



South African Reserve Bank

**Prudential Authority**

Ref.: 15/8/4/2

G2/2019

**To: All prospective co-operative financial institutions and registered co-operative financial institutions**

**Guidance Note 2/2019 issued in terms of section 45(e) of the Co-operative Banks Act, 2007 (Act No. 40 of 2007) relating to co-operative financial institutions**

**Guidelines in respect of business plans, savings and loans policies**

### **Executive Summary**

**Prudential standard – TCFI-01 – Transitional arrangements for co-operative financial institutions specifies the requirements for registration of a co-operative financial institution with the Prudential Authority in terms of the provisions of the Co-operative Banks Act, 2007 (Act No. 40 of 2007). The abovementioned requirements include, amongst others, the need to submit a business plan, savings policy and loans policy, together with the application for registration.**

**The Prudential Authority issues this Guidance Note 2 of 2019 which sets out the guidelines for a business plan, savings policy and loans policy.**

#### **1. Interpretation and definitions**

1.1 This guidance note should be read in conjunction with the following legislation (as well as related regulations) and regulatory instrument and guidance note:

1.1.1 The Co-operatives Act, 2005 (Act No. 14 of 2005) (Co-operatives Act);

1.1.2 The Co-operative Banks Act, 2007 (Act No. 40 of 2007) (Co-operative Banks Act);

1.1.3 The Financial Sector Regulation Act, 2017 (Act No. 9 of 2017) (FSR Act);

1.1.4 Prudential Standard – TCFI-01 – Transitional arrangements for co-operative financial institutions (Prudential Standard - TCFI-01); and

1.1.5 Guidance Note 1 of 2019.

- 1.2 All terms used in this guidance note have the same meaning as defined in the above-mentioned legislation and regulatory instrument, unless the context indicates otherwise.
- 1.3 A '*co-operative financial institution*' is a co-operative that takes deposits and chooses to identify itself by use of the name Financial Co-operative, Financial Services Co-operative, Credit Union or Savings and Credit Co-operative.
- 1.4 A '*prospective co-operative financial institution*' is a collective whose members, through a special resolution, intend to apply to register as a co-operative financial institution with the Prudential Authority under the Co-operative Banks Act.
- 1.5 A '*registered co-operative financial institution*' is a co-operative financial institution that is registered with the Co-operative Banks Development Agency (CBDA), in terms of Exemption Notice No. 620 of 2014 issued by the Registrar of Banks (Registrar) in terms of the Banks Act 1990, (Act No. 94 of 1990), and is applying to be registered with the Prudential Authority under the Co-operative Banks Act.

## **2. Minimum requirements**

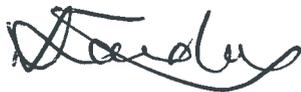
- 2.1 Prudential Standard - TCFI-01 - details the requirements for registration of a co-operative financial institution (CFI) with the Prudential Authority in terms of the provisions of the Co-operative Banks Act. This guidance note is issued to assist prospective and registered CFIs to prepare the following documents, as applicable, for submission to the Prudential Authority:
- 2.1.1 business plan;
- 2.1.2 savings policy; and
- 2.1.3 loans policy.
- 2.2 This guidance note sets out the minimum requirements against which the Prudential Authority will assess the provisions of the aforementioned documents of a prospective co-operative institution or a registered co-operative financial institution as per Attachment 7: Governance and operational requirements for co-operative financial institutions, of Prudential Standard – TCFI-01.
- 2.3 The proportional nature and size of the applicant will be taken into consideration during the review of the documents.
- 2.4 The minimum requirements are captured as follows:
- 2.4.1 Business plan – Attachment 1;
- 2.4.2 Savings policy – Attachment 2; and
- 2.4.3 Loans policy – Attachment 3.

2.5 The business plan, savings and loans policies will be reviewed against the requirements set out herein. Prospective co-operative financial institutions and registered co-operative institutions are strongly encouraged to align their savings and loans policies with these requirements and to ensure that their business plans contain the minimum requirements set out herein.

### 3. Contact

3.1 A prospective or registered co-operative financial institution may contact the Co-operative Banks Development Agency for assistance with their business plan, savings policy or loans policy by e-mailing: [CBDA@treasury.co.za](mailto:CBDA@treasury.co.za).

