



## REVIEW AND UPDATE OF THE CREDIT UNION BILL 2018 CONSULTATION PLAN

### 1. BACKGROUND

Since the enactment of the Credit Unions Act (the Act) in 1986, it has served the administration of the credit union movement well and gave the Solomon Islands Credit Union League (SICUL) and the Office of the Registrar of Credit Union (Registrar) a good framework to monitor and supervise the activities of credit unions in Solomon Islands. However, as the credit union movement grows and develops, certain aspects of the Act became irrelevant and outdated, stifled growth and stability of credit union movement, and lacked vigour and precision to address challenges that present day credit unions face. To that end, it is now appropriate for the Solomon Islands Government and the Registrar to consider making some amendments to the current Act. In essence, the purpose of the proposed amendments is to:

- Strengthen and clarify the functions of the Registrar as a regulator and to give flexibility in the administration of the Act;
- Provide for greater control over Credit Unions' external auditors and to give the Registrar the power to impose fines for failure by the external auditor to carry out duties under the Act or regulations;
- Introduce an enhanced 'fitness and propriety' regime to ensure that board members and senior management of credit unions comply with regulations and standard by-laws issued by the Registrar. The Registrar would also have the power to remove officers if the officers fails to satisfy 'fit & proper' requirements acts in a manner that is detrimental to the stability of the credit union; and
- To make some 'house-keeping' amendments.

This review of the Act provides us an excellent opportunity to rectify deficiencies in the current Act in the face of changing contexts and circumstances. The current Act is out-of-date and is no longer consistent with global best practices. Certain provisions in the Act stifles the growth of credit unions and do not sufficiently provide for the protection of member deposits. Accordingly, it is recommended that a new Act be implemented.

Credit unions are financial co-operatives, owned and controlled by their members, and whose central purpose is to provide savings, cheaper credit, and other financial services to their members. What distinguishes a credit union from other financial institutions is that members must share a 'common bond' such as a profession, vocation, religion, or community.

On 11th February 2016 (Cab 4 [2016] 9), the cabinet endorsed to commence drafting of a new Credit Union Bill. This follows cabinet endorsement of a comprehensive policy paper (Policy review of Credit Union Legislation) proposing a new legislative framework for credit unions in Solomon Islands.

On August 2018, (Cab 5 [2018] 9), the cabinet endorsed the draft Credit Union Bill to proceed into further consultation with key identified stakeholders on the provisions of the new legislation. It was proposed that the Bill will be tabled before the parliament for final considerations in the first-half of 2019.

## **2. OBJECTIVES OF NEW LEGISLATION**

The objects of the new Credit Union Bill are to:

- provide credit unions the clarity and certainty that they need to plan for the future;
- be proportional to the risk that a credit union presents to depositors and suppliers of capital;
- be appropriate to the state of the industry and paves the way for further development and growth; and
- take into consideration international best practice and the country context.

## **3. PRINCIPLE OF NEW LEGISLATIONS**

The new Legislation provides that:

- the Central Bank of Solomon Islands (CBSI) shall be exclusively responsible for the registration, licensing, regulation and supervision of credit unions;
- CBSI adopt a risk-based approach to the regulation and supervision of credit unions;
- financial co-operative organizations be required to apply for a credit union licence if they have a membership above a minimum threshold set by CBSI in regulations and are engaged in certain activities set out in the law or regulations;
- any financial co-operative organization which meet the above criteria but is not licensed by CBSI would risk committing an offence under the law;

- financial co-operative organizations be permitted to apply for a credit union licence if they have a membership below the minimum threshold and are engaged in certain activities set out in the law or regulations;
- CBSI be provided the power to impose conditions on licences issued to credit unions under the law to help manage the risk of failure and risk to depositor funds;
- CBSI be granted clear enforcement powers under the law;
- CBSI be provided the authority to make regulations under the law concerning credit unions, including clear prudential regulations;
- amend the law to differentiate clearly between ownership shares and deposits of members in credit unions;
- controls on interest rates and dividends contained in the current credit union legislation be removed as they distort financial markets;
- the Solomon Islands Credit Union League (SICUL) no longer be specifically legislated for under the new Credit Union Bill, but that credit unions may establish representative or peak bodies with approval from CBSI, and that membership of any representative or peak bodies be voluntary; and
- arrangements be in place for the transition of the credit union industry to the new regulatory framework.

