiculous! It was feared that the community might react angrily to it, but the conviction prevailed that it was always best to have a constructive dialogue based on facts. Piotr Gawron, mBank's boss, justified the change on the discussion forum:

“The changes introduced by mBank have provoked strong emotions. Many clients ask what the real reason for them is and why it has not been explained to them... Introducing transfer fees was not an easy decision to make. It has been the dream of many of us to maintain the position we gained during the first three years. However, we cannot act against the basic principles of economy. We do not intend to profit from these changes. Every transfer costs. It is hardly a secret that we pay 15 to 60 grosz to the National Clearing House for every transfer. We have written about it on the Forum. Our choice of the fee is a result of thorough research among our current and prospective Clients. 95 per cent of our poll participants have accepted the proposed amount (...)

Many Clients who feel cheated invoke mBank's philosophy. However, we have always clearly stated the following in our philosophy: <the best for the best price>. We will also continue to remain faithful to our mission statement: <Maximum benefit and convenience in personal finance>. (...).<sup>38</sup>

It was not the level of the fee that made the issue thorny. 50 grosz as opposed to 3-5 zloty in branch banks was not a financial burden for clients. It was all about a principle or rather a belief bordering on conviction that online accounts and transfers should be free. The storm of protest abated as quickly as it burst. But the matter was still not resolved. The charges that were still many times lower than at traditional banks did not make mBank's offer less competitive or ruin its image of a disruptive innovation. Customers chose mBank because of its low prices, but they also appreciated its innovative products and the convenience it offered them. Internet banking was becoming more and more popular, and traditional banks started to take advantage of it to stop customer drain. Paradoxically, it was now traditional banks that did not charge clients for personal accounts and transfers. They had overtaken the online banking leader in price competition. As a result of that, after a couple of years mBank was among few Polish banks which charged for online transfers, and had no other choice but to follow the common practice on the market. In February 2008, mBank decided to waive the fees. At that time, it had such an extensive business model that it could successfully subsidize the costs of free-of-charge operations.

The example of mBank shows that a bank should not be concerned about clients' emotional reactions if there is rational justification for its unpopular decisions. On the other hand, these decisions are subject to revision after a repeated analysis of economic factors or due to a change in the outer environment.

If it wants to develop according to the rules of the New Economy, mBank must treat its clients as a virtual community which is highly business-aware, sensitive to expressed and presumed promises, and conscious of the power it possesses. Compromising principles to which an Internet bank should stick poses a serious threat to its competitiveness and, in the long run, even existence. Partnership is the most important aspect of mBank's philosophy of operation which has been put into practice from the start. mBank's mission and vision have been constantly reiterated on various occasions, and are displayed on the website to this day. Partnership is more than just acting according to the letter of the law. It above all means adherence to unwrit-

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ten rules and values, which are always imperative. In their best-selling book, *Built to Last. Successful Habits of Visionary Companies*, James C. Collins and Jerry I. Porras emphasize that “Core values are the organization’s essential and enduring tenets, not to be compromised for financial gain or short-term expediency.” Adhere to them or perish.

# An Invisible Force: The Real Power of Values



*When aligned around shared values and united in a common mission, ordinary people accomplish extraordinary results.*

Ken Blanchard

*Companies that are guided by values in their operations, and that require their workers to adhere to them are more competitive, achieve more success, and are appreciated both by their workers, owners, stakeholders, and even competitors.*

mBank - EERRE (DROGA) Corporate Canon of Value

**Consistent** implementation of a strategy based on innovation has given mBank a competitive advantage. The initial business model, a discount bank, was a breakthrough disruptive innovation in and of itself. mBank then started a revolution of the Polish finance market because of the way it sold investment funds, brokerage services, and insurance. It then entered the Czech and Slovak market, proving it could achieve spectacular success in competitive and mature markets. A disruptive business and operating model was a foundation for this success, a necessary but insufficient condition for it. It has changed the Polish banking sector. The start-up, which became one of the largest and most profitable banks on the market in just a few years' time, developed at an accelerated rate. It has weathered internal crises and risen to challenges only thanks to a unique organizational culture created on the basis of core values.

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## mBank's Values – How to Make It Happen

Looking back at mBank's growth, I can see that the secret of its success was not the idea or the technology. It was mBank's deep reserves of human talent. We managed to tap into this reserve through the value system we created. We did not define some core values and declare they would apply from then on. That is what often happens. Companies draft a code of values or commission outsiders to draft one because their managers believe it is the proper thing to do, because

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mBank made values the basic canon of behaviour within the company and in its relations with the outside world.

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their competitors do it, or because they want to be politically correct. mBank made values the basic canon of behaviour within the company and in its relations with the outside world. It is a philosophy and a management style.<sup>1</sup>

Managing by values was a discovery for me and an incredible experience when

I oversaw the creation of mBank, MultiBank and when I was tapped to lead their parent company BRE Bank as chief executive. For me, management by values became a categorical imperative, an insight that brought together all of my knowledge and experience.

The values of mBank were defined in their final form in 2002, about 18 months after the project had been launched and after all the key participants had come on board. As the boss at mBank, I kicked off the process. Back then, I already knew our business model would be a disruptive innovation that had a chance to transform Poland's banking sector. At the same time, I was convinced that acting in agreement with the best business practices would not be enough. The bank had an incredibly attractive strategy and an ambitious business plan. My intuition told me the missing piece was core values, which would have strengthened all of our commitments to the company. In a democratic process in which all employees could take part, key workers set out mBank's core values after many hours of workshop sessions:

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<sup>1</sup> Simon Dolan, Bonnie A. Richley, Salvador Garcia, Tony Lingham, *Managing by Values*, Palgrave Macmillan, New York 2006, p. 17.