3.2 The Prudential Authority may also be contacted by sending an e-mail to [SARB-PA@resbank.co.za](mailto:SARB-PA@resbank.co.za) with the subject line: CFI – Registration Assistance.



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**Date:** 16 SEPTEMBER 2019

Encl. 3

The previous guidance note issued was Guidance Note 1/2019, dated 11 March 2019.

## Attachment 1 – Business plan

### 1. General

- 1.1 In terms of Section 1 of the Co-operative Banks Act, a “business plan” means, in respect of a specified time period, a document that sets out –
- 1.1.1 its common economic and social objectives and aspirations together with a description of the short and long term strategies for achieving those needs; and
- 1.1.2 its market strategy, the scope and nature of the business (including the types of products offered), the expected volume of deposits and the details of lending and investment objectives.
- 1.2 A prospective CFI or a registered CFI must demonstrate to the satisfaction of the PA that it has sufficient human, financial and operational capacity to function efficiently and competently as a CFI.
- 1.3 The business plan should not be a static document, but must be reviewed periodically and revised in light of changing circumstances surrounding the operational requirements and strategies of the CFI.

### 2. Elements of a business plan

<p><b>1. Organisational overview</b></p> <ul style="list-style-type: none"><li>a) History and incorporation</li><li>b) Common bond/membership criteria (<i>kindly refer to the briefing note on common bond on the CBDA website</i>)</li><li>c) Vision and mission (developmental value)</li><li>d) Business strategy and objectives</li><li>e) Linkages with related representative or support organisations</li></ul>
<p><b>2. Corporate governance</b></p> <ul style="list-style-type: none"><li>a) Board Statement on its organisation’s values and culture (<i>aligned with the Co-operative Principles and refer to Guidance note 1/2019 in this regard</i>)</li><li>b) Board membership and recruitment (<i>board members will undergo fit and proper vetting</i>)</li><li>c) Board code of conduct</li><li>d) Skills and competence of directors</li><li>e) Board skills development plan (if applicable)</li><li>f) Governance committee</li><li>g) Audit/supervisory committee</li><li>h) Other board committees and composition</li></ul>

<p><b>3. Markets and members</b></p> <ul style="list-style-type: none"> <li>a) Common bond target markets/membership criteria</li> <li>b) Current member profiles</li> <li>c) Potential for growth within the common bond</li> <li>d) Engagement to date with the potential membership</li> <li>e) Member mobilisation strategies</li> <li>f) Products and services being offered</li> <li>g) Research and development and future services</li> <li>h) Distribution channels</li> <li>i) Advertising and promotions</li> </ul>
<p><b>4. Savings products</b></p> <ul style="list-style-type: none"> <li>a) Product Features</li> </ul> <p><i>Refer to the guidance provided in Attachment 2</i></p>
<p><b>5. Loans products</b></p> <ul style="list-style-type: none"> <li>a) Product Features</li> </ul> <p><i>Refer to the guidance provided in Attachment 3</i></p>
<p><b>6. Other products</b></p> <ul style="list-style-type: none"> <li>a) Product Features</li> </ul> <p><i>Please attach related policies and procedures for any other products Other products should be aligned to section 14 of the Co-operative Banks Act</i></p>
<p><b>7. Infrastructure</b></p> <ul style="list-style-type: none"> <li>a) Offices/Branches – Suitability of Premises</li> <li>b) A copy of the lease agreement for business premises, if not owned</li> <li>c) Assets owned, i.e. computers, fax machines etc.</li> <li>d) Letter of support, should the applicant be receiving infrastructure support from its stakeholders</li> </ul>
<p><b>8. Management</b></p> <ul style="list-style-type: none"> <li>a) Schedule detailing management information including name, qualifications and experience</li> <li>b) Organisation chart/organogram</li> </ul>
<p><b>9. Human resource management</b></p> <ul style="list-style-type: none"> <li>a) Profile of key staff and their qualifications</li> <li>b) Remuneration policies, if applicable</li> </ul>

- c) Identified skills gap and written plan for staff training and development to address identified gaps
- d) Other policies

