



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Thematic Review of Risk Management Maturity in Credit Unions

Registry of Credit Unions – November 2021

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1. Glossary

Abbreviation	Definition
RMM	Risk Management Maturity
the Review	Thematic Review of Risk Management Maturity in Credit Unions
the Report	Thematic Review of Risk Management Maturity in Credit Unions Report
the Registry	Registry of Credit Unions
the Act	Credit Union Act, 1997, as amended
the Regulations	Credit Union Act 1997 (Regulatory Requirements) Regulations 2016
the Board	Board of Directors
CEO	Chief Executive Officer – this refers to the statutory role of the manager of a credit union, as set out in Section 63A of the Act
RMO	Risk Management Officer
RMF	Risk Management Function

2. Foreword

I am pleased to introduce this report on the findings from our Thematic Review of Risk Management Maturity in Credit Unions.

Good governance and robust risk management are necessary and critical business enablers for credit unions in protecting members' funds, addressing current challenges and leveraging available opportunities. As highlighted in our 2020 PRISM Supervisory Commentary, the recurring nature of governance and risk management issues identified during supervisory engagements is of concern. Deputy Governor Ed Sibley, in a speech to the Institute of Directors in February 2021¹, highlighted recurring issues that have undermined effective governance and risk management in regulated firms across the financial sector. These included inadequate resourcing of risk management and compliance functions, weaknesses in connecting strategy with risks and financial resources, and weaknesses in understanding and approaches to IT related risk management – all of which have been identified during supervisory engagements² with credit unions.

There has been significant progress in the evolution of risk management since the introduction of statutory requirements for credit unions in 2013, with the basic elements of risk management now in place in the majority of credit unions. This does not mean that there are effective risk management frameworks in operation in all cases. In particular, some credit unions continue to view the implementation of risk management frameworks as an exercise in ensuring compliance with regulatory requirements, rather than the implementation of a key business support and enabler to underpin sound operations and decision making in the credit union.

While it is encouraging to see examples of good practice identified in a number of areas, weaknesses were also identified during the Review. These included weaknesses in Board oversight, stewardship and ownership, the structure and framework around the risk management function, risk reporting, engagement with risk management, training and culture.

We expect all credit unions to consider the issues set out in the Report, to review the “Areas of Improvement”, the “Examples of Good Practice”, supervisory expectations, regulatory requirements and related key recommendations, and consider how these can support in embedding a strong risk management culture in their credit union, in a timely and cost effective manner, taking account of the nature, scale, and complexity of the credit union.

Boards and senior management must take steps to ensure that a strong risk management culture is embedded in all areas of the credit union to support effective identification, consideration and mitigation of risks. This is key to ensuring that risk management underpins and supports financial and operational resilience and that credit unions can continue to serve their members' financial needs and protect their savings.



Patrick Casey
Registrar of Credit Unions
November 2021



¹ <https://www.centralbank.ie/news/article/speech-governance-risk-uncertainty-change-ed-sibley-17-Feb-21>

² <https://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/credit-unions/communications/supervisory-commentary/2020-prism-supervisory-commentary.pdf?sfvrsn=4>

3. Executive Summary

3.1. Introduction and Background

There has been significant progress since the introduction of statutory risk management requirements in 2013, with key basic elements of risk management such as a RMO, risk reporting and risk registers now in place in the majority of credit unions. Notwithstanding the significant progress, identification of recurring issues with risk management in our supervisory engagements indicates a clear need for credit unions to further evolve and embed their risk management frameworks, to ensure that all of these elements are functioning effectively.

3.2. Objective and Methodology of Review

3.2.1. Objective

Informed by the concerns outlined above, the objective of the Review was to assess the level of maturity and the embeddedness of risk management and to identify actions for credit unions to improve the level of risk management maturity.

Risk management can be considered to be embedded, when the overall enterprise risk management framework underpins and supports the ongoing operations and decision making of a credit union and its Board. Where risk management is embedded across all areas of the credit union, this can ensure that risks are identified, considered and appropriately mitigated, thereby protecting the credit union and the funds of its members.

3.2.2. Methodology

The Registry conducted the Review in 12 credit unions³, comprising of a review of documentation relating to risk management, together with a total of 36 separate interviews with the RMO, CEO and representatives from the Board of each credit union in the sample. The Review focussed on four key areas:

- (1) Board Ownership and Oversight;
- (2) Risk Management Function – Structure and Framework;
- (3) Risk Management Reporting; and
- (4) Training and Culture.

3.3. Key Findings

The Review identified that, while credit unions have made progress in relation to the implementation of the fundamentals of risk management structure and framework, overall there is still a low level of risk management embeddedness, particularly in the areas of Board ownership, training and engagement which are essential in actively fostering a culture of risk management throughout the credit union. The Review confirmed that there remains an overdependence on certain second line of defence⁴ functions of the credit union (the RMF, management team and Risk Committee). The first line of

³ The sample selected provided a mix of different asset sizes, urban and rural locations, a mix of internal and outsourced Risk management functions and a mix of industrial and community based credit unions.

