

ADVANTAGES OF MUTUAL AID HOUSES IN ROMANIA ACCORDING TO NON-BANKING FINANCIAL SERVICES USERS

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Abstract

Mutual Aid Houses enjoy a long presence on the Romanian market of non-banking services. Unlike mutual organizations from other European countries, in Romania mutual organizations have a much narrower field of activity. They may loan and provide an array of social services to members.

Our study aims to highlight the benefits of Mutual Aid Houses as a support of person's preference to this form of association and financial loan. After a briefly presentation of the situation of Mutual Aid Houses in Romania, based on statistical data, we show the results of a qualitative study based on in-depth interview, conducted in a Mutual Aid House for employees.

The purpose of this case study is to highlight the perception that members of the Mutual Aid House have on services provided, the extent to which these services are used by members, as well as the appreciation they show to a number of attributes that define the offer of the Mutual Aid House.

In addition, our analysis brings information by outlining the main aspects that define the presence of Mutual Aid Houses on the market of non-banking services, through a detailed presentation of the situation of a Mutual Aid House of employees and especially by highlighting opinions of its members regarding the offer advantages, elements contributing ultimately to a better understanding of Mutual Aid Houses position among non-banking financial institutions.

Keywords: *credit, Mutual Aid House, mutual organization, non-banking financial services*

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1. Introduction

Mutual organizations have a long history in Europe, the early structures were identified since medieval times; maximum period of development was that of centuries 18th and 19th and early 20th century. Legislation concerning them has been modernized in most European countries between 1850 and 1900 by introducing legal provisions regulating the establishment and operation of mutual societies. Subsequently, these companies have evolved in close connection with the evolution of markets, the economic development of states and also political systems that have governed (Lambriu, 2013, p. 46).

Currently, there are a wide variety of mutual organizations in European countries, from the largest mutual insurance organizations, until credit unions and mutual associations not involved in the insurance. The category of mutual organizations with the largest expansion and financial strength at European level represents mutual insurance companies. Unlike other European countries, in Romania mutual organizations not engaged than social services, the insurance is not applicable. Therefore, the area of activity of these organizations is much smaller than in other European countries (Broek, Buiskool, Vennekens, van der Horst, 2012, p.44). Instead, Romania surprise by the large number of mutual aid houses that are comparable with the *Société de secours mutuel* (mutual aid society) in Luxembourg and with *Societa di mutuo soccorso* (benefit mutual societies) in Italy (Vamesu, 2013).

2. Problem Statement

The mutual aid house (in Romanian, “Casa de ajutor reciproc” abbreviated “CAR”) is defined as a non-banking financial institution, non-profit, created to support and mutual help members. “CAR” abbreviation is widely used and recognized on the Romanian market, which is why we still use whenever we evoke mutual aid houses in this paper (instead of its English abbreviation). Definition at European level on similar organizations fit these entities in the financial mutual support in order to avoid financial exclusion. In other words, the mission of mutual aid houses is to help those persons who do not have access or have difficulty accessing financial products on the market, when they need to lead a normal social life.

In Romania there are two main categories of mutual aid houses, for the employees (abbreviated “CARs”) and for the pensioners (abbreviated “CARP”). Mutual aid houses of employees are functioning under OUG 26/2000 on associations and foundations, as well as the Law 122/1996 on the legal status

of mutual aid houses for employees and their union. The activity of “CARs” is to provide low interest loans to their members. Nationwide, the National Union of Mutual Aid Houses of employees (abbreviated UNCARSR) is a national organization that brings together CARs across the country, aimed at helping “CARs” system in Romania. Also, in 2004 it was founded the Federation of Mutual Aid Houses of Romania (abbreviated FEDCAR), which shall represent the country at international level, namely in the World Council of Credit Unions (abbreviated WOCCU).

Mutual Aid Houses of pensioners and social assisted (abbreviated “CARP”) are a distinct category of non-profit organizations, governed by OUG 26/2000 and Law 540/2002 concerning mutual aid houses of pensioners. The objectives of “CARP” are mutual self-help and social support. Main terms of support are providing credit with low interest to seniors considered ineligible in the banking and the provision of services such as repairs shoes/clothing/appliances, execution of works of installation and repair (such as metalworking, carpentry, installing water meters), sale/distribution of products in social stores, workshops in manufacturing handmade (greeting cards, paintings, crocheted), social and medical assistance, cultural/artistic/social activities, recreational trips, pilgrimages, day centres, social canteens, care at home. Social services differ from one “CARP” to another, and “CARP” beneficiaries are pensioners, social aid recipients and members of their families. Nationally, “CARP” are joined in the National Federation of Mutual Aid Houses “Omenia”, founded in 1990. Another feature of “CARP” is that it uses retired personnel (employees and volunteers), which allows them to remain socially active while exploiting skills and expertise that they have acquired in their professional career. “CARP” “Omenia”, for example, had in 2017 a total of 189 employees of which 32.8% pensioners (Oprea, Chioaru, 2017).

