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CUSTOMERS ON ONLINE FOREIGN EXCHANGE MARKET IN THE LIGHT OF EMPIRICAL RESEARCH

The phenomenon of currency exchange first came into being approximately 2500 years ago. The Greeks are known to be the pioneers in currency exchange. General references to this kind of operations can also be traced to the Jesus Christ era and found in the Bible. Over centuries the demand for exchanging currency increased together with the growing number of countries issuing their own currencies. This clearly led to the development of an independent financial market segment and isolation of intermediaries dealing with this kind of services. Technical advances related to the launch of new distribution channels for Internet-based financial services did not circumvent the currency exchange market. In this field new alternative forms of foreign exchange offices were introduced at the beginning of 21st century which provided currency exchange referred to as online foreign exchange (online foreign exchange platforms).

The article delivers main outcomes of conducted survey which attempted to specify customer preferences with regard to their online foreign exchange activities. The first part of the article introduces the reasons why customers decide to undertake foreign exchange operations via Internet. It elaborates on the determinants influencing customers' choice of online exchange platforms as location of foreign currency exchange. The following part of the article elaborates on convertible currency types and exchange operations' frequency with regard to online foreign exchange platforms. Finally, customers' trust and its level is evaluated in the field of foreign currency exchange platforms.

Keywords: currency, online foreign exchange, online foreign exchange platforms, customer preferences.

1. INTRODUCTION

The phenomenon of currency exchange occurred first a few centuries before Christ – it is when coins issued in Greece, Roman or Persian Empires were used internationally. Due to the fact that the coins were made of rare metals such as gold or silver, they held particular value expressed in the native currency of a merchant.

Over centuries the number of independent states varied as well as the number of currencies issued by them. Currently, there are approximately 164 official national currencies around the world². What is more, the daily turnover noted on foreign exchange market

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² At the moment there are 197 independent countries. Moreover, there are approximately 60 dependent territories. Not all of the countries hold their own currency. To exemplify the Euro is used in

equals over 5 billion USD (*Triennial Central Bank Survey. Foreign exchange turnover in April 2016*).

In Poland foreign exchange market has been relaunched after nearly fifty-year break at the beginning of the social and economic transformation. The Act of 23 December 1988 on Freedom of Economic Activity and the National Bank of Poland Ordinance of 13 March 1989 on foreign exchange trade served as legal basis for official establishment of the first in Poland foreign exchange office in Świecko. After three decades of this financial market segment's operating in 2017 the number of foreign exchange offices registered in the National Bank of Poland's register equalled 4951.

Year 2009 contributed to another milestone in Polish foreign exchange market since a new kind of institution providing the service via Internet was introduced. Such institutions are commonly known as "Online foreign exchange (offices)"³. However, one shall remember that stationary and online exchange offices are linked solely with the scope of services provided. They differ significantly in terms of legal basis that lie in the services' background. Online exchange offices do not operate based on the Act on Foreign Exchange (The Act of 27 July 2002 on the Foreign Exchange Law), as it is in the case of stationary offices, but on the Act on Freedom of Economic Activity (The Act of 2 July 2004 on freedom of economic activity). Their functioning is not regarded foreign exchange activity in the sense of the Act on Foreign Exchange. Due to this fact, they are neither included in the National Bank of Poland register of foreign exchange activity, controlled by the President of National Bank of Poland nor are under reporting obligation in terms of data used to prepare the balance of payments (The Act of 27 July 2002 on the Foreign Exchange Law). Moreover, their activity is not supervised by the Financial Supervision Commission or even by the Ministry of Finance.

It is worth mentioning, though, that a number of online exchange offices operating on Polish market serve as public trust organisation, such as banks⁴, Poczta Polska⁵ (a public postal service provider) whose activities are under legal supervision. They must undertake certain actions to prove their credibility. Other online foreign exchange offices, whose owners are other business entities, in order to become more credible undertake actions according to regulations of the Act on Payment Services (The Act of 19 August 2011 on payment services) they attempt to receive the status of domestic payment institution⁶.

