Finance Management of Credit Unions in Poland

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Abstract

Finance management of credit unions constitutes one of the fields of management of these financial institutions. The credit unions that are present now in Poland reappeared in 1992, so a few years after the process of system transformation had begun. In his text, the author presents the creation and development of credit unions on the territory of Poland, as well as the essence of finance management of credit unions together with its features. What is more, the author discusses in detail financial and investment decisions taken by credit unions (“the lower level”) and by the National Credit Union (“the higher level”). The decisions enumerated are characterised by a specified nature as compared to the decisions taken by other traders operating on the Polish market of financial services.

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Introduction

System transformation that took place in Poland after 1989 included the following various spheres of human life: political, social and economic ones. In the economic sphere the transformations were extensive both in theory and in economic practice. The changes included the sphere of financial services. It covered the banking and insurance system as well as financial crediting services. One could notice the revival of financial crediting services operating in the form of credit unions.

Crediting financial institutions commenced their activities in all partitions that Poland was divided into in the 19th century i.e. Prussian, Austrian and Russian. Up till today there were few development stages of credit unions. Credit unions that presently operate in Poland differ in many aspects from other financial institutions, including commercial banks.

Managing finances of credit unions and the National Credit Union is characterised by specific features. The process of finance management in the financial institutions enumerated constitutes, as it is also in the case of other traders, one of the instruments of implementing the main objective. The objective of credit unions and the National Credit Union, however, differs from the objective of other traders operating on the market of financial services in Poland.
Within the sphere of finance management credit unions and the National Credit Union make, analogically to other traders, financial and investment decisions. The National Credit Union enjoys specific decision powers in relation to credit unions. Financial and investment decisions taken by credit unions are different from such decisions made by the National Credit Union. In the field of financial and investment decisions taken by the financial institutions enumerated one can observe differences as compared to other traders operating in Poland. These decisions are characterised by specific factors.

1. Establishment and development of credit unions in Poland

Financial activity of banks carried out in Poland has a relatively long tradition. Its beginnings can be traced in the second half of the 16th century. Financial crediting services, however, started on Polish territories in the 19th century. Crediting financial institutions were being formed on Polish territories in Prussian, Austrian and Russian partitions (1). The beginnings of credit unions’ activities took place in various periods of time. The models of these activities were also different.

The first credit union on Polish territories in the Prussian partition was established in 1861 in Poznan. It was called the Lending Association for Industrialists of Poznan. This credit union functioned similarly to folk banks of F. H. Schulze. In the second half of the 19th century next credit unions were established. They functioned as folk banks. One of the founders of the union was priest P. Wawrzyniak who in 1873 established the Folk Bank.

On the other hand, on Polish territories being under the rule of the Austrians, the unions which were established copied the pattern of W. Raiffeisen. First union which offered saving and crediting services was the Galician Saving Union started in Lvov in 1844.

In the Russian partition, however, the financial institutions based their functioning on different models. Starting from 1870, the Lending Unions of Industrialists were being established. At the end of 19th century Russian government issued an order to transform all the unions mentioned above into the Associations of Mutual Credit or Associations of Small Credit. They based their activities on the system of F. H. Schulze. On the other hand, the Credit Associations established in the beginning of the 20th century were based on the model of W. Reiffeisen.

Credit unions functioned on Polish territories before the 1st World War and during 2nd Republic of Poland (1918 – 1939). Between the World Wars there were five thousand of them (2) which formed over 50% of the unions. After the 2nd World War about one thousand three hundred credit unions were re-established in Poland. An important moment was merging the Spolem Bank and the Central Union into the Bank of Union Economics. The latter was liquidated in 1948. The unions existing hitherto did not carry out banking activities on their own behalf.

Next change took place in 1956 when the term “saving and crediting unions” started to be used. Their financial centre also observed certain changes. The role of this financial centre was first played by the central bank and later by the Agricultural Bank. However, from 1957 the functions of the organization and inspection centre were fulfilled by the Central Association of Saving and Lending Unions in Warsaw.

Credit unions actually ceased to function in 1975. It took place by transforming them into credit (union) banks. The Central Association of Saving and Lending Unions
was merged with the Agricultural Bank into the Bank of Food Economics which has been operating up till today.

