Public Consultation on Proposed Changes relating to Credit Co-operatives

Consultation period from

22 December 2014 – 2 February 2015

We seek your views on the proposed policy changes relating to the regulation of credit co-operatives.

Issued by the
Registry of
Co-operative Societies,
Ministry of Culture,
Community and Youth

PROPOSED POLICY CHANGES FOR CREDIT CO-OPERATIVES

Introduction

Credit co-operatives ("credit co-ops") are membership-based entities where the primary objective is to provide thrift and loan services to their members. Most of the credit co-ops in Singapore have a long history. Based on the principle of mutual and self-help, people with a common bond, be it in the same workplace, industry or community, came together to form credit co-ops. Credit co-ops play a useful social role by promoting savings among members and giving loans at affordable interest rates to members in need. Through the years, membership and deposits in credit co-ops have grown steadily.

2. To date, there are 27 credit co-ops, with about 142,000 individual members. As at 31 Dec 2013, they cumulatively held $756.5 million in members' deposits and $14.6 million in members' share capital. Their net assets were $153 million. Total loans given out by credit co-ops amounted to $185.5 million.

3. Given the deposit-taking function and growing membership, the legislation was amended in late 2008 to strengthen the regulatory oversight of the sector, better protect members' interests and uphold public confidence. The amendments paved the way for the Registry to introduce the following prudential requirements in 2010 and 2011, to strengthen prudence in operations, accountability to members and refocus credit co-ops towards the thrift and loan business:

(a) Minimum Liquid Assets
(b) Investment Restrictions
(c) Provisions for Bad and Doubtful Loans; and Impairment for Investments
(d) Capital Adequacy Ratio and Restriction on Dividends
(e) Secured and Unsecured Loan Limits
(f) Submission of Financial Returns.

4. Since then, the sector has made progress. Almost all credit co-ops have met or are on track to meeting the prudential requirements issued by the Registry. However, more needs to done to raise prudential standards, strengthen governance and management standards as well as internal controls of the credit co-ops.

Review of Credit Co-op Policies

5. The Registry regularly reviews the existing policies to chart the way forward in keeping up with the changing social and economic environment as well as other regulatory developments relevant to the sector. For instance, given the ongoing

concern on overspending and indebtedness among the Singaporeans, the Monetary Authority of Singapore and the Registry of Moneylenders have been tightening their lending rules. The last major change in credit co-op regulation was 6 years ago.

6. Today, credit co-ops continue to play a useful social role in providing both thrift and loan services. However, to effectively play their social role, credit co-ops must first and foremost be financially sound and professionally run. Co-op members are generally average income earners who can ill afford to lose their hard-earned savings. Hence, safeguarding depositors' interest is paramount for the sector, and capital preservation should take precedence over investments for high returns and capital growth.

7. The proposed recommendations are categorised into three broad areas:

(a) raising prudential standards and promoting compliance;
(b) improving governance standards; and
(c) enhancing regulatory powers to deal with distressed and errant credit co-ops.

8. Upgrading prudential standards, governance practices, capability and expertise, is a pre-requisite for the sustainability and growth of the credit co-op sector. The proposed changes seek to better safeguard members' interests by further strengthening our credit co-ops in terms of financial prudence and capabilities. The proposed changes are targeted for full implementation by 2018. Some of the changes will require amendments to the legislation.

Recommendations

Raising prudential standards and promoting compliance

9. Within the next 3 years or so, the sector should be able to progress to prudential standards in line with international standards (where applicable). Recommendations include raising requirements for Minimum Liquid Assets ratio ("MLA"; from 13% to 15%) and Capital Adequacy Ratio ("CAR"; from 8% to 10%), and strengthening safeguards for exceptional unsecured loans.

10. It is also proposed to empower the Registry to take regulatory action against non-compliance of prudential requirements. For example, a credit co-op may not be allowed to distribute dividends to members if it does not meet the required minimum CAR. If a credit co-op exceeds its exceptional loan allowance, the exceptional allowance in the following financial year will be reduced by the excess amount of exceptional loans granted. If there is persistent non-compliance of prudential

requirements, a credit co-op may not be allowed to take in new deposits and could be de-registered as a credit co-op (it may remain as a non-credit co-op).

Improving governance standards

11. There is a need to clearly articulate the best practices in governance expected of the sector. Hence it is recommended that the Code of Governance first issued in 2006 be updated, and be complemented by detailed risk governance guidelines covering Internal Controls, Loan Management and Investment Management.

12. There are also recommendations on how training and the necessary competencies should be built up in order to implement these guidelines. These include mandatory training and qualification requirements with regard to selected Committee of Management ("COM") members and key employees. It is also recommended that the credit co-op be allowed to co-opt non-members so as to facilitate the inflow of COM members with relevant expertise.

More robust regulatory surveillance and oversight

13. Beyond having the appropriate prudential, governance and management standards, the Registry needs to put in place a more robust system of regulatory surveillance and oversight.

14. Currently, there is limited information provided by credit co-ops beyond the data necessary to establish their compliance with prudential requirements. Hence, it is proposed that the credit co-ops disclose more information in their report to their members at the annual general meetings, to the Registry and in their audited financial statements. It is also recommended that regular governance audits be instituted. Further, the Registry's powers should be strengthened to take non-compliant credit co-ops to task and to deal with credit co-ops in distress.

15. Details of the proposed recommendations are found in the Annexes A and B.

Invitation for feedback

16. Credit co-ops, co-op members and the general public are invited to share their views/suggestions on the proposed changes from **22 December 2014 to 2 February 2015**. Please indicate **your name and the organisation you represent (if any) as well as contact details** (email address and/or telephone number) to enable us to follow up with you to clarify any points, if necessary.

17. Views and suggestions can be submitted electronically to this email: “mccy_regcoop@mccy.gov.sg” or via hard copy to the address below.

Registry of Co-operative Societies
Ministry of Culture, Community and Youth
140 Hill Street, Old Hill Street Police Station, #02-00,
Singapore 179369

Conclusion

18. In conclusion, credit co-ops play a useful social role in providing both thrift and loan services. As credit co-ops take in deposits from and give out loans to members who are generally average income earners who cannot afford to lose their savings, credit co-ops must be financially sound and professionally run so as to safeguard members’ interests.

19. The journey to uplift the standards of credit co-ops began in 2008 with the amendments to the Co-operative legislation and subsequent introduction of prudential requirements. But it is an ongoing journey. The intent of the current review is to further strengthen the sector to ensure its sustainability and continued relevance.

20. The Registry hopes to receive feedback with regard to the recommendations and we will carefully consider all stakeholders’ views before finalising the changes to the Co-operative Societies Act.