

SURVEYS

An Analysis of the Operation of Building Societies in the Republic of Croatia

Mladen Mirko Tepuš

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Abstract

The Act on Saving with a Building Society and Government Incentive to Saving with a Building Society (official gazette *Narodne novine*, No. 109/1997), which came into force on 1 January 1998, provided for the establishment of building societies in the Republic of Croatia with the aim of stimulating special-purpose saving with a government premium on savers' paid-in funds. These funds generate interest income and, together with the government premium, enable building societies to grant favourable home loans. Two years is the minimum saving term required to qualify for such a loan.

The amendments of 8 July 1999 to the Act on Saving with a Building Society and the Government Incentive to Saving with a Building Society provided for building society saving agreements with a protective monetary clause. Since then, the number of savers with building societies and the amount of accumulated savings have evidently risen.

This survey covers all four building societies operating in Croatia in 2001. Its aim is to analyse the operating results of these building societies during the three-year period.

JEL: G21

Key words: Saving with a Building Society; Building Societies; Government Premium; Credit Policy; Home Loan

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An Analysis of the Operation of Building Societies in the Republic of Croatia

1 Introduction

Housing policy and the quality of housing are an important part of the social policy of every developed country. The Act on Saving with a Building Society and Government Incentive to Saving with a Building Society which came into effect on 1 January 1998 was enacted to facilitate the provision of housing to all population groups in the Republic of Croatia. It allowed for the establishment of specialized financial institutions – building societies. The first building societies were set up shortly after this Act came into effect in anticipation of a favourable market response and good business results. Three building societies were founded in the first year the Act was in effect and one was founded later.

There have been two stages in the operation of building societies in Croatia: in the first stage, building society saving agreements with a protective monetary clause (often referred to as a currency clause) were not allowed, whereas in the second stage, starting on July 8, 1999, such agreements were allowed. The protective monetary clauses cover both the saving and the loan period. Owing to previous bad experiences (primarily caused by inflation, but some other reasons as well), the general public were reluctant to sign a building society saving agreement without a protective monetary clause, being concerned about the value of their paid-in funds. The introduction of a protective monetary clause was the main reason for the significant increase in savings in building societies in 2000.

Table 1: Savings Trends in Building Societies in the Republic of Croatia, Thousand Kuna

No.	Building Society	Dec. 31, 1999	Dec. 31, 2000
1	Hrvatska stambena štedionica d.d.	4,245	17,868
2	Prva stambena štedionica d.d.	34,317	143,693
3	Raiffeisen stambena štedionica d.d.	20,072	182,253
4	Wüstenrot stambena štedionica d.d.	29,085	93,450
	Total	87,719	437,264

Source: Croatian National Bank

Due to a lack of professional literature on building societies, most forecasts of their operation and market position are based on logical assumptions, mainly derived from experience with commercial banks. In 2000, the building societies started to approve home loans under the most favourable terms, offering the most acceptable

interest rates in the domestic financial market. The increasing popularity of these loans with the general public is evident from the rise in the number of savers and the amount of accumulated savings in the building societies.

The purpose of this survey was to gather data for an analysis of the results of three-year period in which building societies have been operating in Croatia. We tried to find out in which way the building societies are developing and what difficulties they encounter in their everyday operations. This project was also aimed at ascertaining the extent to which the building societies' lending criteria are defined clearly enough to facilitate credit risk management, that is, risk diversification, the use of collateral and the assessment of its market value, and the documentation of creditworthiness.

All four building societies operating in the Republic of Croatia were contacted and asked for assistance in collecting the required data. The survey was conducted in late April and early May 2001 by means of questionnaires and interviews with the building societies' managers that lasted two to three hours. The interviewees were not given the questionnaires in advance and were not asked to give exact figures. Their responses, which are presented in this paper, thus contain their personal estimates and not balance sheet data. The survey results are presented in the following four chapters. Since a saver with a building society must first save for the agreed period before gaining the right to a favourable home loan if meeting the loan requirements, the second chapter is entitled *The Saving Period* and the third *The Loan Period*. The fourth chapter, entitled *General Remarks on Saving with Building Societies*, deals with common problems and the competition among the building societies in the Republic of Croatia. The fifth chapter provides the conclusion and guidelines for further research.