In 2016, there were 66 entrepreneurs dealing with online currency exchange involving 70 internet websites; 41 of them were included in the NBP (register Audit follow-up report by Krzysztof Kwiatkowski, the Chair of Supreme Audit Office [NIK]).

35 independent countries and overseas territories, the US Dollar – in the United States of America and 10 other countries (<https://www.countries-ofthe-world.com/world-currencies.html>).

³ The first Polish online exchange office called Walutomat.pl was established in November 2009.

⁴ Online exchange offices were launched already by a dozen or so banks, e.g. Alior, Raiffeisen Polbank, BZ WBK, mBank, PEKAO S.A., PKO BP S.A., BGŻ BNP Paribas, ING Bank Śląski, BOŚ Bank, Millennium Bank, Citi Handlowy, Crédit Agricole, Deutsche Bank, Idea Bank, among others.

⁵ Poczta Polska introduced online currency exchange in cooperation with Raiffeisen Solutions Sp. z o.o. Its clients can perform the exchange transactions by means of Rkantor.com website.

⁶ In 2016, there were 6 entities holding the status of domestic payment institution offering currency exchange on the Internet. In order to learn more see: (*Wymiana walut i płatności online, czyli co oferuje i co ma jeszcze do zaoferowania Polski sektor Fin-Tech*. <http://irradar.com/images/BRIEFING.pdf>).

It shall be stressed that the demand for legal regulations concerning online currency exchange offices is signalled not only by the clients themselves, but also by the exchange offices' owners. They both agree such regulations are essential to improve the security of customer service.

Gaining gradual and significant share in the foreign exchange market by such entities seem extremely vital and crucial. Currently the market share of online exchange offices equals approximately 35% (Report entitled: *Polacy wymieniają waluty w Internecie. Raport – trendy w wymianie walut pierwsze półrocze 2017 r.*), whereas their turnover in 2014 and in 2016 ran at 25 billion PLN (Report entitled: *Kantory online 2015*) and 35–40 billion PLN, respectively (Report entitled: *Kantory online 2016*).

2. RESEARCH OBJECTIVE AND METHODOLOGY

The opportunity to perform online currency exchange transactions has been available for only several years now. The first institutions providing this kind of service appeared in Poland and were called “Online foreign exchange offices” (“kantory internetowe”). This contributed to foreign entities use Polish experience and expertise in this particular field. Thus, it seems immensely interesting to study consumer behaviour in this particular market.

Current literature on the topic of online foreign exchange offices generally lacks research in this area of study. What can usually be found is, on one hand, limited information concerning solely the changes in numbers of clients, transactions or turnover sums and, on the other hand, changes in the structure of currencies being exchanged⁷. All research neglects the issues related to consumer behaviour in the currency exchange market or have little concern about it⁸. Thus, following the demand for this kind of study the article's underlying aim is the attempt to define consumer preferences in terms of online currency exchange. It also looks into the factors influencing such transactions' performing as well as determinants shaping the way the transactions are performed.