⁴ In terms of control and responsibilities for risk within a credit union, the RMF is the second of the 'three lines of defence' – which enables the identification of risks within the business, and oversees risk and reporting to the Board. The risk management function structurally sits between the front line staff who constitute a key part of the first line of defence in identifying actual, emerging or potential risks as they carry out day-to-day operational functions and internal audit (which is responsible for providing independent assurances to the Board that the overall governance framework, including the risk governance framework is effective and that policies and processes are in place and consistently applied).

defence functions are not actively involved in the day-to-day application of risk management (i.e. front line staff) and a lack of engagement and oversight from the Board was identified.

Specifically, the Review identified a number of key findings under each of the four areas assessed:

3.3.1. Board Oversight and Ownership

The Review found weaknesses at Board level, including:

- little evidence in many cases of robust discussion taking place at Board meetings on risk-related issues;
- little evidence of engagement between the Board and the RMO on decisions taken to mitigate risks;
- limited face-to-face interaction between the Board and the RMO; and
- a large dependency on a small number of Board members to address the issues raised by the RMO relating to risk.

The key findings in the other three areas set out below, are also areas for which the Board has responsibility.

3.3.2. Risk Management Function – Structure and Framework

The Review identified examples of a disconnect between the first and second lines of defence in relation to risk management. It was evident that in many cases there is a tendency for risk-related work to be undertaken by the second line of defence, in a “silo” comprising of credit union management and the RMF. Often the first line of defence, namely the front line staff, are not involved in risk identification and/or do not have regular interaction with the RMF. Where the front line staff do not play an active role in risk identification and escalation, this represents a weakness in the “three lines of defence” model, which ultimately impacts the effectiveness of the risk management framework and the ability of the credit union to identify and mitigate emerging risk. The review also identified potential issues in relation to the independence of the RMF, where no direct line to the Board was evident.

3.3.3. Risk Management Reporting

It was evident from the review that a small number of credit unions have work to do in relation to the quality of risk reporting. This is to ensure that risk reports and risk registers are not only presented by the RMO to the Board on a frequent basis, but that they are clear, concise and digestible for the Board members to absorb. Boards must be able to fully understand and appreciate the extent of the risks facing the credit union, where the highest priority risks lie and what actions are being proposed to mitigate the identified risks.

3.3.4. Training and Culture

The Review identified a need for credit unions to be more pro-active in their approach to enhancing risk management. This includes increasing and developing relevant training and engagement between the RMF and staff, management and the Board, in order to increase awareness and knowledge about the importance of risk management. This will ensure clarity on the shared responsibility across all staff and volunteers in the identification and management of risks and support ongoing challenge and discussion on risk issues. This in turn should drive a culture where risk is spoken about, considered important and enhance the maturity level and embeddedness of risk management within individual credit unions.

3.4. Conclusion

While it is encouraging to see examples of good practice evidenced during the Review, it is clear from the Review that Boards of credit unions have more work to do in order to embed and evidence greater ownership and stewardship of risk management. In this regard, Boards need to actively foster a culture of effective risk management across the lines of defence and through the spine of the credit union, from front line staff to the management team and RMF, and ultimately to the Board. By driving this forward, credit unions should ensure that the risk management framework underpins and supports the resilience of the ongoing operations of the credit union, both in a business as usual context and, as the credit union evolves, through business model change and restructuring.