#### 4. WHAT ARE THE PROPOSED CHANGES:

The summary of the proposed amendments are as follows:

##### PART 1 PRELIMINARY

- Interpretation - re-arranged in alphabetical order with additional definitions. *CU Bill: Preliminary matters: Section 3(1) Definitions.*

##### PART II REGISTRATION

- Section 3 Appointment of the Registrar and other officers to include the delegated power of the Registrar. Expansion on administration and registration regarding appointment of Registrar and other officers. Central Bank is vested with the responsibility for administering this act and must perform all the functions assigned to it by or under the Act *CU Bill: Section 7: Central Bank responsible for regulating credit unions*
- Section 5: Memorandum of Association - amended to increase the membership from fifteen to three hundred members. *CU Bill: Part 3 Licensing of Credit Unions - Section 9: Mandatory License.*
- Section 7: Preliminary Meeting - additional requirement for Credit Unions to have a business plan to assist the Registrar to assess their viability. *CU BILL: Section 13(2) (a): Criteria for assessing suitability for credit union license.*
- Section 7A: Existing Credit Unions deemed registered - It is proposed that existing credit unions will be given six months to comply with the new provisions of the Act.

- Section 7B: Other credit unions - increase of membership discourages formation of new CU. The 300 membership's requirement is regarded as too high, therefore it is recommended that any association with membership less than 300 members will be registered as a savings club.
- Section 7C: Application for Registration of Credit Union - a new section on application for registration of credit union. The current Act does not provide specifically what is required of the credit unions when they submit their application to form a credit union. **CU Bill: Section 11: Application for licence.**
- Section 7D: Specified individuals not suitable to be officials in the credit union: e.g. Convicted of criminal offenses by a court etc...**CU Bill: Division 3 Management: Section 36, 43, and 44: Application for licence.**
- Section 8: Registration - new criteria that the Registrar needs to consider when assessing credit unions for registration. **CU Bill: Section 11: Application for license & Section 13: Criteria for assessing suitability for credit union licence.**
- Section 8A: Refusal of registration. **CU Bill: Section 14 (3) (a), (4): Determination of application - reject the application.**
- Section 10: Evidence of Registration - credit unions displays their certificate as evidence of registration in a conspicuous place within their business location. **CU Bill: Section 19: Notice of issue of licence.**
- Section 12: Register of Credit Unions - The Registrar shall keep a Register of Credit Unions registered under this Act, wherein he shall enter particulars of the registration of credit unions, the respective supplementary by-laws, and of any changes in the status of credit unions. **CU Bill: Section 15: Issue of licence and certificate of incorporation.**
- Section 14: Restriction of name - provisions on each credit union to include 'credit union limited' in its name etc. **CU Bill: Section 12: Name of Credit Union.**
- Section 14A: Acceptable Currencies - provisions on acceptable currencies to be used by licensed credit union. **CU Bill: Section 66: Restrictions on activities.**
- Section 14B: Standardized Accounting - provisions on credit unions to comply with financial standards. **CU Bill: Part 6 Financial transactions - Section 65: Credit Union must comply with financial standards.**

### **PART III OBJECTS, DUTIES AND POWERS OF CREDIT UNIONS**

- Section 15: Objects of Credit Union - amended in order for the Credit Union to be a full service provider to the members. More members mean more resources available to the credit union. Allowing a body corporate for example owned by the members to join another credit union adds resources to the credit unions. **CU Bill: Part 4 Structure of credit unions. Division 1 Objects and powers - Section 23: Objects of credit union.**
- Section 17: Credit Union to be a member of the league - It is recommended that "supervision" mentioned in this section should be made by an independent body and not the league. It is proposed that the Registrar's office

be fully responsible for the prudential supervision of the credit unions upon recommendation from the league. *CU Bill: Section 77: Prudential Supervision.*

- Section 25: Qualifications for membership – expanded and specify the qualification for membership. *CU Bill: Section 5 (2) (a) (i- iv): What is credit union.*
- Section 25A: General Powers – Provisions on powers of credit union. *CU Bill: Section 24 (3) (a – c): Powers of credit union.*

#### PART IV AMALGAMATION

- Section 26A: Decision for amalgamation – expand the provisions. *CU Bill: Part 8 Reorganisation and liquidation. Division 1 Amalgamation, Section 89: Amalgamation.*

#### PART V RIGHTS AND LIABILITIES OF MEMBERS

- Section 29: Capital Liability - recommended that the liability of a member should cease at termination or withdrawal of member. A member's liability is only limited to the amount of his or her subscribed shares. *CU Bill: Section 34: Liability of member.*
- Section 30: Restriction of member - recommended that this section be deleted as it supports section 15(f) on flexibility of membership. *CU Bill: Section 26: Restricted members.*
- Section 34: Expulsion of Member - proposed that section 34(1) be deleted and the remaining subsections be re-arranged. *CU Bill: Section 31: Expulsion of member.*
- Section 35: Payment upon death withdrawal or expulsion of member – expansion of provision. *CU Bill: Section 33: Repayment of member's interest on termination of membership.*

