

## **A COMPREHENSIVE PUBLICATION ("Credit Unions: Theory and Practice". A scientific monograph by Dr. Filomena Jasevičienė)**

Despite the fact that credit unions in Lithuania have no significant share in financial markets, their rapid development connecting more than 150 thousands of members certainly is of significant importance in servicing small customers and solving certain social problems. Credit unions play an important role, especially in the country's regions, by providing financial services to residents in the most remote areas of Lithuania, thus contributing to the development of agriculture, small and medium businesses, the development of rural communities, attracting even the lowest savings of residents. In our country, credit unions are able to offer to their members not only traditional saving and crediting services, but also electronic banking products (internet banking, payment cards).

According to the author, as of 1 January 2014, 76 credit unions operated in Lithuania: 63 credit unions belonged to the Central Credit Union of Lithuania (LCKU) and 13 operated independently. Credit unions started their business in 1996, but the majority of credit unions (20) were established in 2000–2002. Afterwards, the establishment process substantially slowed down. In 2008–2010, no one credit union was granted a license. Assets of credit unions increased substantially. The total increase in 2008–2013 was 2.7 times, but the market share of such institutions remained relatively small and as of the end of 2013 took 2.7 percent of the total assets of all operating banks. The establishment of credit unions is stimulated by relatively low capital requirements and relatively liberal membership criteria.

Considering the short history of credit unions in Lithuania, there were no scientific studies done; only some articles and publications analyzing credit unions' activities, business development and perspectives were published.

In the monograph, the author broadly analyses the literature by Lithuanian and foreign authors dealing with the development of credit unions, the functions of managing bodies, the importance of in-house management, potential credit unions' risks and risk management, the importance of credit unions' capitalization, as well as ethical issues. The monograph sources included publications and articles by M. Klinedinst, V. Kėdaitis, Ch. Ferguson, D. McKillop, J. Igarytė, G. Kancerevyčius, D. Kaupelytė, G. Dubauskas, R. Špicas and other authors.

Upon carrying out a series of studies and summarizing their outcomes, as well as analyzing Lithuanian and foreign literary resources, the author confirms that a safe and

reliable credit unions' system development and adherence to ethical norms helps to create and develop healthy business.

So far, there have been no attempts to examine the underlying aspects of credit unions in an integrated fashion, particularly in Lithuania. The author analyses the tendencies of credit unions' development, the characteristics of management, capital structure and its impact on the stability of a financial institution's business, appraises banking risks and identifies the main risk categories, such as credit, liquidity, etc., systemizes the principles of risk management, analyses and evaluates the credit unions' code of ethics and financial institution selection for the services from the client point of view. Furthermore, the study introduces indicators used to appraise the operations of credit unions, analyzing credit unions' services, disclosing their characteristics and importance to the credit unions, their clients, and public.

Due to the fact that it is not always possible to identify and prognosticate changes in economy, it is very important to know the factors that have a significant impact on the loan portfolio of credit unions, as the loan portfolio is the largest and most important part of the assets. Furthermore, perspectives in the development of credit institutions shall be analyzed and prognosed. The evaluation of macroeconomic and microeconomic indicators is very important as they affect the growth of the loans portfolio and the related risks.

The monograph contains also a theoretical and historical analysis of data, a comparative analysis, a multidimensional linear regression model, as well as a study and analysis of factors that affect the choice of bank, which was done using the MS Excel Pivot Table functionality and a factor analysis.

The monograph consists of eleven chapters and is structured in order to be understandable for both banking professionals and beginners.

**The monograph consists of eleven chapters:**

*Chapter 1 Theoretical fundamentals of credit unions.* In this chapter, the definition of credit union is presented as in different sources it differs. The development factors of credit unions are described.

*Chapter 2 The development of credit unions in Lithuania.* The establishment and development of Lithuanian credit cooperatives (later credit unions) are presented.

*Chapter 3 The development of global credit unions and some aspects of their activities.* Credit cooperatives' and credit unions' establishment and development in some countries are described. The advantages and success factors of credit unions (credit cooperatives, cooperative banks) are presented. Some business and prudential ratios are presented and analyzed.