- Excellence
- Execution
- Responsibility
- Readiness
- Engagement.

In Polish, the values of mBank spell the word DROGA, which means “a road”. The DROGA acronym did not happen by chance. It gave the values it described an additional meaning. It stated my philosophy that the journey is more important than the destination.

From that moment forward, these values became the criteria by which we judged attitudes and behaviours. They pointed us in the right direction in moments of doubt. When there were no rules or procedures for a given situation, these values helped us make decisions.

Values became the criteria by which we judged attitudes and behaviours.

Core values should meet four conditions:

- influence an organization’s activity – processes, procedures and products
- remain under control (be visible);
- be measurable;
- inspire the individual and collective ambitions of workers.

<b>EXECUTION effectiveness, awareness</b>	
<b>What we are like</b>	<b>Our image</b>
Goal-oriented	Focus on the client and his or her well-being
Effectively completing tasks	Competitive strength
Clearly defining duties and responsibilities	Trust in the bank and its workers
Understanding the mission and strategy and identifying with it	Attractiveness to investors
Taking the market, competitors and the community into account	Vision of the bank’s growth
	Responsible employer and market participant



In 2002, we needed to make our values understandable to all workers. We had to make them concrete, observable and measurable. Only precisely described values in the form of expected behaviour would be easily understood. So we had to widen the definition of values, describe the way we expected workers to behave, and explain how this would influence internal and external relations.<sup>2</sup>

EXECUTION is modelled on management by objective, effectiveness in completing tasks, and measuring the degree to which sales and net profit targets get hit. At mBank, however, EXECUTION did not refer only to budget goals. It also set out how workers should behave when they are setting goals and implementing them. We defined competency as a combination of knowledge, skill and motivation and it was a tool to assess workers' attitudes and behaviours. Competency defined what an employee had to know to achieve success. Competency also described what an employee had to change in their behaviour if that behavior was not delivering results. Finally, competency outlined growth areas.

VALUE	COMPETENCY	COMPETENT BEHAVIOURS
R IMPLEMENTATION	Focus on goals and results	Employee sets goals for him- or herself and others and focuses on achieving planned results. Makes realistic long- and short-term plans; completes tasks efficiently and in a timely manner.
	Decisiveness	Makes decisions after weighing opportunity and risk. Uses available information quickly but not rashly. Sticks to his or her decisions but is flexible enough to adjust them when it is justified.
	Business awareness	Sees the business as a whole. Sets goals taking the market, competitors and the community into account. Takes advantage of opportunities. Understands the business model. His or her behaviours accord to that model.

Source: Internal mBank material.

We measured these values, described in terms of competence, on a scale of 1 to 5. We took the employees we had available into account as well as whether a behaviour was supervised or unsupervised. A description of competency for each of the EERRE values and their related behaviors formed the mBank Competency Map.

<sup>2</sup> Agata Sachowicz-Stanusch, Potęga wartości. Jak zbudować nieśmiertelną firmę, One Press, Katowice 2007, p. 14.

## mBank's value map

Val-ues	Compe-tencies	Description of competent behaviours
D Excellence	Innova-tiveness	Looks for new opportunities and finds new ways to apply them. Eschews the beaten path; thinks creatively; encourages others to be creative.
	Openness to change	Sees change as a challenge and an opportunity; accepts the need for change and actively shapes it. Motivates others to participate in new projects. Is flexible; can modify his or her beliefs and behaviours constructively.
	Focus on growth	Accurately assesses their own and co-workers' skills. Develops those skills. Takes advantage of opportunities for growth. Learns new skills and behaviours; supports others in their growth. Looks for ways to improve and optimize their own work and the work of others.
R Execution	Goal-oriented	Sets goals for him- or herself and others; achieves results. Makes realistic plans in the long- and short-term; works efficiently and in a timely manner; completes tasks and projects.
	Decisive	Makes decisions after weighing opportunity and risk. Uses available information quickly but not rashly. Sticks to his or her decisions but is flexible enough to adjust them when it is justified.
	Business aware-ness	Sees the business as a whole. Sets goals taking the market, competitors and the community into account. Takes advantage of opportunities. Understands the business model. His or her behaviours accord to that model.
O Responsibility	Initiative	Is ready to act quickly, even if the action goes outside the narrowly defined scope of his or her duties. Learns from trial and error; does not get discouraged by failure.
	Independence	Takes responsibility for his or her actions. Bravely faces challenges; accepts support; works independently without supervision; has high level of self-control. Impact on others
		Gets others to cooperate to achieve results; inspires others to action; open to discuss views; convinces others through cogent argument.
G Readiness	Maturity	Open to feedback. Is guided by his or her emotions and moods; is aware of his or her strengths and weaknesses; accepts criticism and uses it constructively. Knows how to assess the social situation and people's needs.
	Teamwork	Creates a collaborative atmosphere; spends time with the team; understands that others have opposing interests; seeks compromise; can deal with conflict. As a leader, sets achievable but challenging goals based on the situation and employee potential.
	Dynamism	Maintains self-motivation; works effectively and with energy; reacts quickly to the needs of others; is especially sensitive to the expectations of customers and co-workers. Can overcome unexpected challenges and adapt without skipping a beat.
A Engagement	Self-moti-vation	Sets him- or herself ambitious goals and works hard to achieve success. Is motivated from within; continues to work despite a lack of external stimuli. Confident of his or her skills and optimistic about the future.
	Tenacity	Steadily works towards a desired result even in the face of failure; can implement long-term objectives. Copes with unexpected or constant stress and exhaustion; recovers easily.
	Loyalty	Sees working at mBank as an opportunity, where his or her career will develop. Shares the EERRE values and talks about them. Demonstrates solidarity with co-workers and availability to work towards the bank's goals.

