



## Enforcement Action

Central Bank of Ireland

and

Savvi Credit Union Limited

### **Savvi Credit Union Limited fined €185,500 by the Central Bank of Ireland for failure to comply with the requirements for long-term lending and the restriction on paying remuneration to directors**

On 6 November 2019, the Central Bank of Ireland (the **Central Bank**) reprimanded and imposed a fine of €185,500 on Savvi Credit Union Limited (**Savvi**) for three breaches of credit union legislation. Savvi has admitted the breaches.

The Central Bank determined that the appropriate fine was €265,000, which was reduced by 30% in accordance with the settlement discount scheme provided for in the Central Bank's Administrative Sanctions Procedure.

The breaches occurred between 2013 and 2017 and related to the following:

- Failure to comply with the Central Bank's limit for long-term loans.
- Failure to put in place appropriate systems, controls and governance arrangements to manage long-term lending.
- Paying remuneration to a director, which is prohibited under credit union legislation.

#### *Long-term Lending*

Long-term lending (or long-term loans) in this context refers to lending exceeding 10 years. The Central Bank sets lending limits to mitigate risks specific to long-term lending including credit, liquidity and concentration risk.

In July 2017, Savvi notified the Central Bank that it had breached the long-term lending limit at the end of June 2017. Despite this, Savvi issued a further nine long-term loans between July 2017 and December 2017. Each of the nine loans represented a breach of the relevant long-term lending limit set by the Central Bank. The investigation found that Savvi's systems, controls and governance arrangements were deficient in a number of respects.

#### *Directors' Remuneration*

Payment of remuneration to a director is expressly prohibited under credit union legislation. Savvi reimbursed travelling expenses, totalling €28,341, over a period of four years in excess of the applicable Civil Service Rates. This constituted the payment of remuneration.

Seána Cunningham, the Central Bank's Director of Enforcement and Anti-Money Laundering, said:

*"The Central Bank is responsible for regulating and supervising credit unions to ensure that they comply with their regulatory obligations and take appropriate measures in the best interests of their members.*

*We welcome that credit unions seek to grow and develop their businesses, however regulations and safeguards still apply and, must be adhered to at all times. Lending limits act as a safeguard to mitigate the specific risks associated with different types of lending. As such, Savvi's breach of the long-term lending limit is a serious matter for the Central Bank.*

*There should be no conflict between business activity such as providing loans and compliant behaviour and actions. This will be particularly important as credit unions seek to increase the provision of long-term lending such as mortgages to their members.*

*Changes to the lending profiles of credit unions must be supported by critical enablers such as the necessary skills, competence, expertise and risk management and operational frameworks to ensure that lending is appropriately managed and regulatory limits complied with.*

*Credit union lending will continue to be an area of focus for the Central Bank and this enforcement action should send a clear message to the sector that credit unions must take a responsible and prudent approach to ensure compliance with their regulatory requirements."*

## BACKGROUND

Savvi's principal activity is the provision of financial services to over 21,000 members. Savvi has total assets of over €377 million and is one of Ireland's largest credit unions. Savvi is supervised by the Registry of Credit Unions (**RCU**) within the Central Bank. The issues giving rise to the breaches in this case came to the attention of RCU in 2017. RCU referred the matter to the Enforcement Investigations Division within the Central Bank and an investigation was commenced in May 2018.

## PRESCRIBED CONTRAVENTIONS

### **Issuing long-term loans resulting in breaches of the long-term lending limit between June 2017 and December 2017**

Regulation 14(1)(b)(i) of the Credit Union Act 1997 (Regulatory Requirements) Regulations 2016 (the **2016 Regulations**) imposes requirements on credit unions seeking to issue long-term loans. A credit union is prohibited from issuing a long-term loan if, were the loan to be issued, the credit union's rate of long-term lending (to total overall lending) would exceed 10% (the **LTL Limit**). Regulation 14(1)(b)(ii) of the 2016 Regulations provides for a credit union to make an application to the Central Bank to increase the LTL Limit to a maximum rate of 15%. On 1 July 2008, the Central Bank approved Savvi's application to avail of the maximum LTL Limit of 15%.

In 2016, increasing long-term lending was a strategic focus for Savvi. Savvi's rate of long-term lending first exceeded 10% in November 2016. From that point, Savvi's rate of long-term lending increased month-on-month such, that by the end of June 2017, its rate of long-term lending was 15.27%, resulting in a breach of the LTL Limit. On 14 July 2017, Savvi informed the Central Bank of the breach of the LTL Limit.