#### PART VI PROPERTY AND FUNDS OF CREDIT UNION

- Section 38A: New Provision - This new section is for good governance and accountability for directors and officers employed by the credit union.
- Section 39A: Ownership of Shares - The new section intends to encourage policy of equality and discourage undue influence. *CU Bill: Section 47: Issue of ownership shares & Section 48: Ownership shares must be fully paid.*
- Section 39: Transfer of shares - It is proposed that subsection 39(3) be deleted, as it is too restrictive. One of the international operating principles of Credit Union is open and voluntary membership, which means entry and exit. *CU Bill: Section 49: Ownership shares transferable but not redeemable.*
- Section 40 Investment of funds – provides more specific areas of investment. *CU Bill: Section 67: Investments.*
- Section 43 Limit of borrowing - proposed that this section be deleted and should be defined by the prudential regulator in the regulations instead. *CU Bill: Section 68: Loans to members & Section 69: Lending policy.*
- Section 44A: New section Limits as to size of loans - The intention behind this new section is to prevent an individual or his corporate body, which he is a

member to from heavily indebted to the credit union, and to limit the risk of credit union. **CU Bill: Section 69: Lending Policy.**

- Section 45: Reserve Fund - It is recommended that the whole section 45 be deleted and replaced with capital requirement, as this is antiquated and insufficient capital. **CU Bill: Section 46: Capital structure.**

#### **PART VII AUDIT AND INVESTIGATION**

- Section 48: Audit & Annual accounts - amended to accommodate the appointment of the external auditor. It is a standard requirement that the external auditors report to the Registrar key matters of concerns that they find in their audit assessment. **CU Bill: Section 60: Credit Union must prepare annual financial statements.**
- Section 50: Power of Registrar to inspect books, *conduct onsite and obtain information* - this section is proposed to empower the Registrar to recommend the removal of any officer or employee of a credit union who is believed to have violated the provisions of this Act. This is to protect the interest of credit union members. In addition, the Registrar to have the power to conduct onsite visit to credit unions and obtain information from the credit unions for the purposes of the Act. **CU Bill: Part 7 Monitoring and enforcement.**
- Section 51: Investigations - proposed that subsection 2 of section 51 be deleted to give the Registrar the power to conduct investigation on the affairs of the Credit Union once received a complaint or report against a credit union instead of the Minister. It does not need the direction or approval of such investigation from the Minister. The fines mentioned are also considered too low and will be deleted and amended to increase the fines. **CU Bill: Section 80: Central Bank may appoint investigator.**

#### **PART VII ORGANIZATION & MANAGEMENT**

- Section 53: Election of directors and members - It is recommended that subsection 53 (4) be expanded. **CU Bill: Section 41: Term of office.**
- Section 55: Remuneration – expansion on the provisions. **CU Bill: Section 45: Remuneration of officers.**
- Section 57A: New Provision - It is proposed that this new section would protect the safety of member's deposits and viability of the credit union. Only people of integrity should be appointed to the board and chief executives of credit unions. This new provision is also seen as a fit and proper test for a person who is going to be appointed as board or an executive officer of the credit unions. **CU Bill: Section 43: Qualifications for director or other officer.**
- Section 58; Jurisdiction of Credit Committee - It is recommended that subsection 2 of section 58 be deleted as it is covered under subsection 3. **CU Bill: Section 39: Credit union must have supervisory committee and credit committee.**
- Section 60: Restrictions - It is proposed that the whole section be deleted and replaced for good governance and accountability of directors.
- Section 62 Interest Rates - The current interest rate applied to loans is seen as very low to cover administrative cost. It is recommended that the regulation

be amended to accommodate the increase in interest rates. *CU Bill: Section 74: Interest rate on loans.*

- Section 65 Appointment of manager and other employees - It is recommended that the Board of Directors appoint the Manager and senior officers while the Manager appoints other employees. *CU Bill: Section 42: Board and other positions & Section 43: Qualifications for director or other officer.*

#### **PART IX THE LEAGUE OF CREDIT UNION**

- Section 66: League of Credit Unions - The League shall be directed by a board of directors elected by member credit unions at the annual meeting. The bylaws shall prescribe the duties of the officers and the organizational structure of the organization. *CU Bill: Section 113 (3).*
- Section 68: Duties - Subsection (b) and (e) are deleted

#### **PART X DISSOLUTION**

- Section 73: Dissolution - It is recommended that subsection 1 be amended to remove the approval of the Minister and to amend the membership number to 300. *CU Bill: Section 99: Completion of liquidation and dissolution.*
- Section 81 and 83 - It is recommended that the penalty provisions be increased to reflect the severity of the offence, as the current provisions are too low. *CU Bill: Part 9 Offences.*

### **5. CONSULTATION APPROACH**

The consultation process will include wider coverage to elicit extensive comments, input and feedback from the industry, the private sector, the community, governments and other interested stakeholders in a broad, inclusive and transparent manner. Inputs and comments will be solicited from a diverse group of stakeholders, and open to all interested individuals in contributing to the draft bill. The consultation team will seek input and feedback through a combination of province based face-to-face meetings, an online platform, focus groups with a sample of affected credit union groups, and a general meetings with interested stakeholders regarding the changes in the Credit Union Bill.