Source: Internal mBank materials.

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*We picked competencies according to the following criteria: if our values are to remain a permanent feature of our operations, what competencies (knowledge, skills, and attitudes) should our employees have or develop to practice these values in line with company expectations and their own choice?*

Companies usually write down a set of values and then stop. Some write detailed descriptions of what those values mean. But they do not outline the consequences of not remaining faithful to those values. We did not want to take this approach. At mBank, we went a lot further and created an employee evaluation system based on values. We quantified the degree to which attitudes aligned with values and assessed employees on it.

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mBank created an employee evaluation system based on values. We quantified the degree to which attitudes aligned with values and assessed employees on it.

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**B** Competency at low level

**Ab** Competency at average level

**A** Competency at high level

**As** Competency at very high level

**S** Competency at exceptional level

Source: Internal mBank materials.

The scale was 1-to-5, but the distribution was not along a bell curve. We set the required level of competency high. In the place on the scale where people are usually “average”, in the middle, we placed very good workers. The next two levels were aspirational. We showed employees how to improve and what to learn in order to do so.

Degrees of assessment:

- Low (B): competency at low level – is demonstrated infrequently; manifested only to a limited degree.
- Average (Ab): competency at average level – not demonstrated in its full scope, but rather selectively and with moderate intensity; displayed more vividly under supervision.

- High (A): competency at high level – shown clearly while completing tasks, but not always with the same level of frequency or intensity.
- Very high (As): competency at very high level – applied independently and with high frequency; used appropriately to the task or situation; ensures successful task completion.
- Excellent (S): competency at excellent level – a permanent feature of behavior, used with ease, deployed and developed creatively in new areas, indicative of expertise in skills that fall under its scope.

Our system of employee evaluation, working according to our values, was critical. At mBank, the employee assessment process was the opposite of a traditional worker evaluation.

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Our system of employee evaluation, working according to our values, was critical.

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It was based on a self-assessment called PPE, or Plan of Personal Effectiveness. The employees who had been there since the beginning did not have any trouble with this. But we were hiring new people and we needed a tool to show them what mBank was about and what type of behaviours it expected from its employees. The annual evaluation was a test for every individual worker and the organization as a whole. It showed which competencies were at a satisfactory level and which needed to be developed.

Our Personal Plan of Effectiveness (PPE) was designed to determine how workers' daily behaviours aligned with our values. The name itself suggested how the process differed from traditional top-down worker assessments. Employees consciously planned their own EERRE to lead them to the results the company expected. We knew that values are a key factor of success. We had described how they manifest themselves in behavior. Now we had to figure out to what degree they were present in each employee. Our PPE was based on feedback, which is not a new concept in itself. It was created by an unknown German theologian in the 14<sup>th</sup> century, and developed 150 years later by John Calvin and Ignatius of Loyola working separately and unbeknownst to each other.<sup>3</sup>

Feedback is information that comes to us from our surroundings. It tells us

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Peter F. Drucker, "Managing Oneself", Harvard Business Review, January 2006.

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why what we do and do not do impacts the results of our work. The employees at mBank were asked to figure out the relationship between “how I work” and “what results I achieve”. This way of thinking is also an effective learning tool and a way to live the values of EERRE. The PPE was an employee’s contract with their supervisory, the company, and themselves. “How I work” and “what results I achieve” were questions employees could pose themselves daily, and were also the basis for their self-evaluations. PPE had to be consistent with the EERRE values. Its purpose was to foster an efficient, responsible and self-aware organization. We designed a 360-degree evaluation, with input from the employee being assessed, their supervisory, and their co-workers.

The evaluation process<sup>4</sup>:

- PPE is a phase in the development of the organization and its employees;
- PPE takes into account both work results and how they are achieved;
- Work style is evaluated based on mBank values as defined in EERRE;
- Drafting and agreeing to PPE with your superior has consequences;
- PPE requires self-awareness and responsibility from the employee and their superiors.

A PPE starts out by holding an employee to account for the results of their work. To help employees assess themselves, we created another tool, FF or Friendly Feedback. The following is an mBank memo on FF:

Friendly Feedback is a way for you to gather information about yourself. It provides material for self-reflection. It gives you a chance to see yourself through the eyes of the people you work with. It is a chance to display READINESS, to bravely accept constructive criticism, in order to get better. Ask people whose opinions you value to do your FF, making sure they have had a chance to work with you in various professional capacities.

These can be members of your team or your internal clients. The contents

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<sup>4</sup> PPE, Personal Effectiveness Plan – employee information. Internal BZD information BZD. BRE Bank Retail Banking Department, 2004.

of the FF is for you alone. Use it to inform your PPE. Remember, analyzing and drawing conclusions from feedback is how you grow into a mature individual.

### Personal Effectiveness Plan Worksheet

**(D) EXCELLENCE (R) EXECUTION (O) RESPONSIBILITY (G) READINESS (A) ENGAGEMENT**

<b>Personal Effectiveness Plan 2004</b>			<b>A</b>
Employee number:		Title:	
Start date:		Supervisor:	
Date plan was last modified:		Org. unit:	
<b>MY RESULTS</b> (tasks, projects, responsibilities - accomplishments, numbers)			
Plans (tasks, projects, responsibilities) and measure of their implementation		Challenges 2006 Accomplished tasks, per cent accomplished	
<b>Overall, tasks from the past year were accomplished in what percentage</b>			
<b>SUCCESS</b>		<b>FAILURE</b>	
WORKING STYLE AND RELATIONS WITH OTHERS (behaviours and attitudes – Excellence – Execution – Responsibility – Readiness – Engagement)			
<b>STRENGTHS</b>		<b>WEAKNESSES</b>	
<b>PERSONAL AND PROFESSIONAL GROWTH</b> (knowledge, skills, courses, promotions, change, career path, future at the company, time frame)			
<b>GROWTH ACTIVITIES</b>		<b>GROWTH PLANS</b>	
<b>REPLACEMENT PROGRAMME</b> (new competencies required)			Talent pool recommendation: No
<b>WHO CAN REPLACE ME</b>		<b>WHOM CAN I REPLACE</b>	
<b>OTHER COMMENTS</b>			
..... Date	..... Signature	..... Date	..... Supervisor's signature

Source: Internal mBank document.

