



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

RCU PRISM - Refined Engagement Approach

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PRISM

- Risk based approach to supervision – **PRISM** – **P**robability **R**isk & **I**mpact **S**ystem.
- PRISM is designed to enhance the Central Bank's ability to deliver **judgement based, outcome focussed** regulation.



Challenge, Judge, Mitigate



Supervisory Approach:

Assertive Risk-Based Supervision Underpinned by Credible Enforcement Deterrent

Assertive

- More *challenging* of firms – on business models as well as governance & controls
- Supervisors required to make conclusive *judgements* of risk profile
- Central Bank needs to be satisfied concerns are taken seriously and *mitigated*

Risk-Based Supervision

- Priority given to firms that can cause most damage to the Central Bank's objectives;
 - Safeguarding Stability
 - Protecting Consumers
- Emphasis on conclusive *mitigation* of identified material risks

Credible Enforcement Deterrent

- Enhanced enforcement capability
- Identified enforcement priorities



Challenge, Judge, Mitigate



PRISM

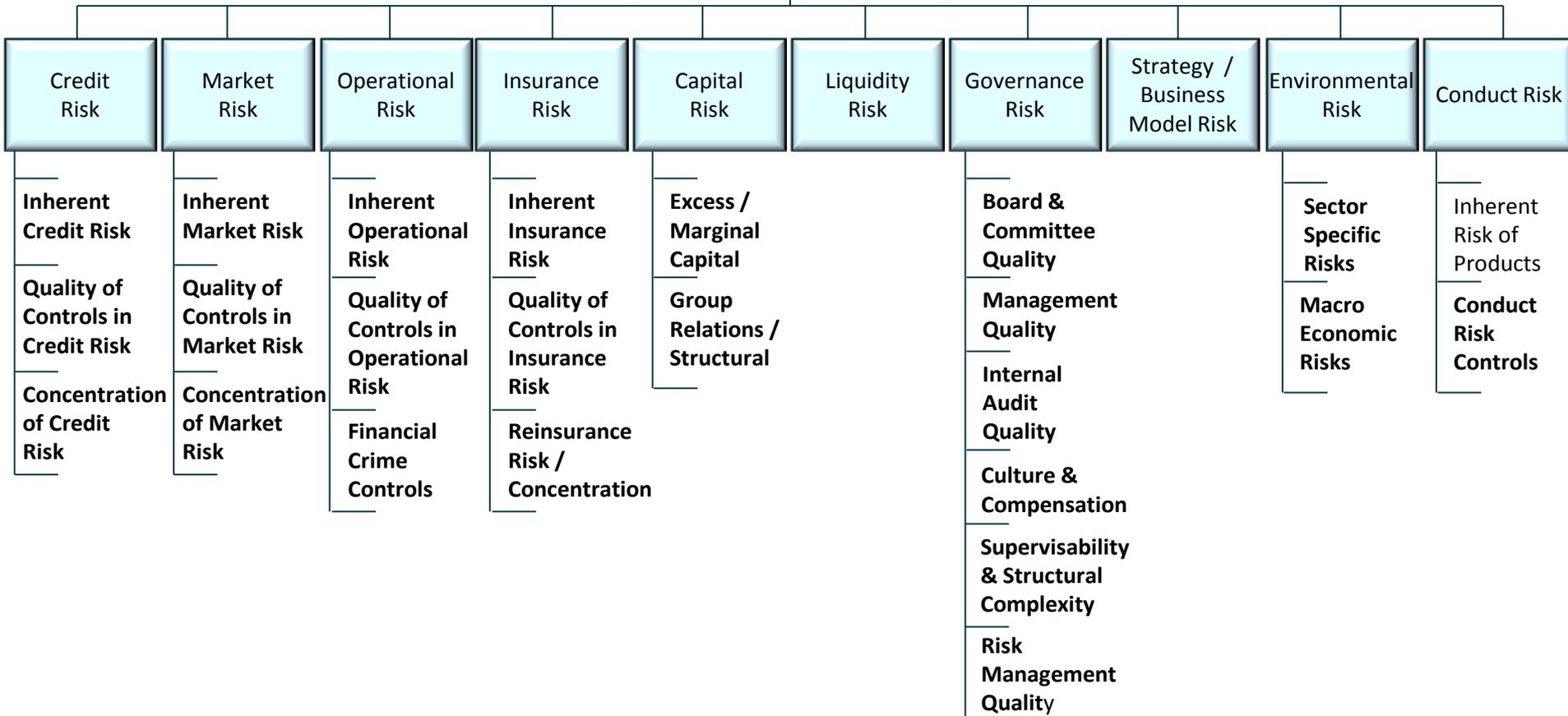
Designed to allow us to:-

- adopt a consistent way of thinking about risk across all supervised firms;
 - prioritise engagement with riskiest firms;
 - undertake an appropriate level of engagement with all firms;
 - assess firm risks in a systematic and structured fashion;
 - ensure that action is taken to mitigate unacceptable risks in firms;
 - provide firms with clarity around our view of the risks they pose;
 - use quality control mechanisms to encourage, challenge and improve our supervisory approach; and
 - analyse better management information about the risk profiles of the firms and sectors we supervise.
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Assess Risk Probability – Categories & Sub-Categories

OVERALL RISK RATING





2016-18: New Engagement Approach

New Engagement approach informed by:

- PRISM standard engagement approach May 2012 – December 2014
- Temporary Engagement Model 2015 – probability-risk based approach
- ICURN Peer Review findings
- Engagement with full credit union population

New model based on impact probability

- Impact re-categorised to:
- Medium Low impact – CUs with assets of over €100m
- Low Impact – CUs with assets of less than €100m

Engagement Prioritisation

- Weakest entities as defined by in-house Viability Model (quantitate & qualitative) are prioritised for engagement
- Entities with assets of over €100m (currently 33% of sectoral assets) subject to 18 month engagement cycle
- Significant post consolidation entities – assess if benefits of mergers are being realised



New Engagement Approach

Recognising the evolving credit union landscape presents opportunities for some and challenges for most credit unions.

Move from an impact based to impact probability approach:

- a) We will prioritise entities with weakest viability for earliest and where necessary more frequent onsite engagement;
- b) We will have a regular predefined engagement with our largest entities (Now Medium Low impact);
- c) We will engage with all credit unions going forward;
- d) RCU will be visiting more credit unions on an annual basis;
- e) PRISM principles of outcomes focussed challenge, transparency of findings, and agreed RMPs remains unaltered.



New Engagement Approach

Firm level assessment integrates categories to provide a firm risk profile. PRISM Risk categories reflect credit union risk profile.

In terms of risk profile what matters is the individual firm profile...which is a factor of four defining factors;

- 1) Board and Managerial competence
- 2) Risk management capability (flows from (1))
- 3) Business Model
- 4) **Financial resilience**

Risk assessment operates at risk category level & at firm level.

Engagements scoped depending on firm risk rating – higher risk will require deeper dive & more frequent engagement.

Engagement objective – assess firm risk profile, identify root cause of unacceptable risk & require risk treatment / RMP.

Includes focus on CEO & Management Team operational performance – Board focus on governance oversight performance.