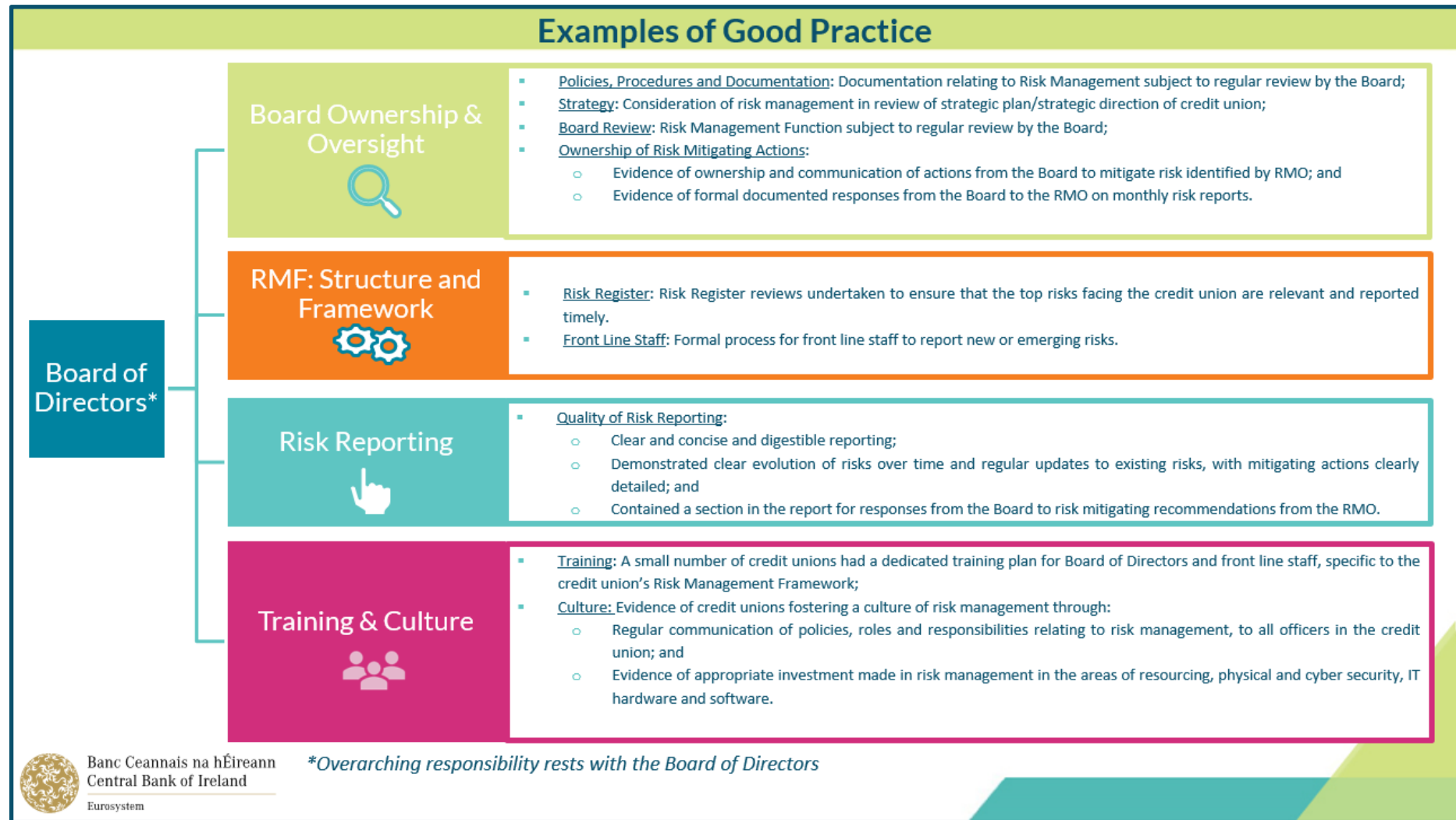
3.5. Summary of Key Findings

The key findings from the Review are set out below, under the headings of “Areas for Improvement” and “Examples of Good Practice”. Section 6 of the Report provides more detailed information on these findings.

3.5.1. Areas for Improvement



3.5.2. Examples of Good Practice



* It should be noted that while each of the observations outlined in the tables in sections 3.5.1 and 3.5.2 above may not have arisen in every credit union in the sample, they are representative of the findings across the full sample of credit unions.

4. Report Structure

The sections of the Report cover the following areas:

- **Section 5** sets out the objective and methodology of the Review;
- **Section 6** provides details of the key findings from the Review, with supervisory expectations and regulatory requirements, where applicable, for each of the findings;
- **Section 7** outlines key recommendations for credit unions on key roles of staff and directors within the credit union in relation to risk management;
- **Section 8** sets out the conclusions arising from the findings of the Review;
- **Appendix 1** provides an overview of the legislative and regulatory framework on risk management for credit unions; and
- **Appendix 2** provides a full list of information and documentation that was included in the request for information to all credit unions in the sample.

5. Objective and Methodology

5.1. Objective and Overview

The overall objective of the Review was to assess the level of maturity and embeddedness of risk management based on a sample of credit unions and through the findings identify actions to improve the level of risk management maturity in the credit union sector generally.

Following the introduction of statutory risk management requirements in 2013⁵ the initial focus for credit unions was on appointing RMOs and putting systems and structures in place to meet these statutory requirements. In tandem, the focus of our supervisory engagement was on establishing if credit unions were taking appropriate steps to meet those requirements, highlighting where resourcing and/or systems had not been put in place. However, a number of years following the implementation of the requirements, our expectation is that credit unions have moved beyond a “tick-box” approach to compliance with the requirements. We expect to see all Boards apply a risk based approach whereby the risk management framework underpins and supports the resilience of the ongoing operations of the credit union – both in a “business-as-usual” context and, as the credit union evolves, through organic business model change and restructuring.

There has been significant progress since 2013 with key basic elements of risk management such as a RMO, risk reporting and risk registers now in place in the majority of credit unions. However, this does not mean there is effective risk management in all credit unions, evidenced by recurring issues identified during supervisory engagements with credit unions⁶.

⁵ A range of risk management requirements have been in place since 2013 for credit unions. The Credit Union Act, 1997 (the Act), requires credit unions to have a risk management system in place, and sets out requirements in relation to the RMO, risk management system, systems and controls, and the obligations of the Board. In addition, the Credit Union Act 1997 (Regulatory Requirements) Regulations 2016 (the Regulations) set out obligations for credit unions in relation to the establishment and maintenance of a Risk Register.

⁶ <https://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/credit-unions/communications/supervisory-commentary/2020-prism-supervisory-commentary.pdf?sfvrsn=4>

Boards are responsible for creating and embedding a strong risk culture⁷ across the credit union, including the three lines of defence. Boards, management and staff must be clear on the credit union’s risk appetite and parameters within which they can operate, be fully aware of their respective roles and responsibilities in relation to risk management, and work together in a holistic manner to ensure that the risk management system operates efficiently and effectively. Boards must be mindful of their obligations regarding the oversight and stewardship of the risk management system as a whole, and take ownership and be proactive in fostering a strong risk culture across all areas of the credit union.

5.2. Methodology

The Review was carried out as part of the Registry’s supervisory engagement plan for 2021 and was undertaken in two stages:

- (1) An information request was issued to credit unions in the sample in May 2021, and a detailed review of the documentation was undertaken – see Appendix 2 for the full information request;
- (2) Interviews were held with the RMO, CEO and Board representation of each credit union in the sample during June and July 2021.

