

# CHUNA SAVINGS AND CREDIT COOPERATIVE SOCIETY

Newsletter – Volume 1/issue 2/2018

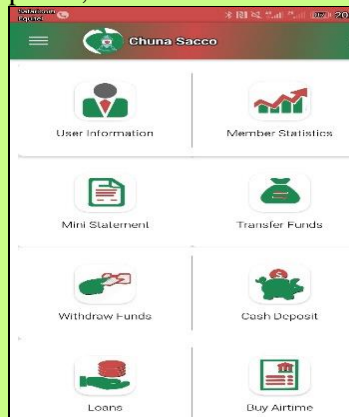
Welcome to our second issue of CHUNA newsletter. In this issue, besides updating members on society activities, communication on matters (loan appraisal, product remodelling, CHUMBEFU) that members have issues with will be clarified. We will endeavour to keep you updated from time to time and likewise encourage that you visit CHUNA website for more updates <http://chuna.uonbi.ac.ke/>

**GOOD NEWS:** As from 1<sup>st</sup> of October, 2018, CHUNA SACCO is operating on a new **IMIS software (ERP) known as Navision Dynamics 2018**. This system will strengthen the internal controls which in the recent past have been a problem due to the fact that transactions were done manually and then transferred to the system. Microsoft Dynamics Navision has vast advantages that run from user friendliness to end user satisfaction. With seamless integrations to alternative channels where members can enjoy the interactions with their accounts at the comfort of their positions.



Mr. Kefa Owando (Right), Chairman Ad hoc committee on system implementation launching the Navision Dynamic 2018 at CHUNA offices.

**CLOUD PESA:** Tied to Navision Dynamics is the CLOUD PESA banking Services. The advantage of Cloud Pesa is that you can perform all your transactions with CHUNA SACCO over the phone, no need to visit CHUNA offices.

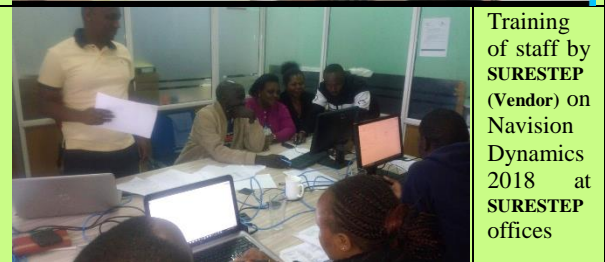


Screen Shot of cloud Pesa App

The service can be accessed through either the USSD platform by dialling **\*850#** from the registered mobile phone number, enter your pin and select transactions from the list OR Download the **Android app** from google play store by searching **Chuna Sacco** and install in your phone. To access this service one is required to fill a CLOUD PESA application form available on our CHUNA website



The Services available on cloud pesa are: Member info; Account balances; Deposit to all accounts (C2B); Loan repayment; withdrawal to M-PESA (B2C); Funds transfer to BOSA and other accounts within the Sacco; Airtime purchase and Mini statement.



Training of staff by SURESTEP (Vendor) on Navision Dynamics 2018 at SURESTEP offices

**MPESA NOW AVAILABLE AT CHUNA** Our Agency Number is **043536** in the name of **RARINA TOP COM LTD**. The name will change from **RARINA** to **CHUNA SACCO** within a period of thirty (30) to sixty (60) days.

**CASHFLOW:** CHUNA is facing liquidity challenges occasioned by irregular remittance of checkoff by the employer. This has caused untold suffering to members who applied for loans as far back as December 2017. Although some money was paid, it was only enough to cover the backlog of loans up to March 2018. This was regrettably after intervention by the commissioner for Cooperative Development that prompted the employer to pay money owed to CHUNA in July, 2018. The employer still owes the society substantial sum of money that once paid, will clear the outstanding loan backlog. The delay in members contributions pains the society considering that this is members money that they can't access. This is besides grounding society operations. We thank our members for patience & understanding\*\*\*.

