Annual Report on Co-operative Societies in Singapore

For the financial year ended 31 March 2014

ISSUED ON 31 OCTOBER 2014
BY THE REGISTRY OF CO-OPERATIVE SOCIETIES
MINISTRY OF CULTURE, COMMUNITY AND YOUTH

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I. INTRODUCTION

The co-operative society ("co-op") model of enterprise provides a platform for different groups of individuals to come together based on the principles of self-help and mutual assistance. Such acts are demonstrative of the desire of people to do good and make a difference in their lives and the lives of others. Co-ops have the potential to do even more if they further strengthen bonds among their members to build greater social capital. It is heartening that the apex body and co-ops are actively recruiting more members and/or engaging members through their activities to build a stronger co-operative movement.

2. Besides strengthening the bonds of membership and serving the needs of their members, it is equally important to strengthen the governance and administration of the co-ops. The co-ops' management are ultimately responsible for the proper and prudent administration of the co-ops, and have to ensure that good governance and effective internal controls are in place. Hence, co-ops should actively tap on the different training opportunities and grants available to build capacity and enhance capabilities.

3. As a regulator, the Registry of Co-operative Societies ("Registry") aims to provide a robust regulatory framework which both facilitates the operations of co-ops as well as ensures that there are adequate safeguards in place to protect co-op members' interests. While the Registry tries our best to assist the co-ops in identifying gaps in their compliance and controls to improve their operations, the Registry will at the same time not hesitate to enforce rules and prosecute recalcitrant co-ops who do not comply with these rules.

4. We also hope to facilitate an open channel of communication regarding key information on the sector as well as updates on recent initiatives and developments. We hope those interested in the sector will find this Annual Report useful.

II. OVERVIEW OF THE CO-OPERATIVE SECTOR

5. Co-ops in Singapore are registered by the Registry of Co-operative Societies and their activities are regulated through the Co-operative Societies Act (Cap.62) ("the Act") and the Co-operative Societies Rules.

6. The co-ops are broadly classified into three categories.

(a) <u>Consumer and services co-ops</u> – These co-ops meet daily needs and provide a broad spectrum of goods and services ranging from childcare to eldercare, groceries, security services, training and more.

(b) <u>Credit co-ops</u> – These co-ops provide basic financial services i.e. take in deposits and grant loans to their members who share a common bond or affiliation for example, same industry, employer or community.

(c) <u>School co-ops</u> – These co-ops operate in secondary schools and junior colleges. They provide services such as sale of books and stationeries, and expose students to co-operative principles and social entrepreneurship.

7. During the year, 4 new co-ops were registered. We had also deregistered 5 co-ops, bringing the total number of registered co-ops as at 31 March 2014 to 84[1].

Newly Registered Co-ops

8. A brief description of the new co-ops is as follows:

(a) **Silver Caregivers Co-operative Limited** – Registered on 3 July 2013, the Co-op provides caregivers with the necessary support and training to help them be more effective in their care-giving role. It also aims to raise awareness of the important social

[1] As at date of publishing, the number of registered co-ops now stands at 82 as 1 additional co-op has since been registered and 3 co-ops deregistered.

contributions of caregivers to society and the challenges they face.

(b) **The Good Life Co-operative Limited** –The Good Life Co-operative Limited was registered on 1 October 2013. It is a membership-based organisation that enables quality healthcare for value through partnerships so that members can live long, live well and live carefree.

(c) **Co-operative Society of Nanyang Technological University** – Registered on 11 February 2014, the Co-op aims to serve the Nanyang Technological University (NTU) community by providing quality products and services at affordable prices, initiating and managing sustainable student-run projects for the welfare of the NTU community, and encouraging the spirit of entrepreneurship.

(d) **Proventus Co-operative Limited** – The Co-op was registered on 20 February 2014 with NTUC Enterprise Co-operative Limited as its Principal member. The principal activity is that of property investment holding in commercial buildings.