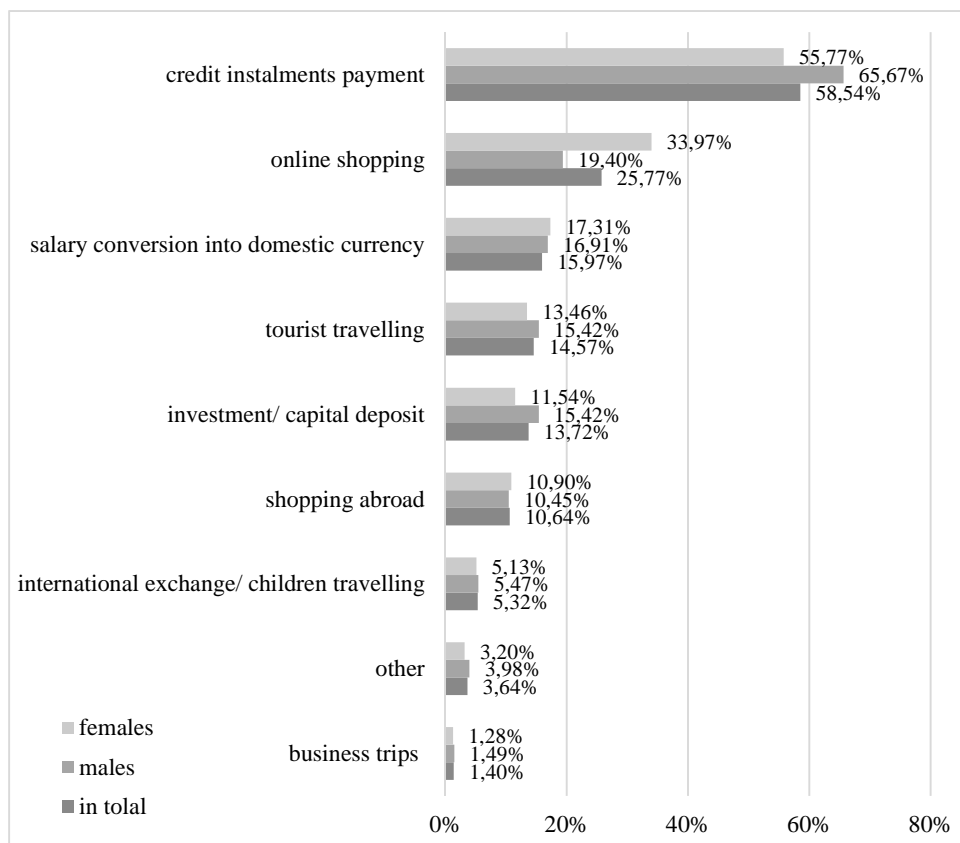
In the study presented in this article and concerning the consumer behaviour on foreign exchange market in the segment of online exchange offices participated 357 respondents. The research sample consisted of 201 males (56.3%) and 156 females (43.7%). The main criterion of respondents' selection was their declaration concerning using online currency exchange services. Regarding the structure of the research sample it can be stated that 12.6% respondents used the services for a period shorter than one year, 45.1% respondents used them between 2 and 3 years, 30.25% respondents - between 4 and 5 years, and 12.05% respondents performed the services longer than 5 years.

⁷ Such research can be exemplified by the study carried out in February 2017 by [ergokantor.pl](https://ergokantor.pl/i-ogolnopol-skie-badanie-rynku-walut-2017---raport.html) *I Ogólnopolskie Badanie Rynku Walut 2017*. To learn more see: (<https://ergokantor.pl/i-ogolnopol-skie-badanie-rynku-walut-2017---raport.html>) or (*Polacy wymieniają waluty w Internecie. Raport – trendy w wymianie walut pierwsze półrocze 2017 r.* <https://fintek.pl/wp-content/uploads/2017/08/POLACY-WYMIENIAJ%C4%84-WALUTY-W-INTERNECIE.pdf>).

⁸ Partially the issues are included in the report: (Raport OPINEO *Kantory internetowe w opinii klientów 2015*. <https://static.opineo.pl/press/dl/raport-opineo-kantory-internetowe-w-opinii-klientow.pdf>).

3. REASONS AND DETERMINANTS OF USING SERVICES OF ONLINE FOREIGN EXCHANGE OFFICES

The survey respondents indicated the obligation to pay credit instalments in foreign currency as the main reason for using online exchange (Picture 1)⁹. Such answer was selected by nearly 60% respondents (55.77% females and 65.67% males). It was most popular among males aged 36–45 years (77.36%) and those aged 46–55 years (73.01%).