2 The Saving Period

2.1 Building Societies' Areas and Methods of Operation

All four building societies operating in the Republic of Croatia are trying to make their product (a building society saving agreement) available throughout Croatia. Table 2 shows how the building societies ranked the regions¹

¹ This regional division was established solely for the purpose of this survey.

Table 2: Importance of Regions for Building Societies' Operation

Region	Rank		
	I	II	III
Zagreb and the surrounding area	3	1	–
Slavonija	–	1	–
Dalmacija	–	–	2
Istra and the town of Rijeka	–	2	–
Varaždin and the surrounding area	1	–	–

in terms of importance to their operation.

The building societies were allowed to state two regions if they considered them equally important.

The survey shows that the building societies have primarily focused their operations on the city of Zagreb and the surrounding area. The results in the first column, Rank I, in Table 2 were to be expected (based on the head office location). The remaining areas of the Republic of Croatia considered important for the building societies' operation (Table 2, Ranks II and III) are in fact the areas of operation of their founders or their main associates or business partners. The building societies have developed various forms of co-operation with natural and legal persons in places throughout Croatia to assist in the marketing, collecting and availability of building society saving agreements. These business links with regional banks and the branch offices of the founder banks had a decisive role in assessing the importance of regions.

In answer to the question of how they found their clients, the building societies said that most clients were found by agents in the field, often organized according to various multilevel principles and motivated by commissions on concluded agreements. Some building societies have developed their own multilevel networks of agents, and some have gone a step further and made agreements with private companies to market building society saving through their branch networks (e.g. the Croatian Post branch network) or through their networks of agents (e.g. insurance or package tour companies). Several building societies have a sales network that includes several thousand agents and so have appointed "leaders" on a regional or organizational basis to manage the network. The leaders are primarily motivated by the commissions they receive for the results achieved by their branch of the multilevel network, that is, by the agents under their supervision. Their work is evaluated by the number of concluded agreements, and their commissions are directly related to the amounts stipulated in these agreements. Some building societies gain almost 95 percent of new saving agreements in this way.

In answer to the question on plans to attract new savers, two building societies said they intend to upgrade and develop their sales network, one plans to intensify direct contact with potential savers (by telephone and post or through the Internet), and the fourth intends to speed up the provision of its services, especially the processing of loan applications. It is thus clear that the building societies have realized the effectiveness of direct sale through agent (legal and natural persons) networks.

In addition to agent networks, the building societies

mentioned other, less important methods of selling saving agreements, such as through their own offices and branch offices and through the Internet (one building society).

During the survey, it was found that the building societies have developed co-operation with commercial banks that are not connected by ownership with any building society. Such co-operation enables all commercial banks to become permanently involved in saving with building societies. The number of building societies cannot be big, so it is clear that each bank cannot found its own building society. Consequently, by co-operating with a building society on a permanent basis, banks can compensate for the competitive disadvantage caused by their inability to offer a building society product. What additional benefits will be granted to banks depends on the outcome of negotiations (e.g. retaining a percentage of the fee charged for concluding a building society saving agreement, or having on deposit a certain amount of the long-term savings of its partner building society).

2.2 Building Society Saving Agreements

The compulsory provisions of a building society saving agreement are stipulated by the Act on Saving with a Building Society and Government Incentive to Saving with a Building Society, Article 13, paragraph 2. The results of the survey related to building society saving agreements show that savers are very well informed of the saving options that generate the highest income from the paid-in funds and the accompanying government premium and that these are the options they choose. This conclusion is based on the high correlation between the replies to the question on the most common amount stipulated in concluded building society saving agreements and the replies to the question on the most frequently chosen type of saving².