9. Five co-ops had also applied for a voluntary winding up and were deregistered only after the finalisation of the liquidation process which may span over a few years. They were as follow:

(a) I.T. Services Co-operative Limited;
(b) NTUC Income Car Co-operative Limited;
(c) Premier Travel Co-operative Society Limited;
(d) Singapore Credit Co-operatives League Limited; and
(e) Weworkz (Women Enterprise Workz) Multi-purpose Co-operative Limited.

10. The breakdown of co-ops and their membership numbers according to category is provided in the following table.

Category of Co-op	Number of Co-ops	Number of Members[2]	Total Assets[3] $mil
Consumer and Services	51	1,254,000	5,604
Credit	27[4]	160,000	940
School	6	450	0.7
Total	**84**	**1,414,450**	**6,544.7**

III. KEY STATUTORY AND REGULATORY REQUIREMENTS

Statutory Requirements for All Co-operatives

11. The conduct of an Annual General Meeting ("AGM") and submission of Audited Financial Statements ("AFS") are key statutory requirements that all co-ops have to meet. The supreme authority of a co-op is vested in its general meeting of members at which members have a right to attend and vote. Amongst the key functions of the AGM are the election of the Committee of Management and approval of AFS.

12. The Act prescribes that a co-op shall hold its AGM within 6 months after the end of the financial year, unless approval has been obtained by the Registrar to extend that period. The Act also prescribes that co-ops shall

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[2] Data derived from co-ops' submission of 2013 AGM forms. Co-ops are required to hold an AGM within 6 months from their financial year end.

[3] Data derived from co-ops' Audited Financial Statements (AFS) for financial year ended 31 December 2013 or 31 March 2014 where available. Otherwise, the data was obtained from the last available AFS.

[4] This is one less than the number reported in the last year because one of the credit co-ops is in the process of winding down its thrift and loan business and has been reclassified as a 'consumer and services' co-op in the meantime.

submit a copy of the AFS within 6 months from the close of the financial year.

13. There were 74[5] co-ops that were required to hold their AGM and submit their AFS. Of these, 9 co-ops did not meet the deadline for conduct of AGM and 32 co-ops did not meet the deadline for submission of AFS. This is compared to the previous year where 12 co-ops did not meet the deadline for conduct of AGM and 30 did not meet the deadline for AFS submission. The majority of the co-ops which were late held their AGM and submitted their AFS within 3 months from the deadline. In addition, we note that 8 of the 32 co-ops that did not meet the deadline for submission of AFS have missed it by 1 or 2 days. The Registry is continuing our efforts to engage the co-ops which faced difficulties in meeting the statutory deadline.

Prudential Requirements for Credit Co-operatives

14. Credit co-ops take in deposits and give out loans to their members. As at the financial year-ended 31 December 2013 / 31 March 2014, the co-op members' savings (i.e. subscription capital and deposits) amounted to $757 million whilst loans amounted to $185 million.

15. Credit co-ops have a fiduciary duty to their members to exercise prudent oversight over their deposits. Since early 2010, the Registry has introduced a series of prudential requirements on credit co-ops to strengthen prudence in operations and refocus the credit co-ops towards the thrift and loan business. Details on the requirements and an update of the credit co-ops' compliance is provided in the Annex.

IV. KEY DEVELOPMENTS IN THE YEAR

Revisions to Investment Restrictions for Credit Co-ops

[5] This number excludes co-ops that are newly registered and in their first year of operations as well as those undergoing liquidation.

16. One of the prudential requirements prescribed that a credit co-op shall not invest more than 10% of its assets in restricted investments. The objective of the investment restrictions is to better safeguard members' deposits by reducing co-ops' exposure to risky investments and to refocus credit co-ops' to their core social role of providing thrift and loan services to their members.

17. The Registry received feedback and appeals from the industry that the 10% limit was too stringent and that credit co-ops were facing difficulty in generating sufficient returns for their members through their loans business alone. The Registry reviewed this feedback and also noted that credit co-ops were generally making efforts to reduce their restricted investments.

