

**Question No: 36**

**Question: Profits of Credit Societies and Similar Financial Institutions**

**Date: 13/08/91**

**Member: Mr COLLINS**

**To: ATTORNEY-GENERAL**

1. Do credit societies, building societies and similar institutions in the Northern Territory have the power to create credit similar to banks.
2. Do these financial institutions make a profit by loaning their depositors' funds at a higher interest rate than they pay them.
3. If not, how is a profit made.
4. If the answer to question 2 is yes, are these credit societies and similar financial institutions required to keep a percentage of their deposits on hand to cover withdrawals and bad debts.
5. If the answer to question 4 is yes, what is that percentage.
6. Who determines the percentage of depositors' funds held in reserve for each of the institutions.
7. What is the current percentage held in reserve for those institutions at question 6.
8. How has this percentage varied over the last 10 years for each of these institutions.
9. What guarantee do depositors with these credit societies and similar financial institutions have that their funds are secure.
10. What would be the probable consequences should depositors withdraw their deposits in cash over a short period of time.

**ANSWER**

1. Credit unions and building societies in the Northern Territory are empowered to make loans to members (in the case of Credit Unions) and make advances (in the case of building societies. Both the Credit Unions Act (section 13) and the Building Societies Act (section 12) provide that the objects of these bodies must include these powers.
2. Financial institutions such as building societies and credit unions generally make a proportion of their profit by lending depositors funds out at rates higher than depositors are paid.
3. No applicable. Refer to question 2.
4. and 5.

Section 38 of the Building Societies Act provides a restriction on lending if liquid funds fall below 10%.

Section 63 of the Credit Unions Act provides that credit unions shall not maintain less

than 10% in liquid funds.

This percentage is prescribed by regulation.

6. The Credit Unions Act makes provision for reserves in section 64. There is no specific provision for building societies. Prudential provision is made in other ways.

7. There is no straight percentage for reserves prescribed in the Credit Unions Act. The amount to be transferred to reserves is calculated using the formula in section 64. (See above for building societies).

8. The reserve requirement in section 64 of the Credit Unions Act has remained the same for the last 10 years. (See above for building societies).

9. There is no government guarantee that depositors funds are secure. Credit unions and building societies, in some cases, have access to industry - run liquidity support schemes. Territory Mutual Building Society is a member of National Deposit Insurance Corporation. A number of foreign (interstate) credit unions currently belong to solvency funds in their 'home state'. Under new arrangements proposed by the Special Premier Conference Working Group on Non-Bank Financial Institutions all credit unions would have access to contingency funds.

The industry-based liquidity support arrangements appear to have worked well. The local credit union and building society appeared to weather the problems some Victorian institutions experienced in 1990 without any long term ill effect. Local institutions had no connection with these bodies, of course. Whilst Farrow associated institutions

lent for commercial developments Territory Mutual Building Society lends primarily on owner-occupied housing. A lot of Credit Society (NT) loans are to public servants or other employees who sign pay deduction authorities.

10. This is a question which would depend on the individual position of the financial institution concerned, and is better directed to particular institutions.

#### NOTE:

The Northern Territory is currently participating in a Special Premiers Conference working group on non-bank financial institutions and in fact, Barbara Bradshaw, the Registrar, is taking a proactive role as member of the Implementation Task Force developing legislation for the November Premiers Conference. The working group is looking at a national system for administration of non-bank financial institutions with state based supervision and a uniform national approach for matters such as prudential supervision, liquidity, reserves and the like. The working party is looking at Reserve Bank-type prudential supervision for these bodies.