**PROCESSING SALARIES THROUGH FOSA:** It is our considered opinion and indeed the anticipation of many that to get out of the liquidity quagmire aggravated by delayed remittance by the employer, CHUNA members should consider processing their salaries through the society. The employer will be obligated to channel the salary payment cheques through FOSA and the society in turn credits the money to the customer's accounts. With the acquisition of the IMIS software (ERP), Navision Dynamics 2018, the society is set to seamlessly handle such a task. All FOSA members will access their FOSA money through Co-op ATMs network from any part of Kenya at the normal rates. They can also access the same through Visa branded ATMs worldwide. **"Let us own FOSA for better and timely services"**

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**COMMUNICATION ON CHUMBEFU:** This is to shed light on CHUMBEFU and reasons as to why refunds of the same were withdrawn upon quitting SACCO membership. CHUMBEFU is an acronym for CHUNA MEMBERS BENEVOLENT FUND. BENEVOLENT in simple terms means for Charity and not profit making.

The main purpose of the fund was and still is;

- Insurance of members' loans:** This ensures that in case a member passes on with a loan balance owed to the Society, then the Insurance shall pay such loan and thereby allowing the family members of the deceased a chance to access his/her deposits with the Society. It also protects the family members and guarantors from being called upon to repay such a loan.
- Reduce burden of burial expenses:** In case a member passes on or a spouse the Society would contribute certain amounts to defray the burial expenses. From August this year, the Society has taken an insurance cover on loans which cover a member's one spouse and four children. In case of death of one of the listed dependents the insurance will to a larger extent defray burial expenses.

This fund therefore only benefits in times of distress as a result of death. The fund has operated over the years as such but at some point in the year 2009 refunds were incorporated with the reasoning that anyone who has never benefitted from the fund should be refunded 75% of what they have contributed. This has been the case up to January 2018 when substantial deficits were noted. The biggest and latest deficit of Ksh. 25,584,272.00 was as at 31/12/18 (see Table below). It therefore means the Society has been funding Chumbefu refunds from other sources not tied to chembefu contributions.

	2017	2016	
Balance brought forward			<i>From the above analysis for the last two years, the following is clear;</i> <i>(1) Contributions have been inadequate for Insurance alone;</i> <i>(2) 2017 Refunds were above the contributions</i> <i>(3) Voluntary Savings Refunded in 2017 were done from non-existent funds</i> <i>(4). Insurance on loans could have been over-priced considering 2018 we have paid only 6.5m</i> <i>(5). The actual loss started in 2016</i>
Contributions during the year	9,686,806	15,489,487	
Chumbefu reserves	5,503,129	4,267,831	
	<b>15,189,935</b>	<b>19,757,318</b>	
<b>Less: Disbursements</b>			
Funeral expenses	500,000	20,000	
Insurance on loans	13,384,552	15,622,966	
Bank charges	1,295,583	1,814,392	
Chumbefu refunds	12,061,682	2,645,200	
Voluntary savings refunded	13,187,150		
	<b>40,428,967</b>	<b>20,102,558</b>	
Surplus to accounts payable (Deficit) to accounts receivable	<b>(25,239,032)</b>	<b>(345,240)</b>	

This was noted by the regulator SASRA during the registration of the 2017 final Accounts as an irregularity and advised the Society to stop such refunds forthwith and manage the same as per Sacco regulations.

The then Board during their meeting of 7<sup>th</sup> February, 2018 under Minute No. 3:3:2018 decided that Chumbefu refunds be stopped forthwith and this decision was reviewed on 13<sup>th</sup> April, 2018 under Minutes No 1:4:2018 which still up held the decision of 7<sup>th</sup> February, 2018.

## Way Forward

- Maintain the fund as it is, where members benefit only as a result of death with no refunds to those who have not benefitted.
- Scrap the fund and all those taking loans be charged a certain percentage of loan value upfront for insurance of the loan. With this option there shall be no any benefit in case of death.
- Members to pay for their loan insurance upfront in cash before the Society disburses the loan. On this there will be no any benefit attached in case of death.

## Conclusion

In view of the above, the Board opted to maintain the fund to insure loans collectively where loans are forfeited upon death; and with no refunds upon exiting the SACCO.