**10. Management Information System (MIS)/Information Communication Technology (ICT)**

- a) Systems/software in use or proposed to be used
- b) System attributes
- c) Back up/business continuity arrangements
- d) Specification of how transactions will be handled on a day-to-day basis

**11. Financial performance**

- a) Projected three year pro-forma financial statements (balance sheet and income statement) based on the PA Return 051 and 052 respectively) or newly formed CFIs should complete the financial forecast guideline for start-ups (*kindly refer to start-up guidelines on the CBDA website*).
- b) Latest management accounts (if applicable)
- c) Liquidity and cash management
- d) Funding strategies (if applicable)
- e) Taxation
- f) Assumptions that should be provided over the 3 year period should include:
  - 1) Membership growth
  - 2) Average members savings per month
  - 3) Cost per share per member
  - 4) Joining fee
  - 5) Average interest income to be paid by members on loans
  - 6) Average interest income to be received from investments
  - 7) Average interest income to be paid to members on deposit
  - 8) Percentage of loans to be issued over the three year period
  - 9) Governance expenses
  - 10) Personnel expenses
  - 11) Operational expenses
  - 12) Loan provisioning
  - 13) Other expenses

*Focus should be on demonstrating financial viability and sustainability over the forecast period. Assumptions should be realistic and achievable.*

**12. Audit**

- a) Name of external auditor or accountant and contact details
- b) Details of engagement with external auditor/accountant

**13. Internal controls**

- a) Frequency of internal audit/supervisory committee and reporting arrangements
- b) Summary of responsibilities of internal audit /supervisory committee

**14. Other policies**

- a) Indicate/list any other policies and procedures in place

**15. Pre-registration contracts**

- a) Indicate any pre-registration obligations that have been entered into, e.g. a property lease

## **Attachment 2 - Savings Policy**

### **1. General**

- 1.1 The savings policy should be clearly defined and set forth in such a manner as to provide effective oversight by the directors and senior employees. The board of directors of every CFI has the responsibility to approve savings policies and to oversee implementation thereof.
- 1.2 The savings policy should not be a static document, but should be reviewed periodically, at least once a year, and revised in light of changing circumstances surrounding the saving needs of the CFI members as well as changes that may occur within the CFI itself.

### **2. Minimum provisions of a savings policy**

- 2.1 The following minimum requirements should be set out in the savings policy of a CFI:
  - 2.1.1 the objectives of the savings policy;
  - 2.1.2 the manner in which savings products are mobilised and marketed;
  - 2.1.3 persons responsible for policy review and the frequency of the review, which should not be less than once a year;
  - 2.1.4 the types of savings products offered by the CFI and the minimum requirements for accessing each savings product;
  - 2.1.5 mechanisms for proof of ownership of savings, notification methods and periods, e.g. savings books or quarterly savings statements;
  - 2.1.6 procedures for determining and adjusting interest rates and fees as well as treatment of interest capitalisation (which procedures must include the approval process for adjusting interest rates and fees);
  - 2.1.7 procedures for opening, closing and withdrawing from a savings account;
  - 2.1.8 development and authorisation of new savings products/services in compliance with the Co-operative Banks Act;
  - 2.1.9 handling charges for accounts considered to be inactive for a specified time period or due to the maintenance of minimum balances in the account (dormant accounts), including the responsibility and monitoring thereof;
  - 2.1.10 procedures for handling dormant accounts;
  - 2.1.11 reactivating dormant accounts, including the responsibility and monitoring thereof;
  - 2.1.12 handling of charges for unpaid cheques, cancelled and/or disputed debit orders;

- 2.1.13 elimination of inactive accounts with marginal savings which have exceeded the specified time period; and
- 2.1.14 the ability of the CFI to cancel savings accounts which have been handled in a dubious or irregular manner.

**3. Minimum provisions of a savings policy per product type**

- 3.1 The following minimum requirements should be set out in the savings policy for each type of savings product offered by the CFI:
  - 3.1.1 procedures for calculating interests on savings products as well as interest capitalisation where applicable;
  - 3.1.2 the calculation of interest rates and fees, where applicable;
  - 3.1.3 the criteria to invest in specific products, e.g. age, income source, etc.;
  - 3.1.4 the procedures for withdrawal of monies prior to maturity and penalties to be charged where applicable; and
  - 3.1.5 product terms, i.e. notice deposit, fixed deposit, etc.