Picture 1. Motivations for performing currency exchange via online exchange offices as declared by the survey's respondents

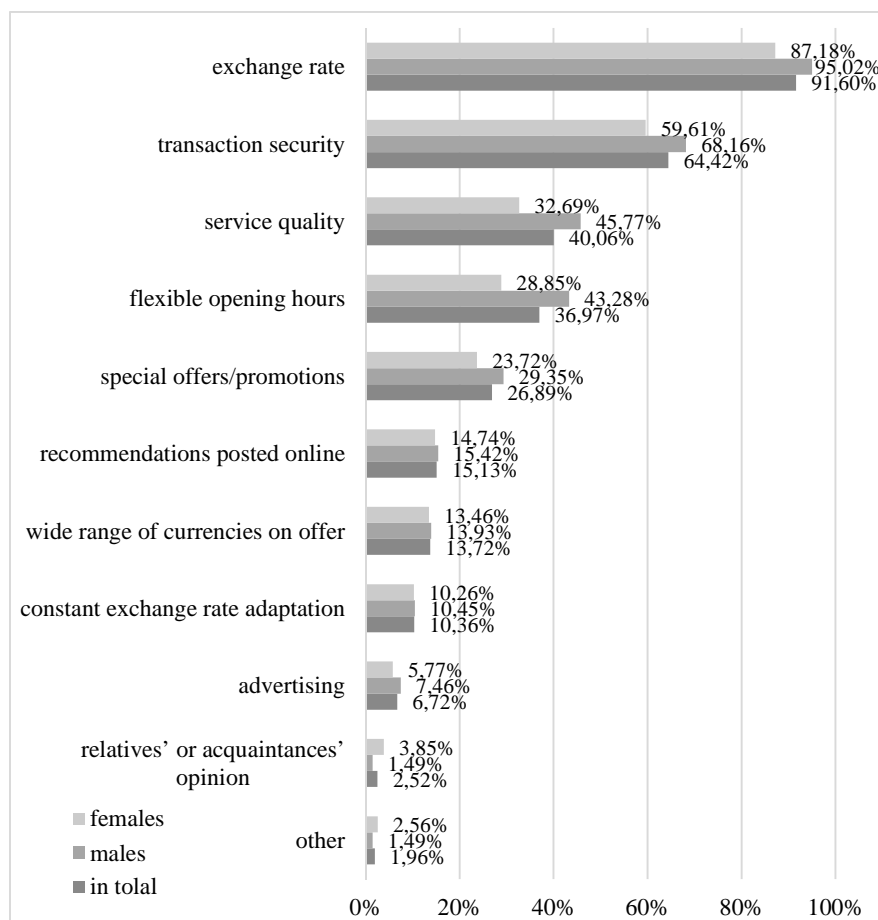
Source: own elaboration based on the authors' research.

⁹ It should be highlighted that the answers do not correspond with the answers provided by respondents who participated in the survey concerning consumer behaviour on the foreign exchange service market. In the latter survey the questioned regarded travelling abroad as the main stimulus for exchanging currencies (71.46%). In the case of paying off the credit card – this reason was far less popular and regarded only by 2.31% respondents. To learn more, see: Sołtysiak, (2018).

Another reason for using online exchange offices was the willingness to perform purchasing transactions via online foreign websites. In this case, the answer was selected by every fourth respondent. This answer was more popular among female respondents (33.97%) rather than male ones (19.4%).

Every sixth respondent used the services of online exchange offices to convert their salary currency. Every seventh surveyed performed exchange transactions in order to multiply their capital by investing into foreign currencies. It should also be stressed that the need to convert one's salary into a domestic currency was more popular among females, whereas for males more significant were the investments on currency exchange market.

Over 14% respondents (13.46% females and 15.42% males) performed currency exchange transactions due to their travelling plans and arrangements. Every tenth respondent also used the services to afford shopping while travelling abroad.



Picture 2. Determinants of currency exchange in online exchange platforms as declared by the study respondents

Source: own elaboration based on the authors' research.

Taking into consideration determinants influencing the choice of online exchange offices it can be concluded that the exchange rate is the main factor according to 91.6% respondents (87.18% females and 95.02% males) (Picture 2).

The second factor signified by the respondents was the security of transactions. It was acknowledged by 64.42% the questioned and was far more popular among males (68.16%) than females (59.61%).