Our study aims to present mutual aid houses services from the perspective of their beneficiaries, namely how they use these services and the perception of the relationship between mutual aid houses and its members.

3. Research aims and methods

Data on mutual aid houses in Romania are scarce, discontinuous and poorly disseminated. As such, we have chosen, in the first stage, to analyse the situation of mutual aid houses in Romania in terms of their evolution over the

past decade and their national distribution. For this purpose, we used statistical data from reports prepared by similar organizations.

Then we proceed to a study case using as method of analysis in-depth interviews, a qualitative method able to provide some exploratory data concerning the relationship between the mutual aid house and its members. This is because such studies have not been published yet, and the information obtained can be a starting track in a quantitative study, representative at sector or region level.

In setting up the sample for the analysis, we considered to include people with different ages and studies, from urban and rural areas, this to allow all categories of members to be found in the opinions collected by us. The result is a sample in which the structure was as follows: (a) according to the age: 18-28 years - 31 %, 28-38 years - 36%, 38-48 years - 17%, 48-58 years - 12%, more than 58 years - 4%; (b) by residence: 63% urban area and 37% rural area; (c) by studies: 40% pre-university degree, 23% university degree, 37% post university degree; (d) by individual monthly income: below 1000 RON - 7%, 1000-2000 Ron – 50%, 2000-3000 Ron - 22%, more than 3000 Ron - 21%.

The qualitative study had two objectives:

- gathering information on the use of financial services of the mutual aid house;

- the perception of services provided by the mutual aid house and the relationship between this entity and its members.

If the first objective refers only to people who have used the services of the mutual aid house, the second one targeted all members of the entity. As an exploratory study, did not require validation of assumptions, its purpose is precisely to provide the necessary information to define hypotheses in the case of a quantitative study. For the in-depth interview was used a semi-directive interview guide, based on a combination of open questions (the majority) and closed; responses were registered on paper, in writing by researchers. The interviews were conducted in May 2019 and the interview length was, on average, about 30 minutes. In total, 60 people were interviewed, member of mutual aid house, of which 50 persons were also in receipt of a loan. The participation in the qualitative study was performed in conditions guaranteeing anonymity of respondents. Therefore, to conduct the interview, there were no personal identifiers such as name, address, contact information. At the same time, presenting study results in the following paragraph of the article (section V) take into account the desire of the entity considered to remain anonymous,

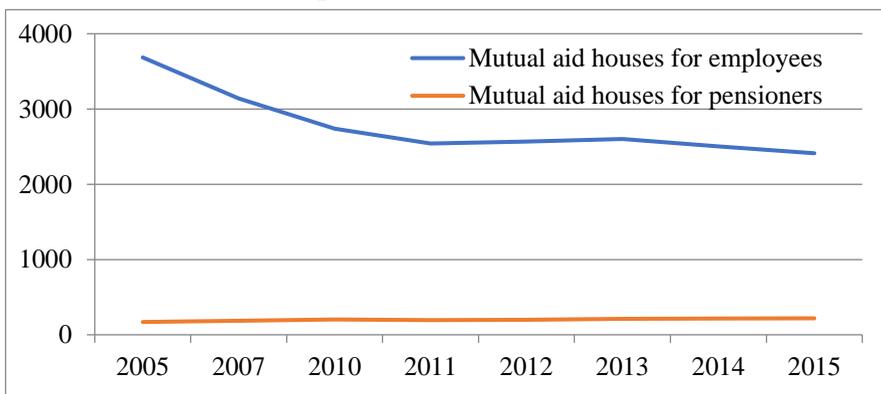
so that the name used for this purpose is a generic one: CAR-pilot study (abbreviated as “CAR-PS”).

4. Evolution of mutual aid houses in Romania

In the Register of non-financial institutions managed by the National Bank of Romania, Part I, section mutual aid houses, appeared on October 15, 2019, 2541 registered entities for employees and pensioners (National Bank of Romania). The number is down when compared to the situation of August 27, 2010, when appeared 2993 mutual aid houses as actives in the register of National Bank of Romania (IES).