After 1989 Poland observed changes in, among others, the structure and ways of functioning of banking system, and also crediting financial institutions i.e. credit unions were established. The system of mono-bank i.e. a one-level banking system lost its popularity. A two-level banking system was being introduced. The latter is characterised by the fact that apart from the central bank i.e. the Polish National Bank ("servicing" banks) there operate also commercial banks and union banks (operating for traders and the people). According to the idea of unionism, union banks should not be regarded as commercial banks.

Next change in the field of financial services took place in 1992 which meant starting the activity of credit unions. Actually it was equal to their revival. The credit unions functioning presently in Poland refer to credit unions of W. Raiffeisen’s, F. Stefczyk’s and priest P. Wawrzyniak’s (3).

2. Characteristic features of credit unions

Credit unions are characterised by various features which differ them from other financial institutions. According to the author of this article we can distinguish the following features of credit unions:

- a two-level organization structure (the "higher" level is constituted by the National Credit Union which is the union of legal entities, supervises other credit unions and guarantees their financial stability; the "lower" level is constituted by credit unions which are the unions of natural persons) (4),
- multi-trend (credit unions operate in places of work: company trend; in cities: municipal trend; at parishes belonging to the Roman Catholic Church: parish trend connected with renting rooms in the parish houses),
- lack of regulations specifying minimal amount of capital,
- lack of bank supervision (credit unions are supervised by the National Credit Union in the field of financial economy and abiding by the law) (5),
- lack of necessity to deposit obligatory reserves in the central bank,
- obligation to maintain liquid reserve (in the form of deposits in the National Credit Union which constitute 5% of the saving and lending fund) (6),
- implementation of non-profit activity,
- investment dualism (credit unions and the National Credit Union are, on the one hand, places of financial investing and on the other hand they play the role of financial investors),
- some limitations concerning the use of financial services (products) of credit unions (members of credit unions are people bound by a vocational or organizational ties),
- carrying out crediting activities offered by banks, although credit unions are regarded as non-banking financial institutions,
- using banking law while concluding credit agreements,
- lack of necessity to pay income tax on income from non-profit activity (since January 1st up till now credit unions and the National Credit Union do not pay taxes on income obtained from non-profit activity in the part for status objectives of these institutions) (7),
- investment limitations.

Finance management of credit unions is characterised by specific features.
3. The essence and features of finance management of credit unions

In the process of management various kinds of resources are used: human, financial, material (tangible assets) and informative ones. Resources should be observed in specified quantities adjusted to the requirements of a given activity. Management refers to the resources enumerated above. R. W. Griffin is right when he writes that "management consists of a range of activities that include planning and decision making, organizing, leading i.e. managing people and supervising an organization directed at human, financial, material and informative resources implemented with the purpose of achieving its aims (8)."

One of the aspects of management is finance management. It is directed at financial resources which are equal to financial capital i.e. the amount of financial means that can be spent by an entity on various purposes, including these investment ones. Finance management is based on financial resources. Professional literature concerning finance management includes opinions of various authors, e.g. V. Jog and C. Suszynski, J. Jakubczyc, J. Gajdka.

V. Jog and C. Suszynski claim that finance management is not only connected with searching and choosing capital for financing enterprise’s activities. Holistic definition of the function of finance management includes:

• specifying both the costs expected and benefits connected with short-term and long-term engaging the financial capital of an enterprise,
• allocating the means and working out its costs,
• choosing the forms of financing an enterprise and ways of spending capital in line with the objectives set by this entity,
• estimating and assessing the inflow money as well as the risk connected with obtaining it.

The essence of finance management of an enterprise is co-defined by the functions of the people responsible for the decisions made. It refers to the functions that concern:

• investing, i.e. spending capital,
• financing investments i.e. obtaining capital,
• present financial activity of an enterprise (9).

The next author, J. Jakubczyc, states that in the centre of interest of finance management are traders whose activities are directed at obtaining profit. According to this author, finance management should provide financial managers with efficient instruments enabling them to solve given problems. The main objective of finance management is to maximize assets of a company’s owners; it is also necessary to take into account the principle of financial responsibility (10).

Enterprises and other entities such as e.g. commercial banks may head towards various objectives. The literature lacks any unified attitude in the field concerning the objectives of traders. For instance, it enumerates such objectives as maximizing profit (11), maximizing market value of an enterprise (12), working out satisfying profit (13), maximizing profit, minimizing cost (14), maximizing present (discounted) value of future inflow of net cash (15), maximizing inflow money from the sales (16) and maintaining a share in the market (17).