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## CREDIT EVALUATION IN SACCOS SET UP, BY MARTIN OGOLA - CEO



Credit or Loaning as is popularly known is a usually misunderstood process in Saccos leading to disenchantment of affected individuals. Majority tend to believe that qualification or Eligibility to access Credit in Saccos is pegged only on Non-withdrawable deposits (also usually mistakenly called Shares). A Simple definition of Credit is that it's a method of paying for goods or services at a later time, usually paying interest as well as the original money. A little advanced definition of Credit is that it's a contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some date in the future, generally with interest. From the second definition the term 'contract' is included meaning it involves more than one party. The parties are the Lender and the Borrower. In Saccos set up the Borrower is the member while the Lender is the Sacco.

**Credit Appraisal** is defined as the assessment of the Loan Application/Proposal to determine eligibility, ability to repay and other various risk that can cause delay or non-repayment of the Loan.

In Saccos where membership is drawn only from people on employment/salaried, for eligibility things like three times deposits, how long have one been a member (six months for Chuna), have the deposits been contributed regularly, attachment of required documents, etc. are considered while for ability to repay issues like a third rule, employment period, guarantorship etc. are considered and this is where I need to provide more clarity. For purposes of clarity I will use an example of a new member. Let us call the member Mr. Waweru Otieno.

Mr. Waweru Otieno joined the Society in February, 2018 and has been contributing **Ksh 20,000.00** per month since February, 2018 consistently up to July, 2018. Therefore, he has accumulated deposits of **Ksh 100,000.00**. Waweru Otieno has applied for a loan of **Ksh 400,000.00** repayable within 24 months and his loan application is fully guaranteed. From his payslip, his Basic pay is **Ksh 15,000.00** and his Net pay is **Ksh 4,000.00** after other deductions but before appraising this loan. He is also on permanent terms of employment. Let us appraise this loan by Mr. Waweru Otieno

ELIGIBILITY:	ABILITY TO REPAY:	NOTE:
<p>We shall assume he attached all the relevant documents like copy of national Identity card, payslip and any other as per requirements.</p> <p>i. Three times multiplier of Deposits is <b>Ksh 100,000.00 x 3 = Ksh 300,000.00.</b> He is therefore eligible for <b>Ksh 300,000 and not Ksh 400,000</b></p> <p>ii. He has been a member for six months therefore eligible on membership terms</p> <p>iii. He has contributed for continuously for those six months i.e. no boosting and therefore eligible on contribution terms</p> <p>Conclusion: On eligibility Mr. Waweru Otieno is eligible for <b>Ksh 300,000.00</b></p>	<p>i. What will be the monthly deductions from his payslip – Principle repayment will be; <b>300,000.00/24 = Ksh 12,500.00</b> Interest repayment at 1% (used for simplicity of calculation ) is <b>300,000x1/100 = Ksh 3,000.00</b> Therefore total repayments per month will be <b>(12500+3000) = Ksh 15,500.00</b></p> <p>ii. A third of Basic pay is <b>Ksh 15,000.00/3 = Ksh 5,000.00.</b> Remember his net is Ksh 4,000.00 Based on Number (ii) he doesn't qualify for the loan on a third rule. However, he can be advised to reduce his deposits contributions from <b>Ksh, 20,000.00</b> to <b>Ksh 3500.00</b> and thereby releasing <b>Ksh 16,500.00</b> to go back to his net pay. Therefore his net pay will be <b>Ksh 4000.00 + Ksh 16500.00= 20,500.00</b></p> <p>From the new net pay if we less the a third of basic pay (i.e. 20,500.00- 5,000.00), then he will remain with <b>Ksh 15,500.00</b> which is able to repay the loan. If Mr. Waweru Otieno agrees with the above proposal then he will have the ability to repay and therefore qualifies to be granted the loan.</p>	<p>i. He would not have been eligible if;</p> <p>a. He had been a member for less than six months,</p> <p>b. His contributions were not regular,</p> <p>c. Had other matters surfaced which could have posed significant risk to recovery of the loan,</p> <p>A third rule is a requirement of the Employment Act and non-compliance to it is breaching the law,</p> <p><i>This Explanation together with the <u>LOAN CALCULATOR</u> should make loan application and processing seamless and interactive</i></p>

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## BOSA PRODUCTS REVIEW/REMODELLING PROPOSAL - BY MARTIN OGOLA - CEO

The Society since inception in the year 1972 has been offering Credit facilities to her members at a rate of 12.00% pa (1.00% pm) on a Reducing Balance method. The rate and the method of charging it when considered and converted to EFFECTIVE RATE becomes 6.5% p.a. This simply means, for example a loan of Ksh 100,000.00 recoverable within 12 months, the Society only earns Ksh 6,500.00 on top.