In three building societies, 65 to 80 percent of saving agreements were concluded for a term exceeding five years, while in one building society 60 percent of all saving agreements were concluded for a term of two years. This information is crucial for building societies' liquidity planning, especially assuming that short-term savers are primarily motivated by the opportunity to take out favourable home loans as soon as they satisfy the conditions (upon the expiry of the two-year saving term). We presume that the savers who opted for a saving term exceeding 5 years were also motivated by favourable saving conditions (interest and the government premium). In general, when planning its liquidity, a building society in which most concluded agreements are short-term should take into consideration its savers' intention to withdraw their paid-in funds and take out related loans.

The survey shows that all age groups conclude building society saving agreements. The building societies' managers were unable to give a close approximation of the most common age of their savers, but stated that they their customers came from all age groups. These responses indicate that building society saving agreements

2 Building societies agreements include a prescribed saving term (minimum two years). Depending on the saving term, building societies offer various saving options – types or tariffs (fast, regular and slow; fast, standard, youth-targeted etc.).

were not targeted at a specific age group. The fact that all age groups are equally represented proves that saving with a building society meets high standards and that it is well accepted.

In reply to the question on the number of concluded saving agreements, the building societies stressed that the results achieved before the introduction of the monetary clause were highly unsatisfactory. Since the introduction of the monetary clause, the number of concluded building society saving agreements has continually been on the rise, as well as the amount of accumulated savings.

However, the interviewed managers rarely expressed satisfaction with their operating results, pointing out difficulties that the building societies have recently encountered in the course of their operations, which they refer to as poor “saving quality”. This concerns default on the part of savers, most of whom conclude building society saving agreements that include monthly savings deposits. After a certain period, instead of paying savings deposits regularly, they make a lump sum payment of 5,000 kuna (or the remaining difference) once a year, usually at year-end. Many of them stop paying deposits into their savings accounts altogether.

In this regard, one can make a distinction between two groups of savers: one group whose amount and schedule of savings deposit payments vary according to their means, and another group who conclude a saving agreement with a building society, sign it in person, but fail to commence paying savings deposits. Savers in the first group have the intention of saving and qualifying for a loan but are incapable of meeting their commitments regularly, probably owing to present-day economic and social conditions. Savers in the second group, who never commence making savings deposits under building society saving agreements, cause difficulties for building societies as they have to make bookkeeping records and open savings accounts on their behalf. Although it is possible that savers in the second group overestimated their saving potential, the fact that they are so numerous calls for another explanation. We assume that some of them concluded building society saving agreements without a clear intention to save. The question is whether, and to what extent, “dead accounts” resulted from the sales method.

Even if customers make savings deposits irregularly, they still qualify for a home loan. In this case, however, the desired loan amount is conditioned by a saving term longer than with regularly paid deposits or the one stipulated by the building society saving agreement. The regular payment of saving deposits is one of the conditions that have to be fulfilled in order to receive a loan. The building societies monitor their regularity by assigning savers to different ranks³ which determine who qualifies for a loan and when.

3 All building societies in the Republic of Croatia rank their savers by correlating the saving term with the savings amount. The practice of some building societies has shown that they correlate the saving period with the savings amount, i.e. the amount of accrued regular interest and the amount stipulated by the saving agreement, etc. Building societies use different terms for the assigned ranks, e.g. the value of the agreement, the number of points scored etc.

3 The Loan Period

3.1 Credit Policy

3.1.1 Written Policy

According to Article 76, paragraph 6, of the Banking Act (*Narodne novine*, No. 161/1998), building societies are required to adopt: “credit policies determining the procedures and mode of approving credits and other investments and possible obligations, as well as the procedures and mode of ensuring return or collection of outstanding debts and the calculation and collection of interest, commissions and other fees, as well as procedures regarding other forms of exposure according to this Act.” Written policies and procedures are very important for the organization of tasks, duties and powers in every legal entity, and in building societies they ensure the consistency of powers, credit requirements and customer-related procedures.

The survey shows that the building societies in Croatia have detailed written credit policies. The only exception was one building society whose written policy was being verified by its management and the supervisory board at the time of the survey. In specifying loan requirements and drawing up written credit policies, the building societies have relied mostly on their employees’ experience and also on the methodology and written policies of the founder banks. Close links were observed between the building societies and their founders regarding the manner of establishing and formulating credit policies and procedures and their written presentation. Most of the building societies’ managers are experts with years of experience in commercial banks (very often the ones which founded building societies), usually in retail banking.