Feedback was a widely used tool at mBank. What was new was using it in the annual evaluation process.

### Friendly Feedback (Example)

Friendly Feedback for Zbyszek Chowluk	
What do I get from you as a co-worker?	What am I missing?
<ul style="list-style-type: none"> <li>– support in difficult situations related to IT; insightful diagnosis of a problem, indication of where my understanding is weak, in a professional manner</li> <li>– fair and honest criticism</li> <li>– reliability, I am confident that once you take something on you will do what you said you would</li> </ul>	<ul style="list-style-type: none"> <li>– more eagerness to join my project on the client database</li> <li>– more active support at our Monday meetings with the boss in defense of our idea about handling customer complaints</li> <li>– more understanding of my limited technical understanding</li> <li>– smiling more often</li> </ul>
What do I like about your behaviour and attitude?	
<ul style="list-style-type: none"> <li>– realism, focus on facts, independently of emotions</li> <li>– critical thinking, taking a step back from solutions proposed by yourself or others</li> <li>– resourcefulness</li> </ul>	
Author: Aśka Wrzosek	May 5, 2004

Source: Internal BZD document. BRE Bank Retail Banking Division.

Employees fill out the Location on the EERRE based on available information. They assess themselves according to the criteria described in the Competency Map. It is an incredibly difficult task for everyone. But it is important and that is why we created so many detailed instructions for the process:<sup>5</sup>

1. When getting ready to write your PPE, consider:
  - a) What have been the results of your work over the past year? Which of your duties or projects have come to a successful conclusion? What pro-

<sup>5</sup> Employee information. Internal BZD documents. BRE Bank Retail Banking Division, 2004.

jects have you not been able to complete to a satisfying degree? Estimate in percentage form the general level of realization of goals that you had for this last year.

b) What challenges and priorities do you see for yourself in the year ahead: what tasks, projects, and areas will you take responsibility for? What results do you want to accomplish?

c) What are your strengths? What EERRE values are most strongly present in your behavior and attitude? Where can you improve? What would you like to work on?

d) What helped you grow personally and professionally (completing a course, mastering a new skill, deepening your knowledge, promotion, moving to a new position, etc.)?

e) What is your professional and personal development plan for the coming year? What competencies would you like to improve? What should you learn? How do you see your future within our organization? In what direction do you want to develop your career?

f) Who could replace you in your current position and what competency would this person need to acquire before doing so? What position would you be able to move to, if you implemented the development plan you have described above?

2. Ask two to four people for a Friendly Feedback, one or two people you pick yourself and one or two people picked by your supervisor.

3. Write your PPE and your location on the EERRE and send it to your supervisor. He will address it and ask you to sit down for a talk.



## Your Location on the EERRE

Employee's name and surname .....

Title .....

Supervisor's name and surname .....

Date .....

Values and skills		Level of competence					Areas of development					How to develop further	
		Low	Average	High	Very high	Exceptional	Customer service	Project management and leadership	Personal and social skills	Foreign languages	IT		Banking knowledge
E	Innovativeness												
	Readiness to change												
	Readiness to improve												
E:	Readiness to achieve goals and results												
	Decisiveness												
	Business awareness												
R:	Readiness to act												
	Independence												
	Influencing others												
R:	Emotional balance												
	Teamwork												
	Pace of work												
E:	Resilience in stressful situations												
	Endurance												
	Readiness to succeed												

Source: Internal BZD document. BRE Bank Retail Banking Division.

The employee then schedules a meeting with their supervisor. The role of the supervisor in the PPE process is important, but self-evaluation is more important. The supervisor must adequately prepare for such a meeting. He must evaluate the worker's PPE and create a Competency Balance on the EERRE.

Excerpt from "Instructions for supervisors":

a) Suggest two people to your subordinate, whose opinion you trust, to prepare Friendly Feedback for him or her; make sure they have also picked one or two people for additional Friendly Feedback submissions. This could be any other employee in the organization that knows this employee's working style, from a teammate to an internal client.

b) Prepare for the PPE contract negotiation:

- read the proposed PPE and clear up any ambiguities;
- prepare a location for the employee on the EERRE, suggest directions for further growth and areas where improvements are needed;
- add comments to the PPE;
- say whether or not you recommend him or her to the Reserve Management Team

c) Talk to your subordinate in order to:

- discuss the PPE and give feedback based on the location on the EERRE;
- talk about the factors that could effect a successful EXECUTION of the PPE by the employee;
- agree to the PPE with the employee;
- get his or her feedback about you as a boss.

The boss was not a one-person authority during the PPE process. Special meetings called Review Sessions ensured the objectivity of the process.<sup>6</sup> The supervisor of the worker was the host of such a meeting to which he invited several other people, someone who worked with the person being assessed on a daily basis, a higher-level supervisor, and an HR worker. The subject of the

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Employee Instructions, BZD 2004.

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assessment was not present at their Review Session.

