



Bank of Papua New Guinea

DIRECTION: SAVINGS AND LOAN SOCIETIES

November 2000

DIRECTION 03/2000: INSURANCE ACTIVITY

Objective:

The objective of this direction is to ensure that members' savings are invested properly and not exposed to risks arising from insurance activities.

Background:

Some societies have made substantial "investments" in the development of so-called insurance products. In every case examined, it is highly unlikely that these development costs will ever be recovered. Further, some societies have commenced insurance operations offering life risk or medical cover and accepting premium income but not passing either the premium income or the risks through to licensed insurance company. As a result, several societies must meet claims against these policies from members' savings.

Insurance business, both life risk and medical cover, carry high levels of risk very different to savings and loan activities. Savings and loan societies have neither the risk management skills nor financial resources to take on such risk.

Therefore, all societies are directed to cease all insurance activity with the exception of acting as an agent on behalf of a licensed insurance company or medical benefits provider.

Direction:

Pursuant to section 3(n) of the *Savings and Loan Societies (Amendment) Act 1995*, the Registrar directs that:

- a. A savings and loan society must not conduct any kind of insurance business - general, life risk or medical - through the society's balance sheet or a subsidiary. Given this prohibition, a society must not allocate or spend further funds in the development of insurance products. Where a society has capitalised such expenses to date, these amounts must be written-off in the year 2000 reporting period unless substantial income generation, commensurate with the investment, can be demonstrated.
- b. A society may act as an agent for a licensed insurance company. In this case, all premium income must be forwarded to the contracted insurance company less any commission that may be payable to the society in accordance with the contract arrangements.
- c. A society may hold an equity interest in an insurance company provided that the directors: gave proper consideration to the investment proposal; determined that the equity investment provides a commercial return; and, were satisfied that the investment was in the best interests of members. Further, directors must consider, on at least an annual basis, whether the equity investment continues to meet these criteria or whether disposal is a better option.
- d. If a society currently conducts insurance business by accepting premium income and making payments from the society's balance sheet, the activity must cease with effect from 1 January 2001. During the intervening period, the society must either cancel policies or make other arrangements with a licensed insurance company and advise members accordingly.

L. Wilson Kamit CBE
REGISTRAR
Savings and Loan Societies