Building societies’ written credit policies take on a new significance considering the relatively small number of employees compared with the number of savers and potential loan applicants. In order to enable employees to deal with a large number of loan applications effectively, their processing should be standardized, which is to be achieved by strictly specifying all loan-related procedures, requirements and powers.

Saving with a building society is specific, primarily because of the legal framework, which precisely determines the most important loan requirements and terms. In addition, the relatively small number of employees compared with the number of savers with building societies necessitates straightforward procedures in order for loan applications to be processed in an efficient and timely manner. This gives us reason to believe that the requirements and procedures set by written credit policies will be applied in everyday operations.

3.2 Loan Requirements

A saver with a building society is entitled to take out a home loan following the fulfilment of the basic conditions stipulated by the saving agreement, the most important being the minimum term of saving (two years). The compulsory provisions of a home loan agreement are stipulated by the Act on Saving with a Building Society and Government Incentive to Saving with a Building So-

ciety, Article 20, paragraph 2. Building societies have accordingly drawn up a standardized agreement form, which fully complies with the legal provisions.

While a saver becomes entitled to take out a home loan after the expiry of the minimum saving term and the fulfilment of other conditions contained in the saving agreement, the loan is not granted automatically but is subject to the fulfilment of the loan requirements and the processing of the loan application. Even a saver who has met the obligations arising from the saving period by regularly paying savings deposits may not be found creditworthy by the building society and may therefore not qualify for a loan.

The building societies are completely independent in establishing the criteria applied to savers' creditworthiness. They vary considerably in terms of loan amount, the saver's monthly income, required insurance and documentation, and so on. The survey shows that the main loan requirements and procedures for ascertaining the creditworthiness of savers with building societies have been modeled on the loan requirements and the loan application processing methodology applied by the founder banks but taking into consideration the specific features of saving with a building society.

Large loan amounts, which some building societies define as amounts exceeding 15,000 German marks and some as amounts exceeding 20,000 German marks (in kuna equivalent), require collateral to be put up as the loan repayment security. Each building society has a different approach to collateral requirements and value, mostly related to other criteria applied to creditworthiness (primarily combinations with guarantors and solidarity debtors). The building societies require collateral ranging from 75 to 200 percent of the approved loan amount. Some building societies allow a lower value of collateral if it is supplemented by an insurance policy guaranteeing the settlement of arrears by an insurance company in case of default on loan repayments. We have also noticed that some commercial banks secure the repayment of loans through agreements with insurance companies. In several cases known to us, after an insured event⁴ had occurred, the insurance companies have promptly met their commitment to settle the debtor's arrears. Securing loan repayment in this manner requires paying a premium throughout the loan repayment period, which is an additional cost borne in full by the building society saver.

Regarding this issue, we also inquired about the building societies' attitude towards the valuation of collateral. According to the responses, the building societies intend to make use of the practice and services of asset valuation companies owned by founder banks or the services provided by authorized court-appointed valuation experts that co-operate with the founder banks.

In all building societies, the registration of collateral securing the loan repayment is envisaged as a mortgage or fiduciary registration. Two building societies, however, conduct first mortgage registration, considering it more convenient.

The collected data suggest that, in general, savers

with building societies have to follow almost the same procedure when providing documentary evidence on their creditworthiness and the purpose of the loan as they do when applying for a loan from a commercial bank.

3.3 Application of Expert Systems to Approving Loans

The building societies offer a product that is to a great extent defined by legal provisions and is likely to be accepted by the majority of the Croatian population. On the other hand, there are a relatively small number of employees compared with the number of savers with building societies and potential loan applicants. At present, the assessment of customers' creditworthiness is very often a lengthy process, which incurs costs both for the financial institution and for its customer.