According to the study conducted by the Foundation of Civil Society Development (FDSC), the number of mutual aid houses for employees registered a decrease in the range from 2005 to 2015, while the number of mutual aid houses for pensioners increased slightly but steadily. Thus, the number of mutual aid houses for employees decreased from 3685 in 2005 to 2412 in 2015. On the other hand, in 2015 were 219 mutual aid houses for pensioners compared to only 170 in 2005.

Figure 1: Evolution of the number of mutual aid houses for employees and pensioners in Romania



Source: Opincaru, 2017, p. 46-48.

The same study shows the presence of majority of mutual aid houses in urban areas (91%), regardless of their nature. On the other hand, in terms of their distribution by region of Romania, the study noted a greater share of

mutual aid houses in less developed regions as follows (Opincaru, 2017, p. 46-48):

- Mutual aid houses of employees: 18% were, in 2015, in South-Muntenia region, 15% in Northeast, 14% in Northwest and Southeast, 13% in South-West Oltenia and Center, compared to only 7% in Bucharest-Ilfov and 6% in West.

- Mutual aid houses of pensioners: 16% in South-Muntenia and Northeast, 14% in South-West Oltenia, 12% in North-West, West and Centre, 11% in South-East and only 7% in Bucharest-Ilfov.

Table 1: Affiliated members to main federations of mutual aid houses in Romania (number of people)

Indicator	2011	2015
Members of mutual aid houses of employees affiliated to UNCARSR	935,286	920,012
Members of mutual aid houses of pensioners affiliated to National Federation “Omenia”	1,373,400	1,366,837
Total members affiliated	2,308,686	2,286,849

Source: Opincaru, 2017, p. 46-48

As can be seen in the table above, in terms of number of members affiliated to the two main federations of mutual aid houses, the study of Foundation of Civil Society Development indicates, for the period 2011-2015, a slight decrease both for employees and pensioners.

5. Perception of services provided by mutual aid houses

The case study we conducted was on a mutual aid house for employees, based in Dambovita County (Romania) for which, as indicated in paragraph III, we use the abbreviation “CAR-PS”.

It is a non-banking financial institution registered since 1997 (consequently having more than 20 years on the market of non-banking financial services). “CAR-PS” was created to support the provision of employees working in one of the public utilities services in the County of Dambovita. “CAR-PS” is affiliated to the County Union of mutual aid houses of Dambovita, which is a part of UNCARSR.

Choosing “CAR-PS” for our study was done because of its long existence on the market of non-banking financial services, its significant

number of members and its activity. “CAR-PS” primarily provides lending services; loans that can be granted are:

- Traditional or classic loan, for a minimum of 12 months and a maximum of 24 months;

- Quick loan, for up to 6 months;

- Emergency loan, for up to 12 months.

“CAR-PS” had 595 members in 2018 and 596 members in 2017 and only 2 employees. Regarding the main accounting data, it is as follows for the last two years:

Table 2: Accounting data regarding „CAR-PS”

Indicator	2017	2018	Evolution 2018/2017
Fixed assets	1,224,025 Ron	1,699,080 Ron	+39%
Values of loan granted	1,217,813 Ron	1,436,356 Ron	+18%
Revenues	124,800 Ron	145,393 Ron	+16.5%

Source: our processing based on internal data

The beneficiaries’ “CAR-PS” are both employees who have individual employment contract for an indefinite period and length of service of at least one years, and pensioners with income burdened by foreclosures and big enough to cover the rate of loan.

Regarding the use of the financial services of the mutual aid house, our study revealed the following results:

a) utility of services provided

The biggest utility was attributed to loan service (87%), followed by the death grant (78%), support for newlyweds (63%) and deposits (60%).

b) Loan services used

Most people who have contracted a loan resorted to traditional loan (86% of loan), far away from quick loan (32%) and emergency loan (18%).

c) Frequency of using loans of mutual aid house

Generally, the members of the mutual aid house use its credit every 1-3 years, this range being suggested by most of those interviewed (62%). But there are people who borrow rarely, ie an interval of more than three years (22%) or more frequently, ie under one year (16% of respondents).

d) Reasons for use of mutual aid house services

Main reasons mentioned by respondents in preference to “CAR-PS”, when they look for a loan were advantageous interest rate, loan granting speed and lack of bureaucracy. Even if the interest benefit was most frequently mentioned reason, the other two were cited almost as often and can thus be regarded as assets of this credit system.