The Society's management staff have evaluated current products and their current and future impact on the Society's Finances and decided to propose a remodelling of the current products instead of coming up with a complete new ones. This is because designing new products would require a feasibility study and approval from the regulator. Given the short time available do something about the situation remodelling the current ones is the convenient way to go.

### BASIS OF REVIEW THE PRODUCTS

The current rate is not sustainable given the following reasons;

- i. Cost of money is usually generally gauged on Treasury bills moving average rates and now recently introduced CBR rates by the Central Bank. 6.5% p.a. is too low for doing business
- ii. The Society's current Capital Structure is composed of Long Term Debt from Co-operative Bank which is charged at a higher rate than 1.00%. It therefore means the Society is having a loss margin
- iii. The Society has a liability to be written off within eleven (11) years at very high rate (Ksh 58 million beginning year 2018) which currently and if the trend continues will be consuming a substantial amount of the income, thereby leaving nothing to pay as dividends and also improve on the Society's regulatory ratios by retaining part of the income
- iv. Majority of the Society's in the industry are no longer having Credit facilities at 1% among their products. The Society must move with and adopt to changing times

On coming with the proposed changes, the staff gathered data of different Society's in the industry from their websites and that accordingly informed the remodelling process.

### DISCONTINUED BOSA PRODUCTS

	PRODUCT	RATE P.M.	REPAYMENT PERIOD	MAXIMUM AMOUNT	WAITING PERIOD	APPRAISAL FEE
1	EMERGENCY	1.00 %	12 MONTHS	UNDEFINED	N/A	
2	SCHOOL FEES	1.00 %	12 MONTHS	UNDEFINED	N/A	
3	NORMAL LOAN	1.00 %	48 MONTHS	5 MILLION	UNDEFINED	

### REMODELLLED AND APPLICABLE PRODUCTS

	PRODUCT	RATE P.M.	REPAYMENT PERIOD	MAXIMUM AMOUNT	WAITING PERIOD	APPRAISAL FEE
1	EMERGENCY LOAN	1.860 %	12 MONTHS	300,000.00	N/A	KSH 200
2	SCHOOL FEES LOAN	1.860 %	12 MONTHS	300,000.00	N/A	KSH 200
3	NORMAL OF 24 MONTHS	1.350 %	24 MONTHS	1,000,000.00	1 WEEK	0.5%
4	NORMAL OF 36 MONTHS	1.350 %	36 MONTHS	5,000,000.00	1 MONTH	0.5%
5	NORMAL OF 48 MONTHS	1.400 %	48 MONTHS	5,000,000.00	1 MONTH	0.5%
6	NORMAL OF 60 MONTHS	1.500%	60 MONTHS	5,000,000.00	1 MONTH	0.5%

### OTHER APPROVED CHARGES

1. Any part payment before due date; 15% of the amount being paid
2. Boosting of Deposits;
  - i. If by member him/herself must wait for three months or pay 10% of the amount boosted for immediate use
  - ii. If by the Society, 15% of the amount boosted and must be for immediate use

*The design of these products ensures every member can access a loan facility at Chuna with flexible repayment periods and therefore does not burden / strain an individual's*

**PROFILE: JANET MUTUKU, SYSTEM ADMINISTRATOR:** Holds a Masters degree in Data communication and networks and Bachelors of Science in information technology. Has got six years working experience in a financial institution. Purposes to make a positive difference to the society through offering a dedicated service. Commits to ensure maximum uptime of the services, which the new system is offering i.e. mobile banking, web portal and the application as a whole. Guarantees that the security of member's data will be accorded first priority. Looking forward to serving Chuna Sacco Members and ensuring business continuity at any given moment.