- There were 12 credit unions selected as part of the Review.
- The sample selected provided a mix of different asset sizes, urban and rural locations, a mix of internal and outsourced RMFs, and a mix of industrial and community based credit unions.
- The Review focussed on four key areas of Risk Management:
 1. Board Ownership and Oversight;
 2. Risk Management Function – Structure and Framework;
 3. Risk Management Reporting; and
 4. Training and Culture.
- All credit unions in the sample were sent an information request, requesting documentation relating specifically to risk management.
- Following submission and review of the documentation by each credit union, the Review team held 36 interviews with the RMO, CEO and Board representatives across all of the sample of credit unions.

6. Detailed Findings

The detailed findings from the Review are set out below and are analysed under four key areas, identifying areas for improvement and examples of good practice in each area:

- (1) Board Ownership and Oversight;
- (2) Risk Management Function – Structure and Framework;
- (3) Risk Management Reporting; and
- (4) Training and Culture.

While the findings below are accompanied by our supervisory expectations and regulatory requirements, where applicable, credit unions should also refer to guidance on broader supervisory expectations provided in the Credit Union Handbook⁸, a resource which credit unions are expected to use on a regular basis as a key reference support and guide.

⁷ Risk culture is defined as “the values, beliefs, knowledge, attitudes and understanding about risk shared by a group of people with a common purpose” – Institute of Risk Management 2012

⁸ <https://www.centralbank.ie/regulation/industry-market-sectors/credit-unions/credit-union-handbook>

6.1. Board Ownership and Oversight

Board Ownership and Oversight is considered as the most important area in relation to developing the maturity of the risk management framework and a risk culture throughout the credit union. Boards need to engage with those working within the RMF and actively use the risk management framework they have put in place to inform credit union decision-making at all levels. Boards must be mindful of their obligations regarding the oversight of the risk management system and take ownership and be proactive in helping to foster a culture in which risk management becomes deeply embedded in all aspects of the credit union.

The Review team identified considerable weaknesses at Board level in a large proportion of credit unions in the sample. These included little evidence in many cases of robust discussion on risk related issues taking place at Board meetings; little evidence of engagement between the Board and the RMO on decisions taken to mitigate risks; limited face-to-face interaction between the Board and the RMO; and, in some cases, a large dependency on a small number of Board members to address the risk issues raised by the RMO.

❖ Key Findings

Ownership of risk management

Areas for Improvement:

- In almost all of the credit unions reviewed, weaknesses were found in relation to evidence of ownership of risk management by the Board, in terms of communicating actions, decisions and feedback on monthly risk reports to the RMO.
- In almost all of the credit unions reviewed, there was a lack of evidence of robust discussion of issues arising from risk management reports, or relating to risk management in general, at Board / Committee meetings.
- In just under two thirds of the credit unions in the sample, there was an infrequent attendance of the RMO at Board meetings to discuss risk management issues arising.
- One quarter of the credit unions in the sample displayed an over-reliance on a sub-committee such as a Risk Committee or Audit and Risk Committee, with little or no ownership or oversight by the Board being evidenced.

Good Practice Identified:

- A small number of credit unions evidenced formal documented responses from the Board to each risk report.
- A small number of credit unions evidenced effective Board ownership of risk management, with evidence of the Board displaying a good understanding of risk management issues and acting on the advice of the RMO.

Regulatory Requirements and Supervisory Expectation:

The Board has a number of obligations under the Act and the Regulations on risk management.

Section 55 of the Act, for example, outlines the obligation regarding *“taking measures necessary to address any deficiencies identified in the risk management system”* and the obligation to *“implement a risk management process that ensures that all significant risks are identified and mitigated to a level consistent with the risk tolerance of the credit union”*.

Decisions and actions taken by the Board, and any other feedback required to be provided by the Board to the RMO, should be provided in a formalised manner.

Formal documented responses from the Board to risk reports displays ownership of risk management by the Board and evidences the communication of actions from the Board to the RMO to help mitigate risks identified and reported.

Given the responsibilities of the Board in relation to the risk management process in the credit union, discussion of issues arising from risk reports should be a strong feature of Board meetings and should be appropriately documented.

The attendance of the RMO at Board meetings should also be an opportunity for the Board to clarify any queries in relation to risk related matters. Although the RMO may be attending meetings of the relevant Board sub-committee on a more regular basis than the full Board, the Board should hold regular meetings with the RMO, at a minimum quarterly. Regular interaction between the Board and the RMO allows for better informed and more robust discussions of issues arising from risk reports and mitigating actions.

While certain duties may be delegated to an appropriate committee, such as a detailed analysis and discussion of the risk report in advance of the full Board meeting, there should be a strong connection back to the Board from the discussions and actions carried out by the relevant committee, whether the issues warrant further discussion by the full Board or are simply highlighted as points to note for the Board as a whole.

Review of risk management framework

Areas for Improvement:

- In over half of the credit unions in the sample, there was a lack of evidence of regular reviews by the Board of various elements of the risk management framework including the performance of the RMF, the risk register and the overall performance of the risk management system.

Good Practice Identified:

- Two thirds of the credit unions in the sample evidenced regular formal reviews of the full risk management system including the risk register, policies and procedures, systems of controls and limits, etc.
- A small number of credit unions in the sample evidenced regular formal reviews of the performance of the RMF, including written feedback provided to the RMO by the Board.