Credit unions and the National Credit Union implement the main (social) objective which is equal to financial self-help (of mutual crediting of the members). This objective shapes a non-profit character (18) of the activity of these entities (19).
Balance surplus obtained by credit unions and the National Credit Union supplies respectively the resource and stabilization fund (20).

Finance management of credit unions is connected with their main objective. This management constitutes one of the instruments of implementing the main objective of the financial institutions enumerated. Within the field of finance management, credit unions make financial and investment decisions which will be discussed later in this article.

Finance management should optimally shape cash flow in order to fulfil interests of the members of the financial institutions discussed. What is meant here are the streams of the financial capital obtained (inflows) and streams of out-flowing financial capital (outflows).

Finance management of credit unions has a functional character which stresses the aspect of directing and supervising processes of obtaining capital from different sources and depositing (investing) it in an exactly specified one objective of a financial institution: the main (strategic) objective (21).

According to the author of this article, finance management of credit unions is characterised by several features. We can enumerate such features as:

- implementing the social objective i.e. financial self-help (mutual crediting of the members) to serve the interest of the group of members,
- implementing non-profit activity accompanied by lack of drive to maximize profit or value of a financial institution,
- no taxation of balance surplus (22) worked out while managing finances which can stimulate the development of the activity of credit unions and the National Credit Union,
- the process (functional) character i.e. being directed at financial resources (financial capital),
- a two-element structure in the decision-making field: covering decisions of two kinds (financial and investment ones) which differ from the discussed decisions of other traders, including banks,
- direct connection between efficacy of finance management and numerous factors, including the legal one which in the case of credit unions is a statutory and external factor (i.e. independent of them). What is meant here are the regulations limiting the kinds and scope of financial investments of these financial institutions.

Financial and investment decisions made within the field of finance management of credit unions are significant for these financial institutions. They are characterised by specified factors.

4. Financial decisions made by credit unions

Financial decisions made by credit unions are based on obtaining by them financial capital from different sources (23). Financial decisions of credit unions may be long-term decisions so they can be connected with investment decisions. They can also be characterised by present nature (24) and in this case they are connected with managing circulating capital.

Credit unions obtain the financial capital from such sources as (25):

- payments connected with members’ shares that create the share fund,
- fees paid by members, balance surplus, statute-barred property claims, property values obtained free of charge which supply the resources fund,
members’ payments, members’ savings, money from the National Credit Union
creating the saving and lending fund.

Credit unions cover balance loss from the resources fund. The share fund can
also serve this purpose but only in the part exceeding the resources fund. There is the
possibility of deducting a due sum of credit, loan or their instalments from savings or
member’s payments.

Credit unions can obtain financial capital in the form of loans and credits only
from the National Credit Union. The extent of mutual obligations of a given credit
union and the National Credit Union must not exceed 40% of the value of credit union’s
assets (26).

Credit unions do not obtain separate means on investments. Only this money
which has not been spent on credits and loans assigned for their members can be
invested. The process of investing should be carried out very carefully. This
requirement also refers to the National Credit Union (27).

On the other hand, the National Credit Union obtains its financial capital from
the following sources (28):
- payments connected with members’ shares creating the share fund,
- fees paid by the members supplying the resources fund,
- members’ payments (paid every month) delivered by associated credit unions in the
  extent not less than 1% of their assets and balance surplus. These payments create
  the stabilization fund which is to stabilize the activity of credit unions as well as the
  National Credit Union and especially to finance assistance programmes,
- deposits, credits ad loans taken out by the National Credit Union which supply the
  credit and investment fund established to give credits and loans as well as to
  finance financial investments,
- annual premium specified each year by the National Credit Union’s Board paid by
  each member in the extent not exceeding 1.2 % of his or her assets, creating the
  advertisement and promotion fund.

The National Credit Union receives the means from credit unions (the means
which later become interest-bearing deposits) in the form of:
- the resources and share funds,
- the amount not less than 5% of the volume of the saving and lending fund which
  constitutes the reserve for current operations (29).

Inflow of financial capital to credit unions should be properly correlated with
outflow of this capital. Financial decisions should ensure the supply of capital sufficient
for carrying out operational and investing activities (making appropriate investment
decisions).