What is more, the survey respondents paid attention to the quality of customer service provided by online exchange offices (40.06% – 32.69% females and 45.77% males), as well as the flexible opening hours (36.97% – 28.85% females and 43.28% males). Every fourth respondent (23.72% females and 29.35% males) was usually attracted by promotional campaigns organised by online foreign exchange offices. In turns, every seventh respondent (14.74% females and 15.42% males) was significantly influenced by recommendations and opinions regarding online exchange offices posted on their internet websites.

It should be noted that only 7% the surveyed decided to use particular office's services having been influenced by its advertisement. These were men (7.46%) who became more influenced by this form of persuasion in comparison to women (5.77%).

4. TYPE OF CURRENCIES BEING EXCHANGED AND TRANSACTION FREQUENCY IN ONLINE EXCHANGE OFFICES

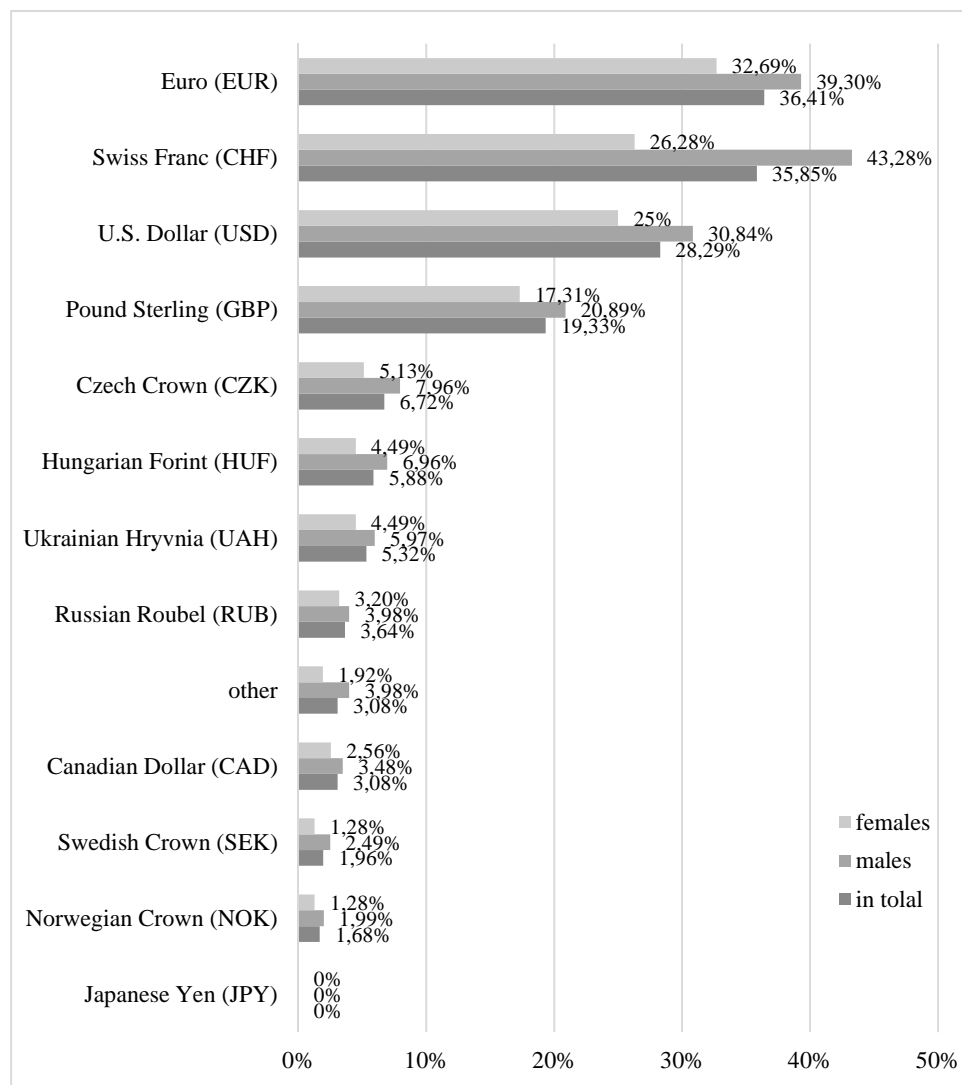
Online foreign exchange offices offering Euro and Swiss Franc currencies seem to be more interesting for the clients in Poland (Picture 3). The currencies were looked for by every third respondent of the survey. The Euro transactions were vital for 32.69% women and 39.3% men¹⁰, whereas Swiss Franc was exchanged by 26.28% women and 43.28% men¹¹.