Regulatory Requirements and Supervisory Expectation:

Section 55 of the Act outlines the functions of the Board, which includes the review of the risk management system and the risk management policy on a regular basis, but at least annually, while the Regulations stipulate that the Board review and approve the risk register at least annually.

Board reviews play an important role in identifying and addressing deficiencies in the risk management system, including deficiencies identified in systems and controls.

While credit unions may identify deficiencies in elements of the risk management system on an ongoing informal basis, and remedy these in a timely manner, credit unions should also perform regular formal reviews to ensure that the risk management system remains appropriate for the credit union.

Reviews carried out by the Board should include review, at a minimum, of the following:

- Risk management policy;
- Risk management process;
- Risk register; and
- Systems and controls.

Reviews should be informed by risk events, changes in the financial position of the credit union, changes in the external environment, and any changes to the credit union's strategic plan.

Similarly, while a credit union may monitor the performance of the RMO on an ongoing informal basis, the Board should ensure that the RMO is subject to a regular formal performance review to ensure the RMO is meeting standards required by legislation, and supporting the Board in promoting a culture of risk awareness, identification and management at every level within the credit union.

Consideration of risk management in reviewing strategy/new products

Good Practice Identified:

- In two-thirds of the credit unions in the sample, consideration of risk management was evidenced when carrying out a review of the credit union's strategic plan or strategic direction.

Areas for Improvement:

- However, one-third of the credit unions in the sample did not evidence the involvement of the RMO when carrying out reviews of the credit union's strategic plan / direction or proposed new products / services. The lack of regular attendance by the RMO at Board meetings resulted in limited opportunity for robust discussions between the RMO and the Board in relation to strategic decisions and the risk considerations of these.

Supervisory Expectation:

In carrying out a review of the strategic plan or strategic direction of the credit union, or when considering the introduction of a new product or service, consideration should be given to risk management issues in order to identify any potential new risks and to ensure alignment with the credit union's risk appetite statement. Involvement of the RMO directly in face-to-face discussions with the Board is an effective means of gaining an in-depth understanding of the issues and potential risks from an individual with more expertise in the area of risk management.

6.2. Risk Management Function – Structure and Framework

In assessing the key area of Risk Management Function – Structure and Framework, the Review team identified that, while most of the credit unions in the sample demonstrated that they have the fundamental elements of a risk management system in place, it was evident that the majority of risk-related work in a number of the credit unions appeared to be undertaken in a “silo” – comprising of the management team and the RMF. The RMF and management teams were somewhat disconnected from the Board and front-line staff, in relation to risk management.

A number of the credit unions did not have any process in place for front-line staff to identify and escalate potential or emerging risks, and did not see a role for front-line staff in risk identification. Where the front line staff do not play an active role in risk identification and escalation, this represents a weakness in the “three lines of defence” model, which ultimately impacts the effectiveness of the risk management framework and the ability of the credit union to identify and mitigate its risks.

❖ Key Findings

Engaging the first line of defence

Areas for Improvement:

- Half of credit unions in the sample had no formal process in place for front-line staff to report existing or potential new risks.
- In one-quarter of credit unions in the sample, it appears that risk identification is predominantly carried out by the RMO and / or CEO.
- In a small number of credit unions in the sample, there was little or no engagement between front-line staff and the RMO.

Good Practice Identified:

- A small number of credit unions in the sample had a formal process in place for front-line staff to identify and report new or potential new risks. This included specific training on reporting risks and the inclusion of risks identified and reported by staff in the monthly risk reports.

Supervisory Expectation:

Front-line staff such as tellers and loan officers constitute a key part of the first line of defence in risk management. Working on the day-to-day business of the credit union from an operational perspective means they are well placed to identify actual, emerging or potential risks. Depending on the nature of the risk, operational staff may also be best placed to propose mitigating actions and to discuss the practicalities of applying such actions.

While it is the responsibility of the Board to implement a risk management process that ensures that all significant risks are identified and mitigated to a level consistent with the risk tolerance of the credit union, all staff and officers in the credit union have a valuable role to play in ensuring and supporting the achievement of this objective. It is important that open lines of communication exist between front-line staff and those working in the RMF, so that all risks facing the credit union can be identified in a timely manner and be effectively mitigated within accepted risk tolerance levels.

Reporting Lines / Independence of Risk Management Function / Potential conflicts of interest**Areas for Improvement:**

- One-third of credit unions in the sample displayed weaknesses in this area including:
 - RMO being involved in operational duties in the credit union (e.g. operational management, teller duties);
 - CEO requesting substantive changes to the risk reports in advance of them being submitted to the Board / Risk Committee; and
 - RMO not reporting directly to the Board on a regular basis.

Regulatory Requirements and Supervisory Expectation:

Section 76C (5) of the Act provides that the Board of a credit union “shall ensure that the risk management officer is independent in the exercise of his or her functions and ... shall be free from influence”. While the RMO may legally hold another position as an officer in the credit union, the Board should give consideration to the likelihood of conflicts of interest / potential conflicts arising and to how such conflicts can be effectively managed.

Application of policies, procedures and documentation**Areas for Improvement:**

- One-quarter of credit unions in the sample had inconsistencies in the application of policies, procedures and documentation relating to risk management, including:
 - Risk reports not meeting the content or frequency requirements laid out in the credit union’s risk management policy;
 - Risk Committees not meeting or reporting on a regular basis as set out in the credit union’s risk management policy; and
 - A lack of evidence of risk reports being submitted to, or being reviewed by, relevant roles such as the CEO or Risk Committee.