5. Investment decisions made by credit unions

Investment decisions taken by credit unions may concern implementing material,
financial and non-material investments. This division of decisions is made from the
point of view of the kinds of investments that they refer to. Generally speaking,
investment decisions engage the means for a long period of time which is usually longer
than a year. As a result, there should rise balance surplus of credit unions and the
National Credit Union. Although financial inflow enlarges balance surplus of the
institutions discussed, it is not allocated among members of the union. In the case of
credit unions the members are natural persons and in the case of the National Credit
Union the members are legal entities. The crediting financial institutions discussed
allocate, which was said before, their balance surplus respectively to the resources and stabilization fund.

Investment decisions concerning implementation of material investments (into tangible assets) taken by credit unions are characterised by specific legal restrictions. What is meant here is the fact that a credit union may purchase fixed assets (30) whose total value does not exceed 5% of the value of its assets at the time of implementing the transaction (on the day of purchase). In special cases it is possible to exceed this extent to 10% of the volume of credit union’s assets on the day of implementing the transaction. In this case, however, the approval of the National Credit Union is obligatory.

On the other hand, the National Credit Union may make investment decisions concerning implementation of material investments (into tangible assets) which engage financial capital in various fixed assets. One can quote here the example of buildings, means of transport or technical devices and machines (31).

Credit unions may also take decisions concerning implementation of financial investments. They engage financial means in the following different legal financial instruments (32):

- bonds and other securities issued or guaranteed by the State Treasury or the Polish National Bank,
- shares and payments in the National Credit Union,
- deposits on the accounts in the National Credit Union and banks, taking into consideration that their value is specified by the volume of the sum guaranteed by the Banking Guarantee Fund. The value of financial deposits in payments, shares, securities of one kind, however, must not exceed 8% of credit union’s assets. This does not concern bonds and other securities issued or guaranteed by the State Treasury or the Polish National Bank as well as deposits in the National Credit Union.

Investment decisions concerning implementation of credit unions’ financial investments are characterised by specific limitations. They concern both the scope of these decisions and the kind of financial instruments which they refer to. Credit unions take investment decisions which are wholly or to a large extent risk-free. It stems from the impact of legal factors which impose investment limitations.

Undoubtedly, it influences the volume of financial inflow generated by financial investments and as a result the volume of balance surplus. One has to take into account, however, that credit unions may only invest free financial means which, as it was said before, were not used for loans and credits, so on products characteristic for activities of these financial institutions. Thus financial investing is only a supplement for the basic activity of credit unions.

On the other hand, the National Credit Union takes decisions concerning implementation of financial investments (33) which refer to:

- securities and deposits in financial institutions,
- shares in limited liability companies, stocks in listed companies and shares in the unions.

In the latter case there are certain restrictions. The National Credit Union may invest its financial capital only in the financial instruments of the companies in which it has the majority of shares or stocks. There is a restriction concerning the value of deposits in securities and other financial institutions. It must not exceed 8% of the assets of the National Credit Union. This restriction does not refer to deposits in bonds and other securities issued or guaranteed by the State Treasury or the Polish National Bank.
The National Credit Union may invest free means of the stabilization fund exclusively in bonds and also other securities issued or guaranteed by the State Treasury or the Polish National Bank.

Credit unions may take decisions about implementation of non-material investments. They refer to the purchase of computer programmes whose planned period of usage is longer than one year, and also to the training of employees. It is worth noticing that in the field of financial accounting in Poland it is assumed that investing in computer programmes means investing in licences or property copyright.

Credit unions invest in the development of their staff (knowledge, qualifications). In literature and also in practice, money spent in this way is described as "investments in human beings"). They are based on financing (or participating in the costs of) educating employees by credit unions. Members of the staff may gain and improve their professional qualifications taking part in e.g. various professional courses (trainings). They are organised by the Foundation for Polish Credit Associations.

On the other hand, investment decisions concerning non-material investments taken by the National Credit Union may be directed at advertisement and promotion. The advertising and promotion fund mentioned above serves this purpose. Thus the scope of investment decisions (of such kind) taken by the National Credit Union may be broader as compared to credit unions.

6. Conclusions

The ideas formulated so far, enable the author of the article to make the following conclusions:

- Development of credit unions on Polish territories took place in a few stages. The first stage took place when Poland was occupied and its territories were divided into Prussian, Austrian and Russian partitions. The second stage was observed in the time of the 2nd Republic of Poland (1918 – 1939). The next stage took place during the years following the end of the 2nd World War and actually ended when the activity of these financial institutions ceased to exist in 1975. The fourth stage began in 1992 so after the birth of the process of system transformation in Poland and has lasted up till now.