Almost 30% respondents were interested in USD exchange transactions (25% females and 30.84% males) and approximately 20% the questioned (17.31% females and 20.89% males) bought or sold Pound Sterling (GBP) online. The above four currencies were the main point of interest of the survey respondents, when it comes to online exchange offices.

Only a few percent of the survey respondents were interested in other currencies' exchange transactions. In total, only 31.36% respondents of this survey (24.35% women and 36.81% men) were willing to exchange other currencies than the four mentioned above.

¹⁰ The male respondents aged 26-35 (78.05%) showed the greatest interest in transactions whose subject was Euro currency.

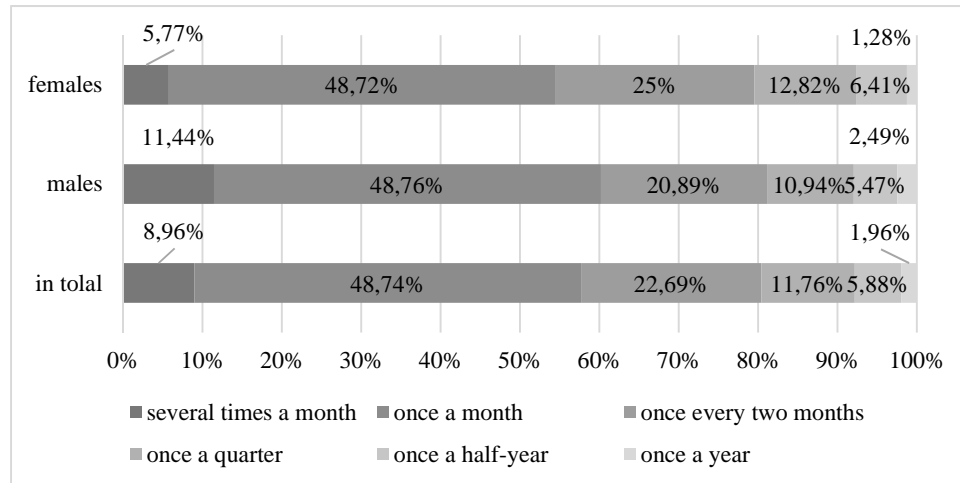
¹¹ In the case of Swiss Franc, the male respondents aged 36-45 (81.13%) were mainly involved.



Picture 3. Type of currencies being exchanged in online exchange offices according to the survey respondents

Source: own elaboration based on the authors' research.

The assessment of provided answers concerning the popularity of online exchange offices (Picture 4) allows the conclusion that their clients use the services on regular basis. Over 48% respondents admitted performing the transactions once a month and 9% of them – even a few times every month. The following 22% respondents take advantage of the services every second month and 12% every third month. It is interesting to note that mere 8% respondents use online exchange services rarely, that is every half-year (5.88%) or once a year (1.96%).



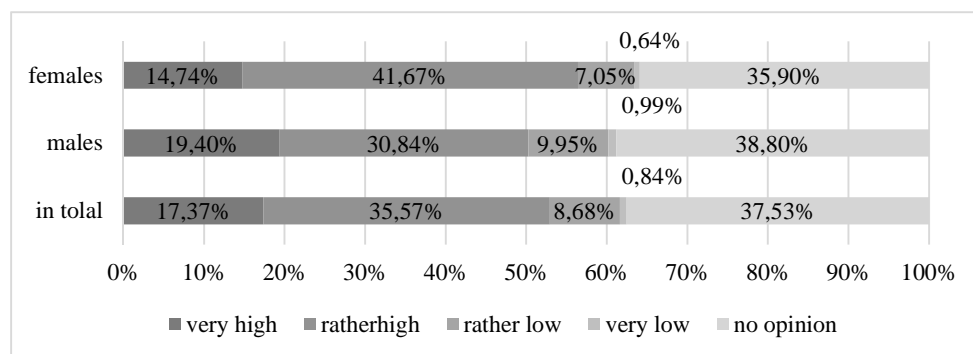
Picture 4. Frequency of using online exchange offices by survey respondents

Source: own elaboration based on the authors' research.