Supervisory Expectation:

Policies, procedures and other supporting documentation relating to risk management play an important role in helping to guide all staff and officers through the effective and efficient operation of the credit union.

Risks of various types and severities may manifest where policies and procedures are not being followed consistently. In instances where a policy or procedure is not being followed, the reason should be identified and a suitable solution put in place, bearing in mind that this may require an update to the policy or procedure itself.

Quality of Risk Register

Areas for Improvement:

- A small number of credit unions evidenced issues with the practicality of their risk registers, including the following:
 - Large number of risks on the risk register with some duplication, making it difficult to be of practical benefit, and difficult for the Board to focus on addressing the priority risks; and
 - Risks identified on the risk register which do not appear to accurately reflect the actual risks facing the credit union.

Good Practice Identified:

- A large number of credit unions in the sample demonstrated that regular reviews of the risk register are undertaken with input from the Board, to ensure that the top risks identified facing the credit union are relevant and reported timely.

Supervisory Expectation:

Credit unions should ensure that risk information collected is appropriate, complete and in a standardised format that will facilitate a complete record of risks across the credit union and enable a risk focussed discussion at Board level.

An unwieldy risk register, which contains a very large number of risks, will make it difficult to identify and mitigate key risks.

The inclusion of risks on the risk register which do not accurately reflect the risk profile or specific risks facing the credit union may lead to the reporting of inaccurate information to the Board. This could result in ineffective resource allocation with regard to the mitigation and management of key risks, and could also lead to issues with regard to decisions taken by the Board on foot of the reported information.

The regular maintenance of the risk register by the RMO and the regular review of the risk register by the Board should help to ensure that the risk register evolves over time and is a key resource for the credit union in their risk management framework.

6.3. Risk Management Reporting

In relation to risk management reporting, the Review team observed that over half of the sample had good quality risk reporting which was noted by the respective Boards as concise and digestible. Notwithstanding that, it was evident from the Review that there are areas for improvement for some credit unions in relation to the frequency of risk reporting to the Board and the clarity and quality of those reports.

❖ Key Findings

Quantity / frequency of risk reports

Areas for Improvement:

- Almost half of the credit unions in the sample evidenced either fewer risk reports than expected as per the credit union's risk policy, or infrequent or irregular presentation of risk reports to the Board.

Supervisory Expectation:

Risk management is an ongoing process, requiring the need to remain vigilant to potential new risks, to monitor changes in both the internal and external environment, and to assess and monitor identified risks and their mitigating actions. Regular and informed reporting to the Board is an important part of this process, as risks of any type or severity may manifest at any time, requiring the need for timely remedial action. The RMO should provide reports on a monthly basis to the Board, or Risk Committee where one exists. Copies of these reports should be provided to the CEO.

Quality of risk reports

Areas for Improvement:

- A quarter of credit unions in the sample evidenced issues with the quality of risk reports, including:
 - Reports not consistently meeting the criteria set out in the credit union's risk management policy;
 - Reports lacking in detail and not providing an assessment of the severity of risks and not highlighting the material risks facing the credit union;
 - Reports lacking in detail on actions that have been taken to address risks;
 - Reports not discussing areas that would have been flagged as concerning in recent regulatory returns and engagements; and
 - Generic reports not tailored sufficiently for the individual credit union.

Good Practice Identified:

- Two thirds of the credit unions in the sample were noted to have high quality risk reports, including:
 - Clear, concise and digestible formats;
 - Clear display of the evolution of risks over time with regular updates to existing risks; and
 - Evidence of tailoring of reports to specific credit union risk profile and Board requirements.

Supervisory Expectation:

Clarity in risk reports provides Boards with useful information with which they can effectively monitor the profile of risks facing the credit union, facilitate the right discussion at Board level, and give an insight into the robustness of the risk management process. Reports that display the evolution of risks over time, from identification to assessment to mitigation and monitoring for example, show the ongoing work that is key to an effective and mature risk management process.

In order for risk reports to be of benefit to the Board, they must be sufficiently tailored to the credit union's needs and provide sufficient detail on the credit union's risks, based on the nature, scale and complexity of the credit union. Boards should be pro-active in proposing changes to the content and format of risk reports, where they believe such changes will provide more clarity and effectiveness.

6.4. Training and Culture

In the area of Training and Culture, it is clear that credit unions need to identify opportunities to enhance their awareness of risk through training and increased engagement between the RMO and staff, management and the Board, in order to increase challenge, responsibility, awareness and knowledge of risk management, which should help to enhance the level of maturity of risk management within the credit union. While the majority of credit unions appear to be undertaking relevant training in key risk areas, there were a high proportion of credit unions in the sample that did not have a training programme in place for staff and members of the Board, tailored to the credit union's own risk management framework.

❖ Key Findings

Risk management related training

Areas for Improvement:

- In three quarters of the credit unions in the sample, there was a lack of evidence of training being planned for, and almost all credit unions did not evidence training being provided, in relation to the credit union's own specific risk management framework.

Good Practice Identified:

- A small number of credit unions in the sample showed evidence of detailed formal risk training plans, which outlined the training requirements for staff, directors and the Board Oversight Committee, and which clearly articulated the rationale for the planned training.

