Supervisory Approach

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Regulatory Strategy for the Credit Union Sector

• Strategic Vision: “Strong Credit Unions in Safe Hands”

• Three key objectives to underpin this:
  
  – Resolve weak & non-viable credit unions to protect members savings & maintain sector financial stability;
  
  – Develop appropriate legislative & regulatory framework to protect financial stability of individual credit unions & allow prudent development;
  
  – Bring about longer term restructuring of sector to ensure its long-term sustainability
PRISM

• Risk based approach to supervision – **PRISM** – Probability Risk & Impact System

• PRISM is designed to enhance the Central Bank’s ability to deliver judgement based, outcome focussed regulation
We undertake tailored engagement tasks with firms in different impact categories

<table>
<thead>
<tr>
<th>High Impact Firms</th>
<th>Medium Low Impact Firms</th>
<th>Medium High Impact Firms</th>
<th>Low Impact Firms</th>
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</table>
| • Business model analysis  
• Governance reviews  
• Financial risk reviews  
• Regulatory returns analysis  
• Risk governance panels  
• Board meeting attendance | • Full risk assessments  
• Regular meetings with key firm officers  
• Semi-automated returns analysis  
• Skilled persons deployed to deal with problematic firms with supervision oversight  
• Occasional Board meeting attendance | • Full risk assessments incorporating analysis of business model, governance & finances  
• Regular meetings with key firms officers & directors  
• Regulatory returns analysis  
• Risk governance panels  
• Occasional Board meeting attendance | • Reactive supervision  
• Skilled sector focused teams  
• High appetite for enforcement to deter poor behaviour  
• Regular consumer focused thematic work (as with other impact categories) |
Supervisory Approach (1)

- Our priority is to ensure financially sound and well managed credit unions

- We will focus our regulatory resources on assessing prudential areas that are key to supporting a strong credit union sector including:

  - Governance
  - Capital (Reserves)
  - Liquidity
  - Credit (Lending)
  - Investments
  - Operational Risk (Risk Management)
  - Strategic planning
Supervisory Approach (2)

- Where the Central Bank has concerns that a prescribed contravention may be, or may have been, committed enforcement options available include: supervisory actions and other enforcement options.

- From 1 August 2013, the Administrative Sanction Procedure will apply to credit unions.

- We will be proportionate in our approach, taking account of the proactive steps that credit unions can demonstrate.