



Bank of Papua New Guinea

DIRECTION: SAVINGS AND LOAN SOCIETIES

November 2000

DIRECTION 04/2000: INVESTMENT IN PROPERTY

Objective:

The objective of this direction is to ensure that any investments by a society are made having regard to all the risks and the interests of members.

Background:

Many societies have substantial property investments. In many cases, these properties have not provided an adequate return and have created considerable risks when compared to the no risk investment and return of Treasury Bills. In addition to high risks and poor returns, the Bank is aware that in the guise of property management and maintenance and associated expenses, substantial fraud has been committed within some societies. A further problem is that property is an illiquid asset, that is, it cannot be turned quickly into cash to meet member withdrawals and demand for loans.

Direction:

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

- a. A society must not make a commitment to purchase or otherwise invest in real estate property assets without prior written approval of the Registrar.

Note: The Registrar can be expected to approve such investments only where

- satisfied that the society has assessed and can manage all the risks; and,
 - the total value of all property assets held by the society will remain the lesser of 5 percent of total assets or the value of reserves and retained earnings.
- b. Where a society currently holds property assets, management must review and report to the society's board on performance and real returns for each property. The board must consider the performance of these assets and whether it is in the best interests of members to retain or dispose of each property. This review must be completed by no later than 31 March 2001.

L. Wilson Kamit CBE
REGISTRAR
Savings and Loan Societies