All managers and employees of mBank were subject to Review Sessions. The evaluated employee's supervisor would first present the employee's accomplishments and their own evaluation. The participants were then asked to judge the person, using EERRE criteria. Heated discussion would then ensue. The final evaluation rested with the supervisory.

As the supervisor of all of mBank and Multibank, I took part in many Review Sessions of my managers. I kept the practice when I became the chief executive of BRE Bank, because I believe picking and evaluating workers should not be a responsibility a manager delegates to others.<sup>7</sup> The sessions would take a long time, together lasting three to four working days. We would talk until everyone was sure that the supervisor had taken all relevant facts into account. We were not afraid to differentiate between managers. The last phase of PPE was the Information Session to present the final assessment. These were not simple and short conversations. Those being assessed, even the best of them, wanted to make corrections.

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**In an organization based on values, employees are more prone to self-reflection and more ready to be critical of themselves.**

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The Information Session is about feedback in the form of a grade, but more importantly it is about observing behaviours, discussing examples, and suggesting changes. The seriousness of those talks and their incredible atmosphere is one of my favorite memories

of working at BRE Bank. In an organization based on values, employees are more prone to self-reflection and more ready to be critical of themselves. Review Session discussions were the best management workshops of how to implement EERRE. I participated in Review and Information sessions because I believed I owed this to the workers who had put their trust in the organization and had shown their commitment. These were difficult conversations, both with employees I had known for years and from whom I expected a lot, and with the young ambitious hotshots hungry for success.

Critics would say that when Information Sessions were in progress, the

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2002.

Larry Bossidy, Ram Charan, Realizacja. Zasady wprowadzania planów w życie, MT Biznes, Warszawa

bank was navel-gazing, providing therapy to its employees instead of working in the best interests of its shareholders. I think it was the best use of time in the whole year. The sessions created a pause, they forced the organization to take a look back at its successes and failures and draw conclusions from them. The Personal Effectiveness Plan was a tool that combined management by objective and management by values. By evaluating workers based on values and their related behaviors, we were able to avoid the classic mistakes of management by objective. We did not turn management into industrial engineering.<sup>8</sup>

Inviting employees to a dialogue helped them see the logic of their own career choices and unlock the energy that lay dormant in them. As workers' picture of their strengths and weaknesses got clearer, it became easier for them to adjust to suggestions and goals thrown up by the organization. Workers became ready to make choices and take responsibility for them. The process of the PPE demonstrated a two-dimensional picture of the organization, both the qualitative aspect of values and the quantitative. It created a map of the organization showing competency and effectiveness.

Stars would get an S grade for behaviour and effectiveness. There were not many stars at mBank, perhaps 1.5% to 2.5% of the workforce. Workers who did not meet the organization's expectations, with at least one A grade, could be divided into three groups.

Two grades below A, behaviours measured against the bank's value system, did not leave any doubts. Two B grades meant that we would have to let the person go. For an organization, an employee with a grade above A in the values category but a lower grade in the results category was better than the reverse. A worker that gets results, but acts contrary to an organization's values cannot work there anymore. It is easy to understand intellectually, but harder to put into practice.

Those who surpassed our expectations received a new growth path. We asked them to prepare for new challenges in their careers. Those who met our expectations received opportunities to improve. Those who did not meet our expectations were told what those expectations were and got a deadline to meet them. It would seem that things were rough for this last group. But hi-

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Harry Levinson, "Management by Whose Objectives?", Harvard Business Review, January 2003.

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The company managed by values differs from the company managed by objective or by instruction.

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story showed that for many employees, such clear information, access to tools, and time, were the impulse they needed to change or to leave on their own terms. The company managed by values differs from the company

managed by objective or by instruction. Employees aren't evaluated only by whether they've hit quantitative targets and followed instructions.

Management is the art of planning and achieving goals using available resources. Achieving a goal gives satisfaction but you cannot forget about financial motivation. Management by values is not limited to using a values system as an ethical signpost that unites people around common goals. At mBank, financial motivation was not neglected. But the bonus system rewarded behaviours that aligned with the company's values. Bonuses were calculated based on qualitative assessments and achieving quantitative results. The financial motivation system of mBank, expanded later to all of BRE Bank, was based entirely on the results of the PPE assessment. This way the discretionary variable was completely eliminated from the bonus system, ensuring a transparent process.

## Corporate Culture – Invisible Force, True Strength

The values of mBank, consistently practiced, changed its corporate structure and gave it a long-term competitive advantage. Management by values enables companies to use their employees' full potential and give those employees satisfaction as well as a creative outlet. Companies are waging a war over talent. A company's values are the best argument in favour of rejecting

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Management by values enables companies to use their employees' full potential and give those employees satisfaction as well as a creative outlet.

a competitor's job offer, even a better-paid one. I knew from the beginning that corporate culture would be decisive. But I did not know how to build it thoughtfully and in a structured way.



There were some values and requirements that were present at mBank from the beginning: meritocracy, openness, striving for excellence, kindness, being helpful, taking ownership of tasks, holding people to account, respect for clients and suppliers, bypassing hierarchy in communications, being fast, and learning from mistakes. Describing these values and having them permeate the organization created the EERRE culture.

mBank created a corporate culture that was not just unique within the financial sector. Wojciech Kostrzewa, my predecessor as BRE Bank's chief executive, and now the chief executive of ITI Holding, described the mBank team as a "cult", and he meant it in the best way possible.

