



DIRECTIVES TO SAVINGS AND LOAN SOCIETIES

INTRODUCTION

- The Savings & Loan Societies were founded for the purpose of encouraging savings by households through standard deductions from employees wages and salaries, or orderly installment deposits and savings by self employed persons.
- The main goal of the Savings & Loan Societies is to protect the savings of their members from erosion, so that if and when a member of a society decides to withdraw from the society as per the standard rules or rules made and approved under *Section 17 of the Savings & Loan Societies Act*, the member will receive all his/her savings and the profits accumulated on them.
- The other goal of Savings & Loan Societies is to provide loans and advances to their members in an equitable manner to meet special needs and expenses incurred which require financing.
- To achieve the above mention goals within the limits of the *Savings & Loan Societies Act, (Ch.141), the Regulations, the Standard Rules* and the *Banks & Financial Institutions Act (Ch.137)*, the Registrar of Savings & Loan Societies and Governor of the Bank of Papua New Guinea (“BPNG”) decided to issue the following directives, to the Savings & Loan Societies in terms of the powers vested in him in relation to the foregoing Acts and Regulations.

DIRECTIVES

1.0 POLICIES REGARDING INVESTMENTS AND LOANS

1.1 Investments

A Savings & Loan Society shall not invest without prior approval by the Registrar of Savings & Loan Societies in any assets except:

- ⇒ Treasury Bills;
- ⇒ Inscribed Stock by the Government of PNG;
- ⇒ Deposits with the BPNG;
- ⇒ Deposits with commercial banks or other financial institutions.

1.2 Loans to Members of the Society

- a) A Savings & Loan Society should not extend advances and loans to its members of more than 60% of the members’ total accumulated savings at any time.
-



DIRECTIVES TO SAVINGS AND LOAN SOCIETIES

b) The Registrar is authorised to increase the ratio of advances and loans up to 80% if special circumstances will warrant such an increase. In his approval he will state the length of time for such an increase and the ratio at which it has to be decreased and brought back to 60%.

c) No member of a society will be granted a loan exceeding his savings. All loans and advances for members of the Board, staff and the Loans Committee and the Supervisory Committee shall be considered under the provisions of *Section 42(3) of the Act*.

For a member wishing to apply for a loan for an amount equal to or less than his/here savings, the Loans Committee may consider the loan application. But in special circumstances where a member wishes to apply for a loan for an amount which is in excess of his/her savings, a joint decision by the Board of Directors, the Supervisory Committee and the Loans Committee is required. In its decision it will state the period of repayment of the excess loan over and above the repayment of his/her regular loans.

d) All advances and loans will carry the same interest rate without any exception.

e) The repayment period of all advances and loans should be the same without any exception.

f) The repayment schedule has to include the principal and interest, and has to be applied in the same way to all the members of the society. The interest rate should not exceed the rates as per *Part V (42) (h) of the Savings and Loan Societies Act*.

g) In special circumstances, when the repayment of the advances and loans exceeds one third of a members net fortnightly salary, the repayment schedule can be extended so that no member will pay more than one third of his/her net salary as a repayment.

h) No advances or loans should be given for the sole purpose of repaying a previous advance or loan.

2.0 BORROWING BY SAVINGS & LOAN SOCIETIES

Borrowing by Savings & Loan Societies is strictly forbidden. No approval for borrowing by societies would be given by the Registrar.

3.0 INCOME AND EXPENSES

a) The income of a society is the interest and dividends earned on investments, advances and loans and other income from investments approved by the Registrar.

b) General and administrative expenses are for the sole purpose of financing the affairs of the society.

c) It is strictly forbidden for a society to spend more than the income it receives as defined in (a) above. If expenses exceed income this will mean the erosion of the members savings. Such practices will be looked upon sternly and strict disciplinary action will be taken and/or executives concerned dismissed if



DIRECTIVES TO SAVINGS AND LOAN SOCIETIES

warranted under *Section 1(a) of the Savings & Loan Societies Regulations, or the Banks & Financial Institutions Act, part III (18)(2)*.

- d) Each society has to prepare a yearly budget on a monthly basis. The budget has to be approved by the Board of Directors and be reviewed quarterly. If adjustments are needed it will have to get approval from the Board of Directors.
- e) The Chairman and the Chief Executive of the society are responsible for the adherence to the budget, the adjustment of expenses to the changes in income, the approval of the budgeted expenses. If actual expenses exceed the approved budgeted estimates on a significant level and, in extreme situations where expenditure items have no prior approval through the budget, then strict disciplinary action will be taken against the Chairman and the Chief Executive and/or dismissed if warranted.

4.0 REPORTS, RETURNS AND FINANCIAL STATEMENTS

4.1 Reports to the members of the society

Each and every society will report to its members two times a year covering the following information:

- **Savings**

- (a) Accumulated savings at the beginning of the period.
- (b) Contribution during the six month.
- (c) Dividends credited to the members account.
- (d) Balance of total credits at the end of the period.

- **Loans and advances**

- (a) Outstanding loans at the beginning of the period, principal and interest separately.
- (b) Repayments during the six months, principal and interest separately.
- (c) Balance at the end of the six month period, principal and interest separately.
- (d) Fortnightly deduction (repayment) in the following six months.

The above reports are due to the members of the societies every six months, within one month after the first six months and two months after the end of the financial year. That is, each report is due by 31 July and 28 February, respectively, each year.



DIRECTIVES TO SAVINGS AND LOAN SOCIETIES

4.2 Returns to the Registrar of Savings & Loan Societies:

- A copy of the reports referred to in 4.1 above provided to the members of the society.
- Income by the following categories:

Interest received.

Dividends received.

Income from other investments approved by the Registrar.

Other income (sale of assets, incidental, etc.).

4.3 Budgeted and actual expenses

Budgeted and actual expenses for the six months as defined above by the following categories:

- (i) Salaries for Executives and other staff
- (ii) Housing Allowances for Executives and other staff
- (iii) Car Allowances for Executives and other staff
- (iv) Travel and Entertainment for Executives and other staff
- (v) Rental
- (vi) Accounting fees including consulting (detailed)
- (vii) Consulting fees other than accounting (detailed)
- (viii) Other administrative expenses.

The above reports plus the financial statements, balance sheet, profit and loss account, flow of funds audited and signed by the external auditors of the society or audited and approved by the Registrar.

5.0 ADJUSTMENT PERIOD AND EXEMPTION

- a) All societies are given 12 months to adjust to the rules as set out in this directive.
- b) A society which seeks to be exempted from some of the rules set forth in this directives should do so in writing within one month from the date of this directive to the Manager, Banking Supervision Department, Bank of Papua New Guinea.
- c) A society which does not adhere to these directives will be liable for deregistration and its executives disciplined in accordance with the requirements of the *Savings & Loan Societies Act*, the *Savings & Loan Societies Regulations* and the *Standard Rules* and in terms of the *Banks & Financial Institutions Act*.

**REGISTRAR
SAVINGS & LOAN SOCIETIES**