Supervisory Expectation:

While a number of credit unions in the review evidenced training being provided to staff and directors from external providers, there was a significant lack of training provided on the credit union's own risk management framework. In order to be effective it is important for staff and directors to be aware, on an ongoing basis, of the specific risk management framework in place in their own credit union and their roles and responsibilities within this framework.

While risk training requirements may evolve throughout a given period of time due to unforeseen circumstances, it is of benefit to develop a training plan for all staff and officers in the credit union, together with a rationale for the plan, in order to help build and maintain risk management knowledge in the credit union.

Culture and engagement**Areas for Improvement:**

- In two-thirds of the credit unions in the sample, there were weaknesses identified in communication and engagement in relation to risk-issues between all operational areas of the credit union and in the overall risk management culture in the credit union. This included:
 - A lack of clarity around how policy updates are communicated to all the relevant officers in the credit union;
 - Infrequent meetings between the Board and RMO;
 - A lack of engagement between front-line staff and the RMO; and
 - A lack of specific risk-related training to staff.

Good Practice Identified:

- Just under half of the credit unions in the sample evidenced an active promotion of a good risk management culture. This included:
 - Communication of policies, roles and responsibilities to all officers;
 - A regular presence of the RMO in the credit union and interaction with front-line staff;
 - Regular training / information sessions for staff with the RMO in attendance;
 - Regular email updates from the RMO to staff on risk-related matters;
 - Regular attendance by the RMO at Board meetings to facilitate discussion on risk-related matters; and
 - Discussion of risk-related matters by the Board at Board meetings.

Supervisory Expectation:

Fostering a good risk management culture may be difficult to define in practice but robust discussion of risk by the Board and engagement on risk-related matters across the entire credit union is central to fostering a robust risk culture. Discussions and ongoing engagement help to build and maintain awareness of risk management issues.

Ensuring that all staff and officers in the credit union are aware of the risk management framework and their role within this, in addition to being provided with any policy or procedural updates and training required, is key to enabling the risk management framework in the credit union to operate effectively and become embedded. Risk management is an essential consideration for every part of the credit union's business, and for every individual in the credit union. The Board should promote a strong risk management culture within the credit union, including communication of the policies, roles and responsibilities on risk management to all officers of the credit union.

7. Key Recommendations

Section 6 above sets out the findings observed in the “Areas for improvement” and “Examples of Good practice” together with supervisory expectations and regulatory requirements, where applicable. The following key recommendations are informed by the issues identified in the Review and should be considered as actions to enhance the risk management maturity, through the “spine” of the credit union, from the front line staff, to management and the RMF, all the way through to the Board. Overall responsibility for ensuring these key recommendations are implemented rests with the Board with specific responsibilities identified for the CEO and the RMO. Effective engagement across all roles and areas in the credit union is key to successful implementation.

In considering the actions under each recommendation, credit unions should also consider how these actions can be delivered in a timely and cost effective manner, taking account of the nature, scale, and complexity of the credit union. These key recommendations are not intended as an exhaustive list of all the actions credit unions should be taking in relation to risk management. The Registry may engage with credit unions on their progress in relation to risk management and the recommendations set out below, as part of its future supervisory engagement approach.

Key Recommendations	Area of Review	Responsibility for Recommendation
<p>1. The Board has ultimate responsibility to ensure there is effective governance, risk management and internal control frameworks in place in line with legislative and regulatory requirements, on an ongoing basis. Given the responsibilities of the Board in relation to the risk management:</p> <ul style="list-style-type: none"> ➤ Discussion of issues arising from risk reports should be a strong feature of Board meetings and should be appropriately documented; ➤ Decisions and actions required to address risk management issues should be taken by the Board, and documented as action items for the RMO to implement; and ➤ While detailed analysis and discussion of risk management issues may be delegated to an appropriate committee, engagement and communication with the full Board regarding the discussions and actions carried out by the relevant committee, should be undertaken and documented for final decision by the Board. 	<p>Board Ownership and Oversight</p>	<ul style="list-style-type: none"> ➤ The Board
<p>2. To ensure there is effective governance, risk management and internal control framework in place, it is important for all staff and Board members to be aware, on an ongoing basis, of the specific risk management framework in place in the credit union and their roles and responsibilities within that framework. As such:</p> <ul style="list-style-type: none"> ➤ The Board should ensure that a training plan is developed and provided to all staff and Board members, by the RMO or training provider, to include training tailored specifically to the credit union’s own risk management framework; ➤ The Board should promote and foster a strong risk management culture, through engagement on risk-related matters with all staff in the credit union. In addition staff should be provided with any policy or procedural updates and training required; and ➤ All staff and Board members should ensure that they fully engage with risk management training and communications on risk management to increase awareness, on an ongoing basis, of the specific risk management framework in place in the credit union. 	<p>Training & Culture</p>	<ul style="list-style-type: none"> ➤ The Board ➤ The RMO/CEO and /or the credit union training provider ➤ All staff in the credit union
<p>3. Front-line staff such as tellers and loan officers constitute a key part of the first line of defence in risk management. Working on the day-to-day business of the credit union from an operational perspective means they are well placed to identify actual, emerging or potential risks. Depending on the nature of the risk, operational staff may also be best placed to propose mitigating actions and to discuss the practicalities of applying such actions. In this regard:</p> <ul style="list-style-type: none"> ➤ The Board should ensure that a formal risk identification and escalation process is developed and implemented for all front line staff, by the RMO, CEO or external provider; and ➤ Front-line staff should engage fully with the risk identification and escalation process, and the first line of defence responsibilities to identify and escalate actual, emerging or potential risks, on an ongoing basis 	<p>Risk Management Function – Structure and Framework</p>	<ul style="list-style-type: none"> ➤ The Board ➤ The RMO ➤ The CEO ➤ The front-line staff