"Incredibly strong focus on the goal, frenzied diligence, aligning actions to implement the leader's vision, which was pure abstraction to everyone else," is how Kostrzewa described us. People who had worked somewhere else before coming to mBank knew there was something special about it. For the young, fresh out of university, this culture was a test of their character. It did not limit their freedom, but expected responsibility and complete commitment. I recruited Arkadiusz Jadczyk, a very promising graphic design hire, reluctant to leave his student days behind. mBank became his first workplace and one to which he contributed significantly. He has gone on to run his own business. According to him:

It was loyalty that made team work effective. Just like in the army or Special Forces, where soldiers have to trust and depend on each other. We were loyal to the project, to the brand, to ourselves and to others. People liked working with one another. That made light work out of tasks which were often tiring. Everyone who has left has found it is hard to recreate this atmosphere. Contrary to what people said on the market at the end of the 1990s, people were welcomed back to BRE Bank if they left. Workers would beg to be taken back like prodigal sons. Some people could not step into the same river twice and would leave again. Others, who had remembered lessons learnt elsewhere, did not make the same mistake twice and stayed. The same can be said of former employees attempting to transplant the mBank corporate culture to new businesses they had founded. mBank was a once-in-a-lifetime project.

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Hard to copy both in its business model and the way it was managed. The method arose from many factors, but mainly from people who believed. There was madness in that method. There was method in that madness.

Renata Tadeusiak worked in the human resources department for mBank, Multibank and later BRE Bank. She watched us from a distance and had this to say:

It is hard to describe mBank's corporate culture. Everyone who worked there knew it was unique. It was different than the corporate cultures of traditional financial institutions. When we hired companies to train our workers to give them the skills to complete certain projects, we spent a lot of time introducing them to mBank's culture. We would start by walking them around mBank's offices. Everyone worked in open spaces, even departments that required quiet and concentration, like the loan analysis department. The open space encouraged workers to communicate and to feel that we were all in it together. We were so committed to this way of organizing space that we replicated it even when we moved our headquarters to a new building. The culture of mBank did not have the trappings of power. Unit directors had small offices with glass walls and open doors.

Meeting spaces were made to look like cafés, making them casual so employees could exchange ideas in a spirit of openness. The furniture was light, so it could be moved around. Meeting rooms were also glass-enclosed to express mBank's desire to «have nothing to hide». There was a 1000 liter aquarium with goldfish, which became the first image on mBank's credit cards. There were two webcams that broadcast what was happening at mBank, one directed at the fish in the aquarium and one at life in the open space. After seeing all these things, trainers would know that openness, togetherness, teamwork, communication, were not empty slogans. When I heard the idea about building bleachers in the open space, like in a soccer stadium, I was worried. Wednes-

day meetings to present business results were supposed to be held on those bleachers. At first I thought conducting results meeting in the open, where anyone could wander by with a cup of coffee, and listen in for a while to find out how sales of credit cards were going, would not lend itself to serious analysis. But I was wrong. The bleachers turned out to be more physical proof of mBank's transparency. Everyone had to be aware of how business was going. mBank did not need marble and heavy oak tables to discuss results.

**Arkadiusz Jadczyk:**

mBank started out as a collection of a few departments. The departments would bleed into one another. Sales and marketing would both be responsible for advertising or distribution, with people from system or product development also joining in. That is how the phenomenon of project work operated. There were no procedures for this, but from the beginning project teams would come together even as team members continued to fulfill their official responsibilities. Some people liked it. Some people found it exhausting, especially as projects multiplied. There was more and more work, putting a burden on people's families. But there was no shortage of interesting projects. You could volunteer. You could respond to someone else's request. Or you could generate your own ideas. The process was always the same. A supervisor would approve the project and work would begin immediately. Not every project would get implemented because its commercial viability still had to be assessed, but meeting rooms and flipcharts would already be put into action. A person's role in a project team mattered more than their official title. There were not many titles to begin with. Something was always happening, work moved quickly and we were always doing something new. The project approach meant there was a lot to learn. People became generalists. Marketing people would act as salesmen for a given product. They could even become involved in the legal aspects of a product, writing its legal framework before the lawyers would get to it



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to polish it. What for? To give the term «special task force» new meaning. People would learn more and more, specializing as they worked. Naturally, future leaders emerged. Anyone who proved themselves as team leader could count on a promotion in the future.

## Virtual Company in the Real World

**At** mBank, we learned by doing. If a project did not have a clearly defined goal, if it was an experiment, or an intuitive idea, the question of whether or not it would be profitable would decide whether we would keep it or toss it.

Arkadiusz Jadczyk:

When mBank was coming up with something new, a product, a service, a process or a new pricing structure, we would always use benchmarking. We would compare ourselves to the competition. We looked for inspiration mainly outside the banking sector. At mBank we could apply and observe the various theories, ideas, tools and techniques we had learned in textbooks, like Porter's five forces analysis, Boston Consulting Group matrix, McKinsey's methodology, cost-benefit analysis, sensitivity analysis, Balanced Score Card, Six Sigma, and Lean Management. Being familiar with these concepts, and knowing how to use them was a condition of working at mBank. Despite using all these tools, we realized the importance of keeping things simple. Not everyone was familiar with textbook style strategic management, but everyone had to participate. Strategic Diagnosis was required for every important business decision. We studied cases, analyzed trends, looked at the best practices. We ordered a lot of books on Amazon. We read case studies from Harvard Business School, INSEAD, Wharton, and Stanford. We would regularly ask ourselves: how do others do this? We did not want to copy; we wanted to learn from others' successes and failures.

“Learn from others' mistakes to avoid your own,” as Lachowski used to say. It worked. We would look at other online financial platforms, such

as Egg, ING Direct, UnoFirst, Wingspan, ING-DiBa, and Charles Schwab for tips. We would track Inteligo, our main competitor, like hawks, analyzing its every move. We would look at what products and services other Polish banks were offering, and how they were reacting to us. The magical break-even point was hanging over our bosses' heads, so we wanted to figure how to be the first and how to be the biggest.