18. Following our review, the Registry proposed some refinements to the investment restrictions to allow more flexibility while maintaining a reasonable level of prudence. The Registry issued an Exposure Draft on the proposed revised investment restrictions on 28 March 2013 and sought feedback from the credit co-ops and the Singapore National Co-operative Federation. Following which, the Registry made further refinements and provided more clarifications in the requirements and evaluation criteria. In a letter to the Chairmen of credit co-ops dated 18 November 2013, the Registry provided our detailed comments on the feedback and suggestions received from the industry.

19. The revised rules which were effective from 20 November 2013 allow a higher restricted investments limit of up to 30% (subject to prescribed conditions). Credit co-ops will first have to obtain members' approval for a limit of either 20% or 30%. A 30% limit will require a further approval from the Registrar.

20. Credit co-ops are also required to provide sufficient and timely disclosure to members on their restricted investments. Members need to scrutinise this information to ensure the co-ops are abiding by their

respective investment mandate as determined by the members, as well as periodically review these investment policies.

Audits on Credit Co-ops

21. The Registry launched its first batch of audits on compliance with the prudential requirements in March 2014. These audits also review the adequacy and effectiveness of the related internal controls.

22. The main objective of these Audits is to help credit co-ops in identifying and addressing any gaps in their compliance or weaknesses in their controls. The appointed Consultants will also provide the co-ops with the necessary guidance to implement proper policies and procedures.

23. These audits will be extended to the remaining credit co-ops in batches and we hope that through this exercise, the credit co-ops will be able to improve and strengthen their existing practices and ensure that their members' interests are adequately protected. More information will be provided after the completion of these audits which are still ongoing.

Modification and Exemption of Statutory Requirements for School Co-ops

24. The Registry has reviewed our legislation in relation to its application to school co-ops which provide a platform for students to be exposed to co-op principles. We have received feedback from the Singapore National Co-operative Federation that some of the statutory requirements might be difficult for school co-ops to comply with and could inhibit the growth of this sub-sector.

25. We acknowledge the unique nature of school co-ops and their lower risk given the school setting in which they operate. Hence, from 2 July 2014, some requirements of the Act relating to school co-ops are modified or have been exempted to facilitate the registration and operations of the school co-ops.

26. Some of the regulatory requirements have been relaxed to facilitate administrative ease. These include for example, reducing the minimum number of members from 10 to 5. The quorum required for the conduct of an annual general meeting has also been reduced by applying the lower of 20% or 10 of all members instead of the lower of 20% or 30 of all members.

27. The Committee of Management will also be required to co-opt a member to fill any vacancy during a term of office only if the number falls below 3, as opposed to the statutory requirement of 5. However, school co-ops shall have at least 1 member who is an employee of the school or on the board of management of the school. Separately, school co-ops will also be given the option of preparing their management accounts for the year, which will be presented to the Annual General Meeting and submitted to the Registry, in lieu of the audited financial statements.

V. PROMOTION AND DEVELOPMENT OF THE CO-OPERATIVE SECTOR

Co-op contributions

28. Co-ops contribute 5% of the first $500,000 of their annual surplus to the Central Co-operative Fund ("CCF"). Co-ops will further contribute 20% of any surplus in excess of $500,000 (second tier contribution) to either the CCF or the Singapore Labour Foundation ("SLF") as the Co-op may choose.

29. As provided for in the Co-operative Societies Act, the CCF is used to further co-op education, training, research, audit and for the general development of the co-op movement in Singapore.

30. Co-ops' contributions to the SLF are in turn used to support broad initiatives to benefit two groups - union members and working families. SLF's initiatives aim to (a) help needy union members in time of financial need, (b) safeguard workers' welfare and rights through developing compassionate and committed union leaders to represent workers and (c)

keep essential services and products accessible and affordable for working families by partnering social enterprises.