Regarding the second objective pursued in the case study, meaning the perception of “CAR-PS” services and the relationship between “CAR-PS” and its members, were used closed questions which allow comparability between respondents’ answers.

Thus, respondents, members of “CAR-PS” (whether or not having a credit) were asked to express appreciation to the staff “CAR-SP” and the services provided. The results show a very high satisfaction, as 40% of respondents gave the marks “excellent”, 38% “very good”, 18% “good” and only 4% “satisfactory”.

To deepen the reasons of this special appreciation, we can refer to the answers that valued the attributes of relationship between “CAR-PS” and its employees, on the one hand, and members of the “CAR-PS”, on the other hand. We considered eight attributes: time of solving the request, clarity of information provided, tailor services to individual needs, respect for privacy, simplicity and clarity of the documents, informatics management of requests, staff competences, friendliness of the staff. The main attributed valued by respondents, regarding the mutual aid house analyzed, was the quality of staff (competences and friendliness: more than 80% of respondents). A high level of appreciation was received by the confidentiality, clarity of information, simplicity and clarity of documents. An appreciation lower, but still significant was registered for other attributes such as: possibility to adapt services to individual needs, time of solving request and informatics management of requests.

6. Conclusions

Mutual aid houses have a long tradition in the loans market of Romania. As stated in the first part of our article, mutual organizations in Romania have a more restricted area of activity than in other European countries. Being organized by sectors or categories of occupation, the mutual aid houses have as main objective the support of their members, employees or pensioners by providing loans and others social services.

Despite the profound changes that Romania has experienced in the 30 years since the fall of communism, the mutual aid houses have managed to maintain on the market. Analysis of statistics on the evolution of these entities show that although declining (from 2993 institutions registered in 2010 to 2541 institutions in 2019), the number of mutual aid houses remains important.

Mutual aid houses are affiliated nationally, which is an advantage to promote their objectives in relation to other non-banking financial institutions. Moreover, the fact that mutual aid houses are organized by fields of activities (for example the mutual aid houses for employees) mitigates competition between members of the national federation, favouring cooperation, seeking common solutions to problems faced by members.

The decreasing number of mutual aid houses for employees at national level, on the one hand, and the increasing number of mutual aid houses for pensioners, on the other hand, is no stranger spurred the labour market in Romania where the number of active population decreased, especially for employees, while increased number of pensioners (especially in terms of restructuring, privatization, as well as external labour migration).

There are mutual aid houses for high-income categories of employees, who wouldn't have difficulty in contracting loans on the banking market. But the bigger share of mutual aid houses in Romanian regions with a lower level of development shows that these institutions prove their usefulness especially for employees/pensioners with low or modest income.

On the other hand, the advantage of mutual aid houses lies primarily in adapting services provided to their members. To explain the operating principle of the mutual aid houses, we chose to exemplify the situation of a mutual aid house for employees. The study case was based on an analysis of the opinions of its members on services used and their assessment. Since there are significant differences related to services provided by mutual aid houses of employees and of pensioners, the information obtained cannot be associated with the situation in mutual aid houses for pensioners. Moreover, as a case study on a mutual aid house for employees in a particular sector (public sector), our analysis is not intended to provide general information available to all mutual aid houses for employees, but deepen the perception that members of such institution have on services offered. Result analysis of the use of "CAR-PS" services allows us to conclude that mutual aid house is used as an alternative for obtaining a loan (comparative to banking offer). This is because most people are interested in classical credit (also called traditional) which calls every 1-3 years. The mutual

aid house offers to these people the advantage of an attractive interest, a better speed in granting credit, further simplification of administrative approach. Also compared to banks, mutual aid houses also provide other support to members, such as death grants (of interest for a large majority of people), grants for newlyweds. Furthermore, mutual aid houses enjoy among members of a very good assessment, the results of an accumulation of arguments: firstly, the staff (friendly and well trained), simplicity, clarity of documents and information, confidentiality, speed in resolving requests, elements which can be exploited by mutual aid house in promoting its services.

The market of Mutual aid houses' services lacks a study able to provide current information on the profile, distribution and size of these institutions. This was one of the problems we faced in gathering information on the evolution of mutual aid houses. On the other hand, a quantitative study among members of mutual aid houses, representative at national level for the mutual aid houses of employees and pensioners could help us to better understand the motivations and behaviour of members and would consequently bring a clearer positioning of these financial services on the market.

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