**Sławomir Lachowski:**

I had multiple bank accounts abroad, especially the ones that were considered the best, like HSBC, Citi, Centurion, and ING. Others did too. We wanted to copy the best solutions. We took what was best of the competition, and learnt from our own mistakes.

**Arkadiusz Jadczyk:**

There were moments of doubt. When we were frustrated we would call it the break even power point, since Power Point can tell you anything you wanted to hear with the right assumptions and data. But we got there on deadline, thanks to strategic thinking and commitment to things big and small.

**Renata Tadeusiak:**

At mBank, we used to talk about fighting to the bitter end. We were extremely determined to achieve the goals we had set for ourselves. We were also characterized by our togetherness. We would work together, party together, and take responsibility together if something did not pan out. Every one of our actions was linked to the values in which we believed. All mBank employees could make a difference, so we would invite everyone to our strategic workshops. Every June, the entire company would go on a two-day company retreat. We wanted to invite people to take responsibility for the year ahead, to inspire them, to bring them together to experience something new.

If you have ever organized workshops, you know that it is hard to do

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it with 60 people. But we did it with 200. At mBank, anything seemed possible. Just because no one else had ever done it did not mean we could not try. Every year we grew, but every year, everyone went on the annual retreat. Everyone knew what mBank's goals would be for the year ahead. Everyone received a T-shirt with the upcoming year's goals printed on it: "Two million customers, number one in quality." And "500 ideas for 500 million." The T-shirts would always be red, the colour of mBank, and the goals would always be ambitious. We would arrive, learn the goals, and break off into workshop groups to discuss ideas to achieve them. Then we would listen to lectures about new ideas, trends, and also stories from people's travels. Then we would party hard. At midnight, we would sing our mBank anthem, a song by Polish folk-rock band Golec uOrkiestra called "Bare Field".

It's a bare field now,  
But it'll be San Francisco,  
See that molehill,  
My bank will be there.

We would come back to work confident that we would achieve the year's goals. Had we been manipulated? No. mBank's leaders just realized that employees are a company's most valuable asset. Each one deserves open communication. Each one is interested in where the company is headed. We hosted the workshops each year for a growing staff. Our job was to make the workshop format as effective as possible. Chief Executive Sławomir Lachowski would discuss the agenda with us in detail. Managers would be severely tested because their ideas would often be torn apart, and not just by the chief executive. Employees would learn that anyone could have an idea that would transform mBank, regardless of department. We would make the employees with the shortest tenure at the company, mainly interns, come up with the craziest business solutions they could think of to prime the rest of us

for brainstorming.

Scientists say that some corporate cultures are like cults. Employees identify with the organization's value system, use insular jargon, making it hard to relate to people who work in other companies. That insularity can become a liability. I remember talking to a young man who decided to quit after working at mBank for a trial period. It was during our "mBank is a woman" marketing campaign. I asked him why he was leaving.

"mBank is a beautiful woman," he said. "But she's not my type." Not everyone wants to work in the corporate culture of mBank. But its clarity was its strength. "If you like to work hard and have fun doing it, come join us." We were all responsible for reinforcing this message.

#### **Arkadiusz Jadczak:**

Our personal individualities combined to create a whole, which rarely happens in the corporate world. If someone at mBank was a bit quirky, everyone knew about it and could respect it. Fatigue first set in in the spring of 2002, and we all started seeing everyone else as freaks. We worked hard, all night sometimes, so we had to tolerate various weird behaviours. We also had to tolerate customers who would knock on the windows on the ground floor of mBank's headquarters on Mickiewicz Street in Łódź asking to be let in to mBank's offices. That was twelve years ago. People wanted to see the online bank. They wanted to see that it existed.

I like to reminisce about those days. The air smelled of revolution, a revolution in banking, punk style. We were creating an alternative. Banking would never be the same. We had rituals. Trips abroad were journeys of discovery. Employees would have a concrete purpose for going, like a conference to attend, but would also be attuned to anything else that could help us, like how the London Tube works, or how a Starbucks is decorated or what Portuguese ATM machines look like. Anything that

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could inspire ideas and beat the competition. We would take pictures of interesting things, and bring back marketing materials. Looking at the products and services of banks abroad became standard practice. As soon as an mBank employee would land in the United States, they would go either to Starbucks or the Wal-Mart to see these famed business models with their own eyes. And we would come back and make presentations about what we had seen. Because we were all shooting for the same goal, we happily shared knowledge. We shared notes from training courses and conferences. Meanwhile, Lachowski would give people mandatory reading assignments by handing them books. Books were also his way of rewarding employees for a job well done, and they were always carefully selected for the recipient, with a personal dedication. Such a book was meant as a tool to improve an employee's results even further, to increase their potential. Wojtek Bolanowski read *The Cluetrain Manifesto* from cover to cover in one night. He became our customers' favourite mBank worker. People tracked his every move on the Internet. Trips abroad were not just about learning something from foreign experts. Employees came back all wound up and inspired by what they had seen and heard. They would then set to work like well-oiled machines. Those trips were about seeing where the bar was. What level we should aim to match and surpass.

Alina Strycharz, responsible for all of human resources in BRE Bank Retail Banking, had trouble understanding what mBank was about, at first:

I joined the company in 2002. The train was picking up speed. Even my first interactions with the bank foreshadowed an adventure. I thought banks were serious. But everyone was running from desk to desk and talking loudly on their phones in the open space. It looked like ground control shortly after a shuttle launch. I had worked in small teams for 17 years, training other companies' employees, but I didn't have any experience on the inside. If this is what working in a corporation looks like, it isn't so bad, I thought. I was charmed by the movement, energy and cheerfulness. I was looking for

a new challenge but I didn't have the qualifications for the position, which was HR manager in charge of training policy. I didn't have any experience in HR. I didn't have any experience working in a corporation. I just knew how to support people to grow and learn. I was a devotee of American psychologist Carl Rogers and his person-centered approach. I believed that by seeing the potential in people and creating the right conditions for them, you can prompt them to take ownership for their own professional lives and succeed.<sup>9</sup> I was armed with self-awareness, assertiveness, listening skills and knowing when to give feedback. I have tried to teach these skills to others throughout my whole professional life.