31. Co-op contributions to the CCF for the financial year ended 31 March 2014 was $3.1 million and co-op contributions to the SLF for the financial year ended 31 December 2013 was $52.5 million.

Central Co-operative Fund (CCF)

32. The Minister for Culture, Community and Youth appoints the Central Co-operative Fund Committee for the purpose of overseeing the CCF. The current Committee is serving the three-year term ending 28 February 2015 and comprises the following individuals:

Position in Committee	Name	Organisation
Chairman	Mr S. Chandra Das	Managing Director, Nur Investment & Trading Pte Ltd
Members	Mr Chan Tee Seng	Chairman, Singapore National Co-operative Federation Chief Executive Officer, NTUC First Campus Co-operative Ltd
	Mr Leow Ching Chuan	Executive Chairman, Seacare Co-operative Ltd
	Mr Low Puk Yeong	Senior Director, Registry of Co-operative Societies

* Former CCF Committee member, Mr Timothy Ng (former Chairman of Singapore Shell Employees' Union Co-op Ltd) had resigned from his position and ceased to be a member of the CCF Committee with effect from 25 March 2014.

33. The co-op industry body, the Singapore National Co-operative Federation ("SNCF") serves as Secretariat to the CCF Committee. SNCF promotes and develops co-ops and offers various services which include

training, shared services, CCF grants and networking opportunities. SNCF also serves as the collective voice representing the movement on local and international platforms.

34. The following table illustrates the sources of contributions received by CCF and its expenditure for the financial year ended 31 March 2014.

Table 1: Contributions to CCF totalled $3.1m

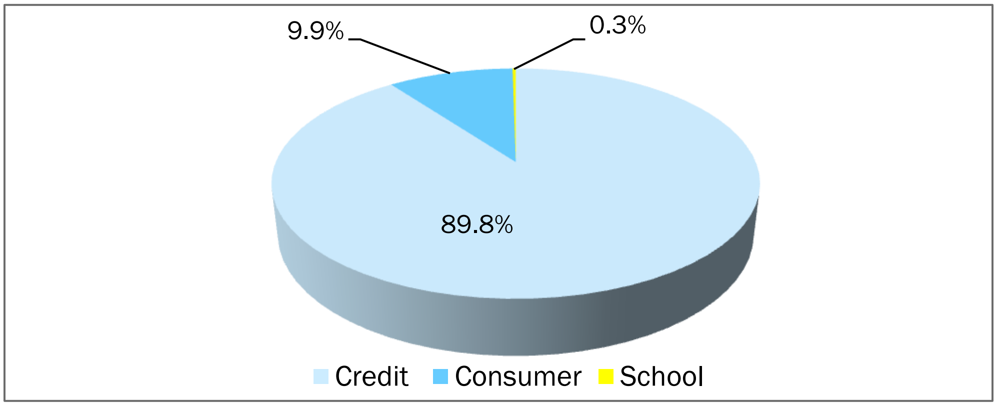
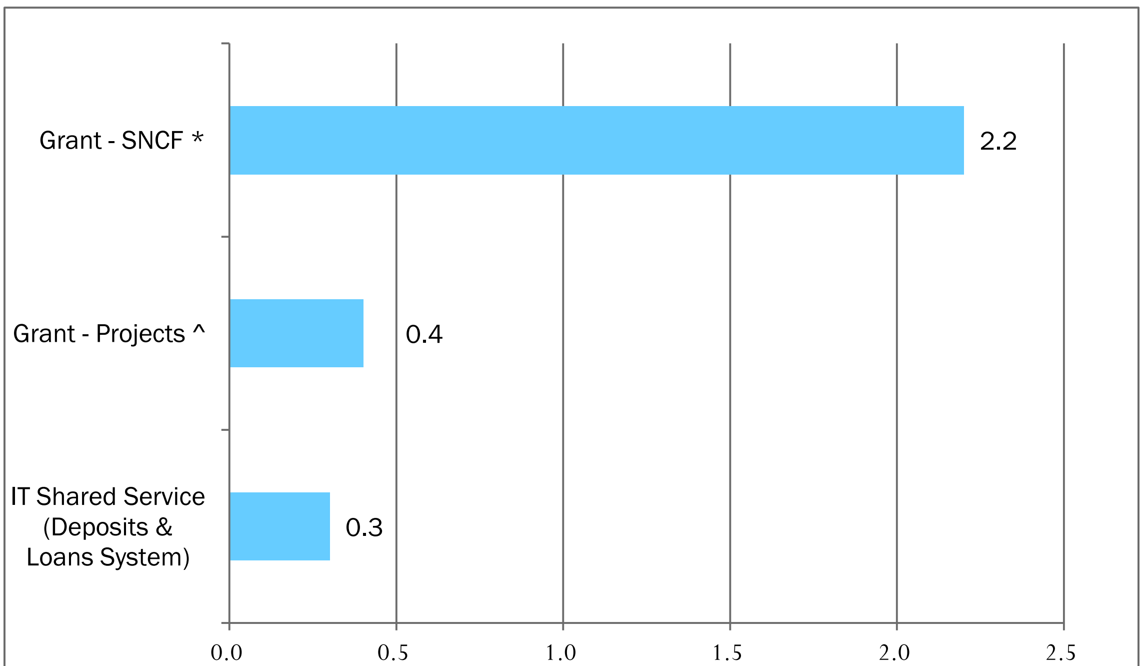