The Central Bank's investigation found that between July 2017 and December 2017, Savvi issued nine further long-term loans, so that by December 2017, its rate of long-term lending was 16.9%. Savvi ceased issuing all long-term loans from January 2018. In June 2019, Savvi reported to the Central Bank that its rate of long-term lending had reduced to 14.68% and, for the first time since June 2017, was below the 15% LTL Limit.

### **Failure to have appropriate processes, procedures, systems, controls and reporting arrangements to manage long-term lending between January 2016 and December 2017**

Section 35(10) of the Credit Union Act 1997 (the **1997 Act**) requires a credit union to put in place appropriate processes, procedures, systems, controls and reporting arrangements to monitor compliance with the LTL Limit.

Savvi's rate of long-term lending increased from 5.53% in July 2016 to 12.38% in December 2016. This continuing upward trend in long-term lending should have alerted Savvi to the increasing risk of a breach of the 15% LTL Limit occurring during 2017.

The investigation found that Savvi failed to put in place appropriate processes, procedures, systems, controls and reporting arrangements across its lending, governance and risk and compliance functions in relation to the management of long-term lending. Specifically:

- Savvi failed to effectively monitor the amount of long-term lending at application and approval stage ("pipeline" lending). As a result of this, Savvi was unable to effectively monitor compliance with the LTL limit.
- Savvi's risk and compliance systems were ineffective in managing the risk of a breach of the LTL Limit. From August 2016, Savvi's risk register noted the limitations of Savvi's IT system in forecasting long-term lending, however, Savvi failed to take appropriate and timely measures to prevent the breach of the LTL limit.
- Savvi continued to issue long-term loans after it had breached the LTL Limit in June 2017.

These failures demonstrate a significant breakdown between Savvi's first and second lines of defence.

### **Prohibited payment of directors' remuneration between May 2013 and September 2017**

Section 68(1) of the 1997 Act prohibits a credit union from paying any remuneration to a director other than in the circumstances provided for under Section 68(2) of the 1997 Act. Section 68(2) specifies that a credit union can pay or reimburse expenses incurred by a director in the course of performing any service on behalf of, or for the benefit of, the credit union.

The Central Bank found that Savvi contravened section 68(1) of the 1997 Act by paying €28,341 for the reimbursement of travelling expenses, in excess of the applicable Civil Service Rates.

## **REMEDIATION**

The Central Bank is satisfied that Savvi has addressed all issues of concern identified in the investigation.

## **PENALTY DECISION FACTORS**

In deciding the appropriate penalty to impose, the Central Bank considered the following matters:

1. The nature and seriousness of the breaches.
  - Savvi was reckless in its approach to compliance with the LTL Limit and the payment of remuneration to directors.
  - The breaches revealed weaknesses in Savvi's systems and controls and governance arrangements for managing long-term lending and directors' expenses.
  - The period of time over which the breaches occurred, a four year period overall.
2. The need to impose a proportionate level of penalty.

The Central Bank confirms that its investigation into Savvi in respect of this matter is closed.

- End -

## NOTES TO EDITORS

1. The fine imposed by the Central Bank was imposed under Section 33AQ of the Central Bank Act 1942. The maximum penalty under Section 33AQ is €10,000,000, or an amount equal to 10% of the annual turnover of a regulated financial service provider, whichever is the greater.
2. The fine reflects the application of the maximum percentage settlement discount of 30%, as per the Early Settlement Discount Scheme set out in the Central Bank's "Outline of the Administrative Sanctions Procedure 2018" which is [here](#).
3. Funds collected from penalties are included in the Central Bank's surplus income, which is payable directly to the Exchequer, following approval of the Statement of Accounts. The penalties are not included in general Central Bank revenue.
4. Under the Central Bank's PRISM system of supervision, Savvi is classified as a Medium Low Impact firm. PRISM Explained – How the Central Bank of Ireland is Implementing Risk-Based Regulation is available to download [here](#).
5. This is the Central Bank's 133<sup>rd</sup> settlement since 2006 under its Administrative Sanctions Procedure, bringing total fines imposed by the Central Bank to over €99 million.
6. The Central Bank has consulted on potential changes to the lending framework for credit unions (CP125 Consultation on Potential Changes to the Lending Framework for Credit Unions) and, expects to publish final proposals in the coming weeks, which will take effect at the beginning of 2020.