At mBank I was given the opportunity to create the right conditions for people to grow, in an environment based on the values I shared. The business needed workers who could build natural and authentic relationships with customers. Only then could customers feel sure that the offers made to them were prepared with their best interest in mind. Our financial advisors had to be professional, and that professionalism had to be based on communication skills, ability to manage their emotions, and to understand the needs of the customer. We used the Experiential Learning Model developed by American educational theorist David Kolb. He developed a process that starts with concrete experience, goes on to observation of and reflection on that experience, then moves on to formation of abstract concepts based upon the reflection, and then testing the new concepts.<sup>10</sup> Employees analyzed what helped them achieve their goals, which would enable them to figure out what they had to change in their behaviour. With each analysis, we encouraged workers to think how they could achieve their goals quicker, more effectively, and at less cost. We taught people how to take advantage of opportunities and how to spot those opportunities in the first place. We didn't want workers to fall into a rut of mechanically repeating learnt behaviors. Nowadays, what we did for mBank workers is called coaching. Our trainers didn't tell the financial advisors how to get customers. They would inspire them to think and draw conclusions. At first, workers were not happy at all.

<sup>9</sup> Carl Rogers, *On Personal Power: Inner Strength and Its Revolutionary Impact*, Delacorte Press, New York 1977.

<sup>10</sup> David A. Kolb, *Experiential Learning*, Prentice Hall, Inc, Upper Saddle River, 1984.

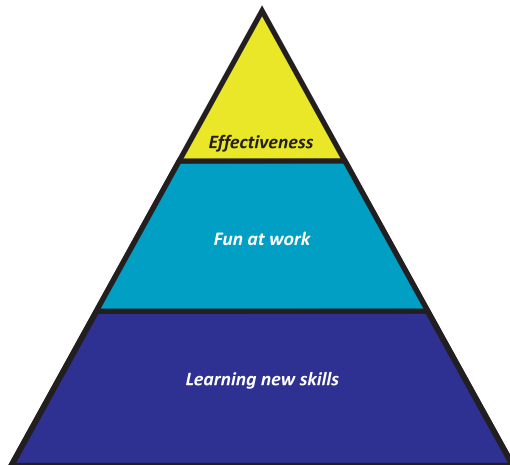
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“What kind of training is this?” they would say. “They don’t tell us how we should act. They don’t give us scripts. We have to think of everything ourselves. What kind of experts are these?” We would tell them what to do, but in our own way. We would tell them what the goal is. We would tell them what values we all had to remain faithful to. We would point out guidelines that foster good customer relations. We would practice behaviours we considered constructive. All so that workers could build their own skills.

After our training sessions, workers didn’t ask for regular training courses any more. We would only hire companies that had courses based on authentic participant experience using feedback that would teach how to control your emotions and be assertive. We wanted our workers to be aware and responsible. And we wanted these traits to be the foundation for our corporate culture as a whole.

Building our corporate culture was a planned process, but the process left room for spontaneity.<sup>11</sup>

At mBank, people were looking for challenges. **They wanted to experience an adventure in business while growing personally and professionally.** That required the company’s leadership and employees to balance three elements:



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11 Piotr Kociołek, Managing people and projects at mBank and MultiBank, internal BRE Bank document, 2002.

Two things about working with people are paramount to achieving this balance:

### Awareness/Responsibility

#### AWARENESS

Reflection that encompasses all information about work, the goals of work, its context, its terms and conditions, experience, scenarios of action, own motives and behaviours, and relations with others.

#### RESPONSIBILITY

Owning your work, taking responsibility for its results and style.

Employees made progress by leaps and bounds. They were becoming more effective, more entrepreneurial, and ready for new challenges and responsibilities. These were mainly young people. When mBank was founded, the average age of its workers was about 30. They loved being able to influence their workplace and created rituals that became part of mBank's corporate culture. We played soccer together. We partied together after work. mBank organized a marathon in Łódź. We had our Christmas party at the skating rink. But above all, mBank's corporate culture was geared to be effective.

“Management is what tradition used to call a liberal art, ‘liberal’ because it deals with the fundamentals of knowledge, self-knowledge, wisdom, and leadership; ‘art’ because it deals with practice and application,” said Peter Drucker, the management guru. “Managers draw upon all of the knowledge and insights of the humanities and social sciences, on psychology and philosophy, on economics and history, on the physical sciences and ethics. But they have to focus this knowledge on effectiveness and results.”

I agree. As a chief executive, I tried to find business solutions that reached into the foundations of knowledge. Self-knowledge showed me the limits of my own leadership skills. Wisdom is the sum of knowledge and experience combined with self-reflection. Leadership is action measured by results, profit



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leaders are judged by the culture they have created, worker satisfaction, innovation, and the competitive advantage of their firm.

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and a company's market capitalization. But in the longer term, leaders are judged by the culture they have created, worker satisfaction, innovation, and the competitive advantage of their firm. I left BRE Bank in March 2008. That is when I realized that my biggest

achievement was not BRE Bank's profit margins or the record-high share price, but its innovative business model and the idea of management by values. These two things made BRE Bank stand out. They were impossible to copy and gave the bank a long-term competitive advantage.



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