Table 2: CCF Expenditure totalled $2.9m



* includes Awareness Building, Training for Co-ops and other Co-op development activities

^ includes CCF Grants, Scholarship & Bursaries

35. Key initiatives to promote and develop the sector during the financial year included the following:

(a) **Awareness Building**
SNCF has been actively reaching out to schools to introduce and raise awareness of the co-op model amongst the youth. SNCF has for example, partnered with national competition organisers to introduce a social enterprise segment which includes co-ops.

(b) **CCF Grants**
In addition to New Co-op Grants, SNCF also administers CCF's Capacity and Capability Development Grants which aim to encourage existing co-ops to improve themselves. The grants support co-ops in capacity development, capability training and consultancy services. In the financial year ended 31 March 2014, approximately $233,400 in grants was disbursed to co-ops.

(c) **CCF Scholarship**
The CCF offers an undergraduate scholarship programme that supports talented students with a heart for the people. Through the scholarship, the students are exposed to the co-op movement and given the opportunity to participate through internship opportunities. To date, there are 13 scholars and 4 of them have started their service in the co-ops and 1 in a not-for-profit organisation.

(d) **Education and Capability Training**
SNCF has encouraged and led various delegations of co-ops to attend international co-op conferences which provided the co-op officers with an opportunity to meet co-operators from around the world and to learn from their experiences and best practices. SNCF also facilitates training opportunities to better equip co-op officers in performing their roles and responsibilities.

(e) **Shared Services**

SNCF has introduced shared services to assist the co-ops enhance capacity and capabilities in their core business areas. SNCF has developed for example, an IT shared deposits and loans system which is underway and aimed at helping the six participating credit co-ops improve their data management and better serve members' needs. SNCF has also launched a book keeping and accounting shared service which is provided by a fellow co-operative. In addition, SNCF is offering a marketing shared service to assist co-ops in scaling up their online and offline presence.

VI. CONCLUSION

36. The Registry is continuously reviewing our existing policies and regulations with a view to ensure their continued relevance. The last amendments to the Co-operative Societies Act were in 2008 hence it is timely to review and update the Act. The Registry is also reviewing the prudential and governance requirements of credit co-ops to further strengthen the sector and ensure that the members' interests are protected.

37. We also look forward to the continued support of our partners and the co-ops themselves to build a vibrant, safe and sound co-op sector, which will continue to contribute to society and meet the needs of its members.