Modern retail banking has applied a range of standardized procedures to the analysis and assessment of customer creditworthiness (e.g. discriminatory analysis, neuronal networks) which have resulted in a more objective final decision on loan approval and lower costs. Due to the application of expert systems to approving loans, the assessment of creditworthiness has turned into a more objective and streamlined procedure. These systems can also play an important role in the early detection of solvency risks. In order to gain and retain the trust of their savers who decided to save for a home loan, building societies have to be able to process their loan applications quickly and efficiently, at the same time taking into account the costs of the procedure. Theoretically, employees should be adequately trained to participate in all areas of operation and perform tasks based on, wherever possible, standardized/routine procedures, so that satisfactory results can be achieved at minimum cost. Considering the described operating conditions in the building societies, the application of expert systems⁵ could considerably facilitate the approval of loans. We therefore decided to establish to what extent they are used in everyday operations.

At the time of the survey, no systems of any type were in use in two of the four building societies. One building society stated its intention to obtain programs to serve this purpose in the near future. Two building societies using expert systems at the time of the survey described them as very sophisticated.

In our opinion, all the building societies are soon going to apply expert systems to approving loans because of the increasing number of savers and home loan users. Therefore, it would be interesting to conduct another survey in order to determine these systems' bases, their parameters and the quality of their results.

3.4 Disbursement Policy on Approved Loans and the Method of Storing Loan Documentation

The survey covered disbursement policy on approved loans since, under the Act on the Saving with a Building Society and Government Incentive to Saving with a Build-

4 An insured event is an unwanted event, such as a customer's default on loan commitments, against which we are protected by taking out insurance.

5 For more information on expert systems, refer to the working papers by Čerić, Varga, Birolla et al. (1998), p. 209, Dagmar (1995) and Niehaus (1987).

ing Society, Articles 8 and 9, these loans are granted for a special purpose which is to be supervised by building societies.

The building societies' managers gave the following explanation of their legal obligation regarding supervising the purpose of savings deposited with building societies: building societies are obliged to supervise the purpose of approved home loans when the period of saving with a building society exceeds five years, and they are obliged to supervise the purpose of saving, the government premium and the approved home loans (i.e. the whole stipulated amount) when the period of saving with a building society is shorter than five years.

According to the data collected by the survey, the building societies have made satisfactory arrangements for the supervision of the purpose of approved loans, strictly adhering to legal provisions. One building society, unlike the others, requires that the purpose of the savings be substantiated by bills and concluded agreements whenever it makes a disbursement, whether related to building society savings, the government premium or approved loans and regardless of the period of saving.

Supervising the purpose of building society savings, the government premium and the loans entails the involvement of the building societies' employees and the use of other resources. This incurs operating costs and makes the loan approval procedure more complicated and time-consuming for the saver. The requirement that the purpose of savings should be verified, which is in some cases unnecessary (e.g. verifying the purpose of savers' paid-in funds when taking out a loan if the saving period exceeds five years) could meet with savers' disapproval when their savings are disbursed and, as a result, turn into a competitive disadvantage.

We established that the building societies store loan documentation in the following ways: two building societies use standard filing methods, one microfilms the documentation, while one uses the document imaging system. Two building societies store the original documentation in the file rooms of their founder banks.

3.5 Monitoring the Regularity of Loan Repayments

Monitoring the regularity of loan repayments is of great importance for every credit and deposit institution. It is therefore undoubtedly vital for ensuring the safety, stability and liquidity of a building society's operation. Savings accumulated on the basis of deposit payments made under building society saving agreements, together with the repayments of approved loans, are the main sources of funds available to building societies for granting favourable home loans and meeting their savers' demands.

Three building societies monitor the regularity of loan repayments on a monthly basis, while one does it every week. The management is informed of the findings by various internal reports.

A reminder letter is the first step the building societies take in the event that loan repayments are overdue. In keeping with their business policies, they send the first reminder letter to the debtor 15 to 30 days following the due date of a repayment. A second reminder letter is sent in the event that the repayment is overdue another 30 days. If it is still overdue 30 days following the second reminder letter, two building societies resort to a final warning, in

which case the next step is to recover the debt through the stipulated instruments of collateral. The third building society stressed that 15 days after the second reminder letter is sent, it "activates" guarantors, i.e. requires them to settle the debt, while the fourth building society consults with its in-house legal department and follows their advice.

