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Credit Union Chair By E-Mail

06 February 2017

Re: Thematic Fitness and Probity Inspections in Credit Unions

Dear Chair

During 2016, the Registry of Credit Unions (RCU) undertook a thematic inspection in the area of Fitness and Probity (F&P), to assess the extent to which credit unions had implemented the F&P Regime for credit unions. We have now published a report setting out the key findings from these inspections - '[Report on Findings of the Thematic Fitness and Probity Inspections in Credit Unions](#)'.

The purpose of the Report is to share the Central Bank's findings and observations from the Thematic F&P Inspections with all credit unions. We expect all credit unions to carefully consider the issues raised in the Report, to examine their own F&P policies and procedures in the context of these issues and to develop and enhance their policies and procedures where necessary. More broadly, it is expected that the boards and management teams of all credit unions fully appreciate and understand their obligation to ensure ongoing compliance with the F&P regime.

Background

The purpose of the F&P regime for credit unions is to protect members' savings through improving governance standards at board and management level to ensure that individuals who exercise significant influence and control in a credit union are capable, competent and financially sound individuals with the appropriate skills, experience, knowledge and integrity to manage and govern the credit union.

Inspections

In order to assess the implementation of the F&P regime for credit unions, in 2016 the Central Bank conducted a series of thematic inspections, to establish the level of compliance with certain requirements of the F&P regime. The on-site inspections were conducted across a sample of credit unions (which were selected to provide a mix of asset size, urban and rural locations and a mix of industrial and community based credit unions) and focused on 3 areas of F&P compliance namely:



- 1) Due Diligence;
- 2) Role of the Nomination Committee; and
- 3) Maintenance of Records.

The Central Bank's expectation is that the F&P regime should now be well embedded in credit unions. However, we found some examples of well embedded F&P processes in some of the credit unions inspected, the inspections highlighted a number of common issues of prudential concern, particularly in the area of due diligence.

Key findings identified during the thematic inspections included the following:

- A failure by some credit unions to establish processes for compliance with the requirements of the F&P regime for credit unions. In a number of cases, credit unions had not conducted due diligence on Controlled Function (CF) role holders.
- In credit unions where there was some evidence that due diligence on CF role holders had been undertaken, there were concerns about the quality and/or completeness of the review undertaken, with examples of over reliance on personal knowledge of CF role holders and lack of evidence of documentation of key checks.
- A lack of understanding/appreciation of the statutory role of the Nomination Committee in relation to oversight of F&P compliance by the credit union.
- Lack of due diligence records on file which resulted in a lack of evidence to support compliance with the F&P regime for credit unions.
- Lack of documentation of F&P compliance policies and procedures.

We will have further engagements with credit unions in relation to compliance with F&P requirements and at such time would expect to find a deeper understanding of the F&P regime for credit unions and evidence of well embedded processes supporting a strong governance culture within credit unions.

Failure to comply with Section 21 (Application of standards of fitness and probity) of the Central Bank Reform Act 2010 may result in the imposition of sanctions on a credit union (and individuals concerned in the management of a credit union, where relevant) pursuant to Part IIIC of the Central Bank Act 1942 (further information on the Administrative Sanctions Procedure ("ASP") can be found [here](#)).

If you have any queries in relation to the contents of this letter, please contact your supervisor in RCU.

Yours sincerely

A handwritten signature in black ink that reads "Anne Marie McKiernan".

Anne Marie McKiernan

Registrar of Credit Unions