## **Attachment 3 - Loans Policy**

### **1. General**

- 1.1 The loan policy should be clearly defined and set forth in such a manner as to provide effective oversight by the board of directors and senior employees. The board of directors of every CFI has the responsibility to approve loans policies and to oversee implementation thereof.
- 1.2 The loan policy should not be a static document, but must be reviewed periodically, at least once a year, and revised in light of changing circumstances surrounding the borrowing needs of the CFI members as well as changes that may occur within the CFI itself or changes in the legislation.

### **2. Minimum provisions of a loans policy**

- 2.1 The following minimum requirements should be set out in the loan policy of a CFI:
  - 2.1.1 objective of the loan policy;
  - 2.1.2 persons responsible for policy review and the frequency of review, which should not be less than once a year;
  - 2.1.3 general fields of lending in which the CFI will engage and the kinds or types of loans within each general field;
  - 2.1.4 responsibility of the board of directors in reviewing, ratifying, or approving the loan policy;
  - 2.1.5 procedures for determining and adjusting interest rates and fees (which procedures must include the approval process for adjusting interest rates and fees);
  - 2.1.6 procedures to be followed when applying for credit;
  - 2.1.7 basis for determining an amount and period of a loan;
  - 2.1.8 procedures to be followed when evaluating and analysing loan applications;
  - 2.1.9 requirements to stipulate the purpose for which loan is requested;
  - 2.1.10 turnaround time for approving the loans;
  - 2.1.11 loan limits of each loan officer;
  - 2.1.12 loan limits, if any, of a credit committee;
  - 2.1.13 maintenance and review of complete and current credit files on each borrowing member;
  - 2.1.14 procedures for handling of conflict of interest regarding loans to employees, board members and related person(s);

- 2.1.15 separation of duties with regards to the loan evaluation and the approval process;
- 2.1.16 procedures for handling of loan concentration (large exposures in accordance with the prudential standard);
- 2.1.17 procedures, which at a minimum, address the goals for portfolio mix and risk diversification and set out the CFI's plans for monitoring and taking appropriate corrective action, if deemed necessary, on any concentrations that may exist;
- 2.1.18 defining delegated authority to approve loans with regards to unsecured risk and maximum loan sizes;
- 2.1.19 loan rejection process;
- 2.1.20 roles and responsibility of the credit committee, including procedures for the approval of the loans by the board;
- 2.1.21 procedures for refinancing and/or restructuring of loans, where applicable;
- 2.1.22 appropriate and adequate collection procedures including, but not limited to, actions to be taken against borrowers who fail to make timely payments;
- 2.1.23 loan loss provision, if not a separate policy (delinquency loans must be provided for in accordance with the prudential standard); and
- 2.1.24 compliance with the National Credit Act, 2005 (Act No. 34 of 2005), and other financial regulatory requirements.

### **3. Minimum provisions of a loans policy per product type**

- 3.1 The following minimum requirements should be set out in the loans policy for each type of loan product offered by the CFI:
  - 3.1.1 statement regarding the waiting period to qualify for credit;
  - 3.1.2 period and manner in which loan repayments must be made;
  - 3.1.3 manner in which interest rate will be determined (i.e. fixed or variable);
  - 3.1.4 period and manner, including grace periods, on which interest on loans will be calculated;
  - 3.1.5 calculation of interest and fees;
  - 3.1.6 supporting documentation to be used;
  - 3.1.7 treatment of guarantees, where applicable;
  - 3.1.8 acceptance of security, the completion of documentation when security is granted, and the treatment thereof in the event of a default;

- 3.1.9 stipulation of maximum loan period;
- 3.1.10 order in which loan repayments are allocated (fees, interest, principal amount etc.);
- 3.1.11 determination of how arrear interest and charges will accrue in relation to outstanding loan balances upon default;
- 3.1.12 manner in which communication with members will be handled, i.e. at inception, periodic statements, etc.; and
- 3.1.13 provision for loan protection, including, but not limited to, credit life policies.