3.6 Approved Home Loans

The first building societies started operating in 1998. Initially, the general public were reluctant to conclude building society saving agreements because these agreements did not include protective monetary clauses. The number of concluded agreements and the amount of savings were thus lower than originally expected. In 1999, the building societies intensified their activities aimed at attracting new customers. Their volume of operations increased significantly in the second half of 1999, following the amendments introduced to the Act on Saving with a Building Society and Government Incentive to Saving with a Building Society which provided for saving with a protective monetary clause. This and the fact that a minimum two-year saving term is required for approving a loan suggest that the building societies were able to approve their first home loans in 2000, on the basis of short-term saving agreements. The loan repayment period is directly related to the period of saving with a building society: the shorter the special-purpose saving period, the shorter is the loan repayment period, while the instalments are higher.

Three building societies approved their first favourable home loans based on a saving agreement in late 2000 (one in November and the other two in December 2000). The fourth building society expects to approve its first home loan based on a saving agreement in autumn 2001.

An analysis of the most frequent maturity of approved loans in the three building societies which had some experience in approving special-purpose loans at the time of the survey showed that it was seven years in two building societies and eight years and nine months in the third.

All four building societies said in their answers to the survey that the loans were mostly intended for the reconstruction, renovation or repair of existing flats and houses. Two building societies also mentioned the purchase of a flat or house as very important in their structure of approved special-purpose loans.

The preponderance of home improvement loans is mainly because the loans covered by the analysis were approved on the basis of the minimum required saving term (two years). Consequently, the savings available for the approved loans were lower. The amounts of the approved loans, without the joint investment of several household members in a combined agreement, are insufficient for the purchase of a flat or house. However, although informed of saving options that enable them to raise a larger home loan after a short saving period (e.g. by concluding several optimal agreements), savers with building societies still opt for raising lower loan amounts. These findings are illustrative of the present quality of housing and also support the assumption that most savers with building societies intend to improve their existing housing conditions. The purchase of flats and houses through building society saving plans will probably be more fre-

quent in the future, when home loans are granted on the basis of long-term building society saving agreements.

The building societies are trying to process loan applications in the shortest possible period, seeing it as an opportunity to gain a competitive advantage. In the three building societies that have commenced approving loans, the employees involved stated that processing loan applications rarely took more than a week. However, in the case of one building society, its founder bank processes the loan applications submitted by those savers who concluded building society saving agreements at the bank's counters. In this case, processing a loan application sometimes takes longer than desired, despite the original intention to shorten the procedure so it would last no longer than in the building society. The building society that had not approved any loans before the date of the survey declared that processing loan applications was projected to take 15 days at the most. Some building societies informed us of their plans to further reduce the loan approval period, showing they recognized their customers' needs. Still, it should be said that this only involves speeding up the processing of loan applications inside the building society, following the submission of documents in compliance with the building society's loan requirements; how long a customer actually has to wait for the disbursement of the loan also depends on outside factors, e.g. courts registering the collateral.

4 General Remarks on Saving With Building Societies

4.1 Disadvantages of Saving with Building Societies from the Point of View of Savers

Since this paper deals with specific financial institutions and their products that have been in the domestic financial market since 1998, we felt it was important to analyse their possible disadvantages. The following conclusions are based on the assumption that the building societies' employees could give useful insights into this topic, due to their daily contact with present and potential savers. The building societies' managers quoted the following disadvantages as most often referred to by their savers:

- being charged various fees (e.g. a fee for concluding a building society saving agreement, an account maintenance fee charged annually, a loan approval fee etc.);
- being required to spend their own savings for a specific purpose;
- being concerned that the government premium will not be paid in;
- being concerned about the safety of deposits in commercial banks;
- the fact that deposit payments into savings accounts made on the last few days of the current year are not recorded in the same year, with the result that savers are not entitled to the government premium for the year in which the payments were made;
- the low interest earned on savings deposits;
- the long saving period, i.e. the loan awaiting period;

- the lack of benefits for enterprises willing to save on behalf of their employees;
- the fact that the way in which cities and municipalities take part in saving with building societies is not defined.