5. CLIENTS' TRUST IN ONLINE CURRENCY EXCHANGE OPERATIONS

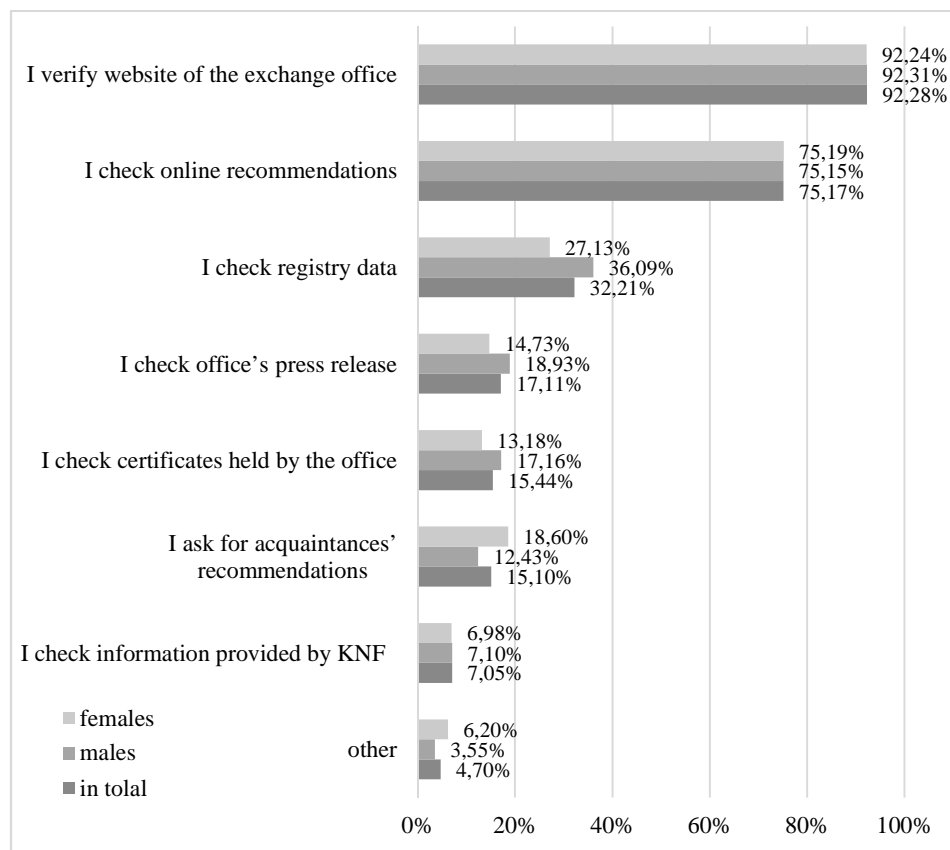
Bearing in mind that the second most significant factor influencing the choice of currency exchange transaction's location is the level of its security, it was decided to verify whether the respondents consider such transactions as secure and if they make any effort to check the credibility of online exchange offices.

To begin with, one shall stress that as many as 37.53% respondents had no opinion on this despite being clients of such institutions. Nearly 53% the surveyed shared opinion on online exchange transactions as being safe. Male respondents were more confident in this case and selected *very high* answer more often (19.4%) than the females (14.74%). On the other hand, in the group with pessimistic approach considering the transactions as unsafe were also more men (10.94%) than women (7.69%).



Picture 5. Customers' level of trust in transactions performed in online exchange offices according to survey respondents

Source: own elaboration based on the authors' research.