*Chapter 4 The legal regulation of credit unions.* A review of the legislation regulating the establishment and activities of credit unions as well as of changes in legislation amendments are presented.

*Chapter 5 Accounting and reporting of credit unions.* Accounting and reporting principles are described.

*Chapter 6 The supervision of credit unions in Lithuania* analyzes the supervision and regulation framework. On-site and off-site supervision, including prudential requirements, and licensing procedures and principles are described.

Some aspects of regulation and supervision in other countries are presented and analyzed. Examples of inspecting manuals are presented.

The credit unions' capital structure and functions are analyzed. Their own and borrowed equity articles are described, capital reserves are specified.

*Chapter 7 Analysis of credit unions' activities.* In this chapter, analysis of the credit unions' activities is done applying different methods. This chapter is dedicated also to macroeconomic and microeconomic factor analysis and evaluation by applying the multivariate linear regression model.

In this chapter, the author analyzes activities of credit unions, using the horizontal and vertical analysis methods. The comparative financial ratios of the financial situation and results of credit unions are various in their content and importance; so, in order to objectively assess the activities' changes of these credit institutions the data standardization method was used.

The standardization of credit unions' financial ratios was performed after calculating data of 15 financial ratios that are best in showing credit institutions' results of operation and their financial situation. Financial ratios standardization and the analysis of standardized ratios allows to assess detailed reasons for financial ratios' change and to use prevention measures more effectively. The factors that have an impact on the assets of credit unions have been identified using the multivariate linear regression model.

*Chapter 8 Risk and risk management of credit unions, internal control and business planning of credit unions* is dedicated to identify and evaluate risks.

Risks management principles applied to individual credit unions and the sector were analysed. For instance, if one of the most important credit risks is not controlled and analysis of credit risks is not performed, this risk can cause liquidity problems.

Credit, liquidity, operational and reputational risks are analyzed apart. The largest part is dedicated to credit risk. Evaluation methods for loan portfolio, which strongly influence credit risk, are described. Also, ratios and calculations for the evaluation of the financial situation of a debtor are presented.

The internal control of credit unions, its understanding, structural features and procedures, as well as business planning are described. According to the author, planning of credit unions activities is one of the forms of management, which gives a possibility to anticipate the perspectives of activity after evaluating the current situation. The strategic and business plan is the document which clearly and argumentatively shows the core of business idea, describes the state of a credit union, anticipates its strategy and perspectives, prognoses the results.

*Chapter 9 The joining of credit unions' factor analysis* is dedicated to the analysis of the factors which stimulate people to join credit unions. In this chapter, survey of residents is done and the results are evaluated.

*Chapter 10 Some aspects of the Central Credit Union' activity* describes the main directions of activities of the Central Credit Union of Lithuania. Also, attention is given to its targets and tasks, vision and mission.

*Chapter 11 Ethics of credit unions.* In this chapter, the importance of compliance with ethical standards in a credit union is described. Investigations performed by the author show that the ethical behavior is a compliance to moral norms, which is especially important in financial institutions because they should operate according to moral norms i.e. to safely manage the clients' savings. The ethical behavior implies that one seeks for his goals without interfering with others' interests, i.e. the risk and the result are shared properly. Ethics helps to reveal whether the main actions are rightful or not, good or bad, justify them or specify the arguments. As credit unions' experience of activities shows, their success is strongly influenced by high ethical requirements to the quality of services, the culture of clients' services, management, the qualification of employees and the evaluation of their work. Incompliance with ethical norms and sometimes development of unclear business was one of the reasons that caused financial crisis and problems in some countries' financial institutions. Credit unions can work successfully only when they are trusted by the members and society and their activities are secured.

The book ends with conclusions and a comprehensive list of references.

The scientific monograph "Credit Unions: Theory and Practice" by Dr. Filomena Jasevičiene presents well-structured information and assessments, applies mathematical–statistical methods and addresses a variety of issues. It should be beneficial to scholars and teachers, doctoral students and credit union practitioners, as well as to anyone interested in the subject.

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