PRUDENTIAL REQUIREMENTS FOR CREDIT CO-OPERATIVES

The Registry issued the prudential requirements for credit co-ops in the form of Written Directions which were issued and effective from the following dates.

Prudential Requirement	Issue Date of Written Direction	Effective Date
Minimum Liquid Assets	12 Mar 2010	31 Mar 2010
Investment Restrictions	31 May 2010 **Revised:** 18 Nov 2013	30 Jun 2010 **Revised:** 20 Nov 2013
Provisions for Bad and Doubtful Loans; and Impairment for Investments	26 Nov 2010	1 Jan 2011
Capital Adequacy Ratio and Restrictions on Dividends	21 Apr 2011	30 Jun 2011
Secured Loan Limits	29 Aug 2011	1 Nov 2011
Unsecured Loan Limits	31 Oct 2011	1 Apr 2012
Submission of Financial Returns	2 Feb 2012 **Updated:** 7 May 2013	6 Feb 2012 **Updated:** 10 May 2013

The Written Directions on the above requirements and the corresponding details may be obtained from our website “www.mccy.gov.sg/coop” under the section “Prudential requirements for credit co-ops”.

In our last Annual Report for the year ended 31 March 2013, the Registry had provided an update on the 27[6] credit co-ops' progress in meeting the prudential requirements for FY2011 (i.e. as at 31 Dec 2011 / 31 March 2012). This year, we will update on the statistics for the two subsequent FYs i.e. for FY2012 and FY2013 and track the developments over the three years.

(a) **Minimum Liquid Assets ("MLA")** – Credit co-ops must hold MLA amounting to 13% of their deposits at all times. In FY2011, 3 credit co-ops did not meet the 13% requirement. This was reduced to 1 credit co-op in both FY2012 and FY2013. The credit co-op which did not meet the requirement in FY2012 had increased its MLA and met the requirement in the next year.

(b) **Investment Restrictions** – Under the revised written direction effective from 20 Nov 2013, the default restricted investment ('RI') limit remains at 10%. However, a credit co-op may apply for a higher RI limit of 20% or 30% subject to conditions including a resolution passed at a general meeting for the higher limit and an additional approval from the Registrar for a 30% limit. In FY2011, 15 credit co-ops did not meet the 10% requirement. This was reduced to 14 credit co-ops in FY2012 and 8 credit co-ops in FY2013.

The Registry is monitoring co-ops' compliance with the requirements and whether they have obtained members' approval for a higher limit if they are still in excess of the 10% limit. We are also evaluating requests which have been submitted for a 30% RI limit.

(c) **Provisions for Bad and Doubtful Loans; and Impairment for Investments** – Credit co-ops must make the relevant provisions and impairments in accordance with FRS 39 at least half-yearly. During our audits on compliance with prudential requirements, the Registry will check on the co-op's compliance with these requirements.

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[6] The requirements for MLA, Investment Restrictions and CAR are only applicable to credit co-ops which take deposits from members. Two credit co-ops do not take in deposits. Hence, these 3 requirements are only applicable to 25 credit co-ops.

(d) **Capital Adequacy Ratio ("CAR") and Restriction on Dividends** – Credit co-ops which hold deposits must maintain CAR of at least 8%. A co-op with less than 6% CAR as at financial year-end which intends to declare dividends will have to seek Registry's prior approval. As a transitional arrangement, credit co-ops which were unable to meet the requirement as at 30 June 2011 have to seek to raise their CAR to 6% by 30 June 2014 and meet or exceed the 8% CAR by 30 June 2016.

In FY2011, 8 credit co-ops did not meet the 8% CAR requirement. This was reduced to 5 credit co-ops in FY2012 and 4 credit co-ops in FY2013.

(e) **Secured and Unsecured Loan Limits** – Credit co-ops may grant secured and unsecured loans in accordance with the limits prescribed by the Registry, which vary according to type of loan.