- Credit unions are financial institutions characterised by a range of features that differ them from other financial institutions e.g. commercial banks.

- Finance management of credit unions is one of the instruments of implementing their main objective. This objective is different as compared to the objective of other traders, e.g. commercial banks which operate on the Polish market of financial services and are directed at maximizing profit or maximizing market value of a company or are to fulfil other objectives.

- Finance management of credit unions is characterised by several factors.

- Within the field of finance management credit unions and the National Credit Union may take decisions of two kinds.

- Financial decisions taken by credit unions are connected with their crediting and lending services. The financial institutions enumerated may obtain financial means from different sources. Only the financial capital which was not used for crediting and lending services may serve this purpose.

- The National Credit Union receives financial means from different sources. Financial decisions taken by the National Credit Union have a broader scope as compared to credit unions.
Decisions concerning implementation of material investments (into tangible assets) are characterised by various legal restrictions connected with the value of investments. Thus decisions taken in the field of material investments (into tangible assets) of credit unions differ from such decisions made by other traders in Poland.

The National Credit Union may take decisions about implementation of material investments (into tangible assets) concerning fixed assets of different kinds.

Decisions concerning implementation of financial investments of credit unions are made taking into account specific legal restrictions regulating the kinds and scope of financial investments.

Decisions concerning implementation of financial investments of the National Credit Union are characterised by specific legal restrictions which are still less restrictive as compared to credit unions.

Decisions concerning implementation of financial investments of credit unions and the National Credit Union differ to a great extent from such kind of decisions taken by other traders operating in Poland, including financial institutions.

Credit unions and the National Credit Union may take decisions concerning implementation of non-material investments. The scope of such investment decisions is broader in the case of the National Credit Union as compared to credit unions.

Footnotes and References


(2) A. Jedliński, G. Bierecki, op. cit., p. 10-11.


(4) Art. 33 ust. 1, 2 Ustawy z dnia 14 grudnia 1995 r. o spółdzielczych kasach oszczędnościowo-kredytowych, Dz. U. z 1996 r., nr 1 poz. 2 (z późniejszymi zmianami).

(5) Art., 39. ust. 1 Ustawy z dnia 14 grudnia 1995 r. r. ..op. cit.


(7) L. Kędzierski, Otoczenie kas i Kasy Krajowej, w: L. Kędzierski, J. Wójcik, op. cit., p. 222.


(18) Art. 3 ust. 2; art. 38 ust. 1 Ustawy z dnia 14 grudnia 1995 r... op. cit.
(20) Art. 16 ust. 1; art. 38 ust. 2 Ustawy z dnia 14 grudnia 1995 r... op. cit.
(22) Art. 17 ust. 1 Ustawy z dnia 20 listopada 1998 r. o zmianie Ustawy o podatku dochodowym od osób prawnych, Dz. U. z 1998 r., nr 144, poz. 931.
(25) Art. 15 ust. 1, 2; art. 16 ust. 1, 2; art. 19 Ustawy z dnia 14 grudnia 1995r... op. cit.
(26) Art. 30 ust. 4 Ustawy z dnia 14 grudnia 1995 r... op. cit.
(27) Art. 30 ust. 1; art. 37 ust. 1 Ustawy z dnia 14 grudnia 1995 r... op. cit.
(28) Par. 50, 55 Statutu Krajowej Spółdzielczej Kasy Oszczędnościowo-Kredytowej w: A. Jedliński, op. cit., p. 198 and next.; art. 36 ust. 1, 2 Ustawy z dnia 14 grudnia 1995 r... op. cit.
(29) Par. 12 Statutu Krajowej...op. cit., p. 189.
(30) Art. 30 ust. 3 Ustawy z dnia 14 grudnia 1995 r...op. cit.
(31) L. Kędzierski, Inwestycje kas i Kasy Krajowej, w: L. Kędzierski, J. Wójcik, op.cit., p. 144.
(32) Art. 30 ust. 1, 2 Ustawy z dnia 14 grudnia 1995 r...op. cit.
(33) Art. 37 ust. 1, 2; art. 30 ust.2; art. 36 ust. 4 Ustawy z dnia 14 grudnia 1995 r...op. cit.; L. Kędzierski, Inwestycje kas i Kasy Krajowej, op. cit., p. 135 and next.