



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

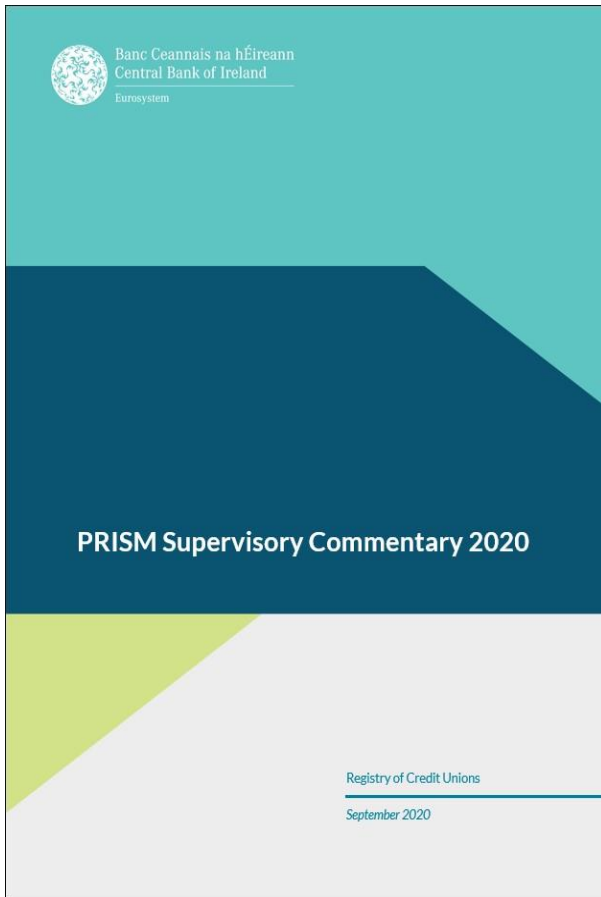
A photograph of a modern building with a glass and metal facade, viewed from a low angle against a clear blue sky. The building's structure is composed of vertical and horizontal lines, creating a grid-like pattern.

Supervisory Expectations – Risk Management / Loan Forbearance

David Lynch

Risk Management – Information / Context

Credit unions need to continue to enhance their core prudential foundations across governance, risk management & operational capability.



- **'PRISM Supervisory Commentary 2020' publication dated 8 September 2020:**
 - ❑ Documents evidence-based findings across key risk areas & the Registry's associated supervisory expectations;
 - ❑ Designed to support credit union Boards & management teams in reviewing & embedding improved risk management frameworks.

- **Recurring supervisory concerns identified, including in fundamental area of Risk Management frameworks:**
 - ❑ Failure to implement effective Risk Management / Compliance frameworks;
 - ❑ Risk management & compliance reports which were insufficient;
 - ❑ Inconsistencies between the stated risk appetite of the credit union & the related policies.

- **Importance of strong core foundations across governance, risk management & operational capabilities:**
 - ❑ Enable credit unions to continue to provide core services to members & undertake prudent business model development;
 - ❑ Emerging risks are prudently managed in this increasingly challenging environment, including Brexit / COVID impacts.

Risk Management – Board Ownership & Oversight

Embedded culture of Risk Management required rather than a 'tick box' approach.

Board Oversight

- Importance of Board of Directors having an effective oversight & assurance framework in place.
- Key Oversight mechanisms:
 - Three Lines of Defence: Essential in the provision of assurance to Board of Directors - resourcing arrangements reflective of the nature, scale, complexity & risk profile of the credit union.
 - Robust internal controls environment: including implementation of effective segregation of duties.
 - Effective use of relevant Risk MI & KRI's: ongoing monitoring & key decisions informed by good quality risk & compliance information.