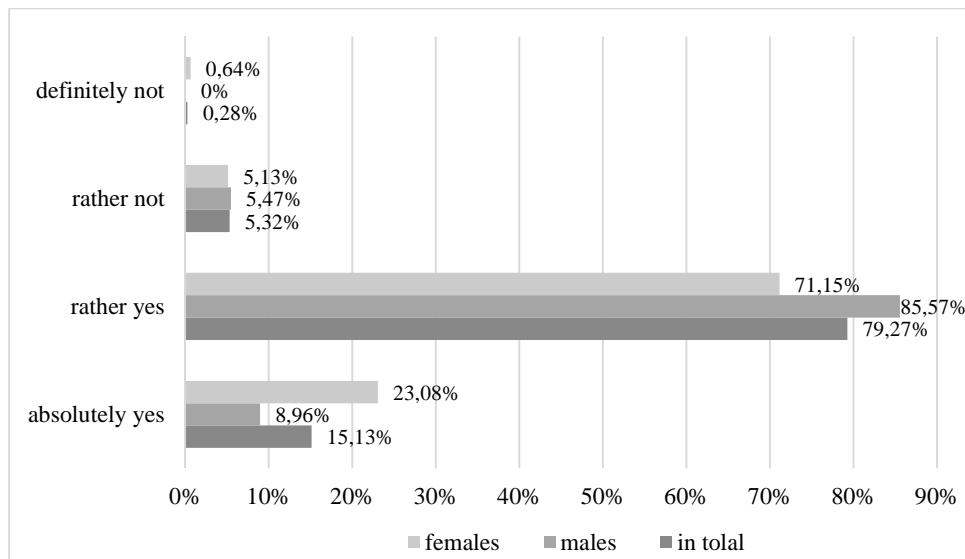
Picture 6. Methods used to assess credibility of online foreign exchange office by survey respondents

Source: own elaboration based on the authors' research.

In the research sample 83.47% respondents declared checking the offices' credibility. Those, who make the effort they usually check the office's website (92.28%) and opinions shared by the office's former clients (75.17%). Every third respondent checks the register data and every sixth reads press information regarding the office. Every seventh respondent searches information as far as the exchange office's certificates are concerned or relies on references provided by their friends or acquaintances. Only every fourteenth participant of the study admits verifying credibility of online foreign exchange offices with the information provided by Polish Financial Supervision Authority (KNF). It is worth noting that men more often check the registry data, press release or certificates held by the entities, whereas women (18.6%) tend to rely more on acquaintances' recommendations than men (12.43%).

6. SUMMARY

Summing up the outcomes of the performed study one shall regard that among those using services of online exchange there is a group of clients performing currency exchange transactions with respect to their current liabilities or running investments. This undoubtedly influences the hierarchy of reasons that lie behind the service choice and significantly differ from the hierarchy established by potential participants of currency exchange office market.



Picture 7. Presentation of answers to question „Based on your experience would you recommend services of online currency exchange providers?”

Source: own elaboration based on the authors' research.

It also affects the transaction frequency in the particular segment of currency exchange market. The clients of online exchange offices tend to be more active in terms of foreign exchange services than statistical clients of currency exchange market. Over 57% respondents declare performing the regarded transactions online at least once a month and over 80% – not less than every two months (Sołtysiak, 2018; Sołtysiak 2019).

Major factors influencing the choice of online exchange offices are bound to be the exchange rate and the transaction's security. However, one shall note that only half of the respondents are certain about the security of the operations. Most respondents are serious about the issues related to online transaction security and decide to spend their time verifying the credibility of online exchange service providers.

To conclude, the engagement of institutions described as online currency exchange offices on currency exchange offices market in the following years will increase. On one hand it results from the fact that the exchange market customers will belong to so called millennials' generation. On the other hand, the majority of current customers are also satisfied with the quality of services provided on the market. This can be supported with the fact that

over 94% respondents are ready to give their recommendation on this type of exchange services (Picture 7).

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