4.2 Competition among Building Societies in the Domestic Financial Market

The role of building societies in the domestic financial market has become increasingly important, as evident from the growing number of concluded agreements and the rising amount of collected savings. Diverse new products have lately been available in the financial market, aimed at providing housing for various population groups. The Act on the Fund for the Long-Term Financing of Housing Construction with Government Subsidy, the Act on Saving with a Building Society and Government Incentive to Saving with a Building Society and the Publicly Subsidized Housing Construction Program have been adopted for that purpose. As there are numerous financial institutions primarily dealing with the collection and allocation of savings (43 banks and 22 savings banks)⁶, it is obvious that the competition for new customers and their savings has intensified.

The building societies' managers were asked to give their views on the competition and state the product/institution they believe could have a competitive advantage over their own product. They replied as follows:

- 1) foreign exchange saving with commercial banks, especially large savings amounts;
- 2) home loans granted by commercial banks at reduced interest rates;
- 3) the possibility to participate in the Publicly Subsidized Housing Construction Program in order to purchase a flat;
- 4) an expanded range of life insurance;
- 5) pension reform – providing citizens with an opportunity to save in the third pillar.

The range of various savings deposit options in the Republic of Croatia has been improving. It is therefore to be expected that all financial institutions in the domestic market will intensify their efforts to attract new customers, which could in turn result in an improved quality of service and greater concern for customers' needs.

5 Conclusion and Guidelines for Further Research

When the building societies were being established, they used market research to forecast their business results. However, the results achieved in the first few years of operation, both in the number of concluded building society saving agreements and the amount of accumulated savings, were considerably poorer than forecast. At the same time, all market surveys demonstrated growing interest in saving with building societies. This contradic-

⁶ Source: Croatian National Bank, Annual Report (2001).

tory situation can be accounted for by the fact that it was not possible to conclude a building society saving agreement with a protective monetary clause, as well as by false business assumptions, inadequate business organization, and so on.

As suggested by the documentation and data received from the building societies' managers, all estimates on saving with building societies were based on the assumption that no more than four building societies would be established in Croatia. Analysis of the territorial organization of the building societies' operations shows that they comprehensively cover the whole territory of the Republic of Croatia. Additionally, most Croatian commercial banks have also become involved with building society saving plans by offering this product at their counters. Due to this, as well as the thousands of building society agents and the business improvement plans, it appears that at present, and particularly in the near future, the citizens in every large town in Croatia can choose among four similar saving plans offered by four different building societies.

During the first year of building society operation (1998), building society saving agreements could be concluded in only two ways: at banks' counters and through agents. In early 1999, however, after examining their first business results, the building societies adopted a more energetic approach to attracting savers. They partially attributed the relatively small number of concluded saving agreements to the sales method. The building society whose operations were entirely managed by its agents realized the importance of being present at the counters of banks and having its own business premises in order to receive customers and conclude saving agreements. On the other hand, the building society operating exclusively through the branch network of its founder bank became aware of the necessity of hiring agents. There are arguments for and against both these sales methods. Driven by market developments and mutual competition, the building societies have made an effort to satisfy their prospective customers' wishes and needs to the largest possible extent. That is why they have to ensure their presence in the market in a variety of ways, developing the same or similar sales methods. In this light, co-ordination of the building societies' marketing activities assumes great importance.

As we see it, the thousands of agents engaged in concluding saving agreements with building societies, and who are mainly motivated by commissions proportionate to the stipulated savings amounts, may pose a range of problems. These include false promises and also intentional or unintentional misinterpretations by unqualified persons of the provisions of a building society saving agreement or the Act on Saving with a Building Society and Government Incentive to Saving with a Building Society, whose mistakes are not noticed in due time and who assume no responsibility for their actions. The survey indicated the intention on the part of the building societies to improve their sales, which obviously necessitates hiring more agents. In our view, more careful attention should be given to who concludes saving agreements and how. We also suggest that agents pass through an appropriate internal "filter", indicative of their capabilities and

training, and that there should be quality control of work performed.