1st Line of defence

Operational Management

2nd Line of defence

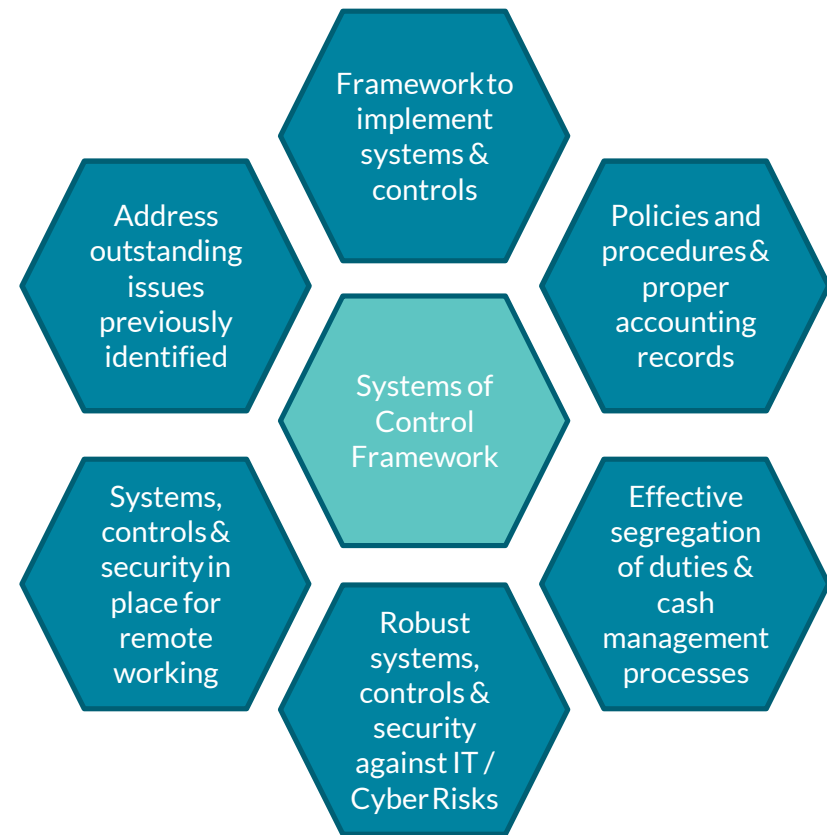
Risk Management and Compliance

3rd Line of defence

Internal Audit

Risk Management – Importance of Systems of Control Framework

“Credit unions are reminded of their responsibilities for establishing an effective internal control framework & for monitoring the systems and controls on an ongoing basis.”



- Potential for Increased Operational Risk environment as credit union teams continue to operate in a *remote workplace environment*.
- Credit unions need to be vigilant regarding their *IT systems vulnerabilities*, particularly from *cyber risks* & ensure on an ongoing basis that they have strong systems of controls in place relating to their IT framework.
- Supervisory Commentary 2020 *risk issues highlighted*:
 - Evidence of weaknesses in IT frameworks & the oversight of IT risks;
 - Evidence of operational weaknesses related to poor internal controls & processes;
 - Inadequate segregation of duties within the credit union.
- Further Guidance on effective internal control framework & risk management outlined in *Credit Union Handbook*.



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Risk Management – Supervisory Expectations

We expect findings from the PRISM Supervisory Commentary 2020 to be considered by all credit unions, in the context of assessing the adequacy of their own risk management framework & determining appropriate & timely actions to mitigate risks.

Weaknesses identified:

- Failure of Boards to adequately resource & oversee / engage effectively with risk management & compliance functions;
- Risk management & compliance reports were insufficient in terms of detail, failing to highlight key risks;
- Inconsistencies & contradictions between stated risk appetites & policies, procedures & practices.



Supervisory Expectations:

- Boards need to ensure that the risk management & compliance functions are appropriately resourced;
- Risk management & compliance reports should have sufficient detail to enable Boards to gain:
 - Comprehensive understanding of issues identified;
 - Assist in taking appropriate actions where necessary;
- Maintenance of a risk-focused approach in identifying or implementing strategic objectives.



Intended Outcomes:

*Strong & Sustainable
Credit Unions*

*Credit Unions Serving
Members' Needs*

Registry's Supervisory Focus: 2021 & beyond

- Good governance & robust risk management are necessary & critical business enablers in this increasingly challenging environment & accordingly will remain a key focus of our supervisory strategy;
- RCU will continue to assess the quality & embeddedness of the risk management function of credit unions;
- Planned Thematic review of "Risk Management" with the objective of improved risk management & governance culture.

Loan Forbearance Update

To date, the overall level of loan forbearance, is not substantial in the context of total credit union sector lending – the Registry will continue to monitor these trends.

Covid-19 Payment Breaks

- **Thank you** for engaging constructively in recent months with the Registry in the submission of specific information in relation to member requests for modification of loans.
- “Active” loan forbearance requests currently < c.1% of Gross Loans Outstanding.
- The Registry’s supervisory expectations on treatment of borrowers under payment breaks were articulated to all credit unions in: 8 June 2020 & subsequent 4 September 2020 Financial Year End Circulars.

Supervisory Expectations (extracts)

- The **level of distress in the credit unions’ loan books should be prudently considered** & be reflected in provisioning levels.
- Operationally ready & prepared to **engage with borrowers** during, or at expiry of, the payment break to identify whether further support is required.
- Imperative that the Board are ensuring that sufficient resources are in place to assess individual borrower circumstances, & to offer appropriate & sustainable solutions to affected borrowers.
- Act in a way that **protects the best interests of borrowers** & in line with the relevant regulatory requirements.
- **Fully transparent & clear** to borrowers as to what will happen after the term of the payment break.

Intended Outcomes

- COVID-19 related forbearance measures operate in borrower’s best interests.
- Overall responsibility of the Board of each credit union to ensure the adequacy of its loan provisions.
- Effective & efficient management of distressed loans is important to protect the reserves of credit unions which are not unlimited.