CBSI/ERU approach to communications and consultation will seek to inform stakeholders, consult and involve them in shaping the bill to be suitable to grow the credit union industry.

- a) Objectives. The objectives of the consultation process are to:
- Providing opportunities for high quality feedback by which the public will be given the opportunity to be accurately informed and communicate directly with CBSI/ERU team.
  - Making the process fair, as it is important that all stakeholders have an opportunity to be heard and provide input.

- Reaching a diverse range of stakeholders to get a wide range of feedbacks
- Responding to stakeholder feedback, which feedback from the community and stakeholders is an important source of information that helps CBSI/ERU to achieve the best possible outcomes.

b) Stakeholders (who should participate):

The consultative process will seek the views of a diverse range of stakeholders including, but not limited to the following:

- Provincial Government (Premier and ward members)
- Permanent Secretary (Provincial)
- Credit Unions (Active and non-active)
- Savings Clubs
- Women's Groups
- Church Groups (E.g. Mothers Union)
- Chiefs and Community Leaders
- Principal Education Officer (Schools)
- Provincial Police Commanders (PPC)
- Ministry of Health and Medical Service Heads
- Ministry of Commerce & Trade Rep
- Business Houses ( SOE's and Private)
- NGO's

c) Feedback:

Feedback from relevant stakeholders directly affected by the credit union bill is particularly important. The CBSI/ERU will hold focus group meetings with a selected number of communities and interested stakeholders taking into account the following criteria:

- Communities/stakeholders from the nine (9) major provinces.
- Communities/stakeholders with savings club, active and dormant credit unions ltd.
- Provincial Government centres including key sectors in the provinces.

## 6. CONSULTATION PROCESS

The consultation process will support the Credit Union Bill review. The following lays out the basic consultation periods.

a) Consultation Period – Timeline of consultation

The consultation period is scheduled for **8th October – 9th November 2018**.

The CBSI/ERU consultation team will seek inputs and feedback on the Credit Union Bill from the key stakeholders during the consultation period.

b) Channels for consultation

The channels for consultation will include but not limited to the followings:

- Face-to-face meetings – the meetings will be held at various locations within Honiara, provinces and communities.
- The on-line consultation platform via CBSI official Facebook page and twitter seeking inputs from the general public.

## 7. NOTIFICATION & COMMUNICATION

Communication and notification is very important phase in the consultation program, and CBSI/ERU will incorporate but not limited to the following aspects:

- a) Consultation meetings will be announced with as much advance notice as possible to facilitate informed participation of a diverse set of stakeholders.
- b) Key consultation documents (e.g., the consultation approach paper, current CU Act, CU Bill etc.) will be made available to relevant stakeholders in advance to the meeting dates.
- c) A dedicated consultation CBSI official Facebook page (<https://www.facebook.com/cbsiinfo/>) or twitter (<https://mobile.twitter.com/cbsiinfo>) provides a platform for stakeholders and general public to provide input, participate in e-discussion and contributes to the consultation program for Credit Union Bill. The key consultation documents will also be made available on the official Facebook and twitter pages.
- d) Allow provincial stakeholders to send in written feedbacks via mail.
- e) A summary document of all input and feedback received during each consultation meeting will be prepared after each meeting is completed. This document will be presented when reporting to the CBSI.

## 8. EQUIPMENT & MATERIALS

- a) Laptop and Projector for presenting the Credit Union Bill
- b) Power Point Presentation of the Credit Union Bill
- c) Printouts of the key consultation documents and presentations (e.g., the consultation approach paper, current CU Act, CU Bill etc.)
- d) Agendas and plans of the consultation meeting sites/venues
- e) A4 papers and pens
- f) Tea/coffee and lunch for all participants
- g) Budget for the consultation program
- h) Drop down white chart paper roll
- i) White cloth for PowerPoint presentation background
- j) Recorder

## 9. EXPECTED OUTCOME

- a) The primary outcome expected from the consultation program is a commitment to the achievement of the implementation of the Credit Union Bill that will be agreed upon by the key stakeholders.
- b) The CBSI/ERU consultation team will consider all input and feedbacks during the consultation in detail and values the important perspectives provided through this process. The feedback received will influence the final content of the bill.
- c) The CBSI/ERU consultation team will record all the inputs and feedbacks made in the consultation meetings to compile them in a written document to be presented to the AG Chambers for final vetting and proceed to be tabled in the parliament in the first half of 2019.

## 10. CONTACTS

Questions about the review and consultation process should be directed to the following contacts:

### Contact with CBSI

Central Bank of Solomon Islands  
P O Box 634  
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Phone: (677) 21791  
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