The analysis of the collected data shows that savers with building societies are well informed of the optimal saving options. At the same time, when concluding a building society saving agreement, they had almost no information on the credit requirements they were supposed to fulfil so that a home loan could be approved and disbursed to them. The building societies show a certain degree of flexibility in this regard by adjusting their loan requirements to the creditworthiness of savers. In our opinion, savers with building societies should be informed in more detail of their future commitments related to taking out a loan, with a view to avoiding possible misunderstandings.

Concerning the characteristic features of the building societies' operations, we believe that it would be very useful if there were a credit register of some kind that provided ex post information on their savers' financial habits. Setting up such a credit register has been frequently discussed in the past, but unfortunately it is unlikely that one will be set up in the near future.

This survey also disclosed that the building societies used different terms for the same concept, e.g. point scoring/agreement value, saving types/tariffs/period, targeted amount/stipulated sum/planned sum/stipulated amount etc. We hope that savers with building societies can understand these concepts and that they are capable of comparing building societies' saving and loan requirements and choosing the building society with which they want to conclude a saving agreement.

During the survey, we got the impression that the building societies would welcome the establishment of a professional association of building societies in Croatia. This association would deal with organizing and co-ordinating the building societies' approach to areas of common interest and to their contacts with the authorities (e.g. the Croatian National Bank, the Ministry of Finance etc.). It could also make an attempt at adjusting the basic terminology relating to the specific features of building societies.

The Act on Saving with a Building Society and Government Incentive to Saving with a Building Society entitles savers to a government premium amounting to 25 percent of the savings deposits up to a maximum of 5,000 kuna in one year. However, there are occasions that the funds paid in by savers with building societies in the current year are not recorded in their accounts in the same year, so that they do not become entitled to the government premium. This is mostly due to the number of working and non-working days late in the year but also to the specific features of the previous payment system as well. In our opinion, the introduction of the National Clearing System (NCS), consisting of several daily clearing cycles, will solve most of these problems. However, the building societies themselves would be well advised to pay more attention to such cases.

The long-term outlook for the development of saving with building societies is good. The existing range of products in this segment of the financial market will almost certainly develop in parallel, and building societies will play an important role in the Croatian financial market.

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Appendix 1: Building Societies' Aggregated Balance Sheet

Table 3 Building Societies' Aggregated Balance Sheet, end of period, in million kuna

Item	1998	1999		2000	
	Dec.	Jun.	Dec.	Jun.	Dec.
ASSETS					
1. Reserves with the central bank	2.4	1.8	8.6	11.8	7.6
2. Claims on the central government	49.7	54.9	81.4	204.0	497.6
3. Claims on other domestic sectors	–	5.3	5.3	–	1.1
of which: claims on households	–	–	–	–	0.6
4. Claims on banks	54.2	54.2	57.0	46.8	7.6
Total (1+2+3+4)	106.3	116.1	152.3	262.6	513.8
LIABILITIES					
1. Tied deposits	8.7	19.2	87.6	189.0	437.8
2. Bonds and money market instruments	0.4	–	–	–	10.0
3. Capital accounts	108.3	111.2	117.4	124.2	112.5
4. Other (net)	–11.0	–14.3	–52.7	–50.6	–46.5
Total (1+2+3+4)	106.3	116.1	152.3	262.6	513.8

Source: Croatian National Bank, Annual Report (2001)

Appendix 2: Building Societies with Operating Licenses, as at 30 July 2001

1. **HRVATSKA STAMBENA ŠTEDIONICA d.d.**

Zagrebačka 38, 42000 Varaždin

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2. **PRVA STAMBENA ŠTEDIONICA d.d.**

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Fax: + 385 1/4801-571

3. **RAIFFEISEN STAMBENA ŠTEDIONICA d.d.**

Ulica grada Vukovara 37b, 10000 Zagreb

Phone: +385 1/6324-100

Fax: +385 1/6171-099

4. **WÜSTENROT STAMBENA ŠTEDIONICA d.d.**

Ilica 14, 10000 Zagreb

Phone: + 385 1/4803-788

Fax: + 385 1/4803-798

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