Key Recommendations	Area of Review	Responsibility for Recommendation
<p>4. The Board’s regular engagement with the RMO allows for better informed and more robust discussions on risk management, provides an opportunity for the Board to clarify any risk related issues arising from risk reports and mitigating actions required, and facilitates a risk management perspective for the Board when discussing and planning the strategic direction of the credit union. As such:</p> <ul style="list-style-type: none"> ➤ The Board should hold regular meetings with the RMO, at a minimum quarterly, to discuss risk related issues arising from risk reports; ➤ The Board should ensure, that when it is carrying out a review of the strategic plan, or discussing the strategic direction of the credit union, or when considering the introduction of a new product or service, consideration should be given to risk management issues in order to identify any potential new risks and to ensure alignment with the credit union’s risk appetite statement. 	<p>Risk Management Function – Structure and Framework</p>	<ul style="list-style-type: none"> ➤ The Board ➤ The RMO
<p>5. Section 76C (5) of the Act provides that the Board of a credit union “shall ensure that the risk management officer is independent in the exercise of his or her functions and ... shall be free from influence”.</p> <p>While the RMO may legally hold additional operational roles as an officer in the credit union, it should be noted that Section 76C (5) of the Act provides that the Board of a credit union “shall ensure that the risk management officer is independent in the exercise of his or her functions and ... shall be free from influence”. As such:</p> <ul style="list-style-type: none"> ➤ The Board should ensure, where applicable, that there are no conflicts of interest / potential conflicts of interest arising from the RMO holding an additional operational role in the credit union. 	<p>Risk Management Function – Structure and Framework</p>	<ul style="list-style-type: none"> ➤ The Board ➤ The CEO
<p>6. Regular Board reviews play an important role in identifying and addressing deficiencies in the risk management system, including deficiencies identified in systems and controls. While credit unions may identify deficiencies in elements of the risk management system on an ongoing informal basis, and remedy these in a timely manner, credit unions should also perform regular formal reviews to ensure that the risk management system remains appropriate for the credit union. As such, the Board, with the assistance of the RMO and CEO where applicable, should ensure reviews are carried out, at a minimum, of the following:</p> <ul style="list-style-type: none"> ➤ Risk management policy; ➤ Risk management process; ➤ Risk register; and ➤ Systems and controls; <p>In addition, while a credit union may monitor the performance of the RMO on an ongoing informal basis, the Board should ensure that the RMO is subject to a regular formal performance review to ensure the RMO is meeting standards required by legislation, and supporting the Board in promoting a culture of risk awareness, identification and management at every level within the credit union.</p>	<p>Risk Management Function – Structure and Framework</p>	<ul style="list-style-type: none"> ➤ The Board ➤ The RMO ➤ The CEO

Key Recommendations	Area of Review	Responsibility for Recommendation
<p>7. Clarity in risk reports and risk registers, provide Boards with useful information with which they can effectively monitor the profile of risks facing the credit union, facilitate the right discussion at Board level, and give an insight into the robustness of the risk management process. Reports that display the evolution of risks over time, from identification to assessment to mitigation and monitoring for example, show the ongoing work that is key to an effective and mature risk management process. In this regard, the RMO should ensure that:</p> <ul style="list-style-type: none"> ➤ Risk reports are sufficiently tailored to the credit union’s needs and provide sufficient detail on the credit union’s risks, based on the nature, scale and complexity of the credit union; and ➤ Risk information documented in the risk report and risk register is appropriate, complete and in a standardised format that will facilitate a complete record of risks across the credit union and enable a risk focussed discussion at Board level. 	<p>Risk Management Reporting</p>	<ul style="list-style-type: none"> ➤ The Board ➤ The RMO

8. Conclusions

From the findings and observations outlined in Section 6 above, it is evident that, almost all credit unions in the Review sample demonstrated that they have the fundamental elements of a risk management system in place as required under the Act and the Regulations. However, there was a variance observed in the level of maturity and embeddedness of risk management in place across the sample.

Risk management is embedded when the risk management framework underpins and supports the ongoing operations of a credit union and the role of the Board, including their decision making process.

From a Board Ownership and Oversight perspective, the Review found:

- A lack of evidence of robust discussion taking place at Board meetings on risk-related issues;
- Little evidence of engagement between the Board and the RMO on decisions taken to mitigate risks;
- Limited face to face interaction between the Board and the RMO; and
- A large dependency on a small number of Board members to address the issues raised by the RMO relating to risk.

Boards need to engage with RMFs and actively use the risk management framework they have put in place to support their work.

In the area of Risk Management Structure and Framework, it was evident from the Review that the majority of risk-related work in many of the credit unions appeared to be confined to the management team and the RMF who were somewhat disconnected from the Board and front line staff, in relation to risk management. A number of credit unions did not have any process in place for front-line staff to identify and escalate potential emerging risks, and did not see a role for front line staff in risk identification.

Finally, in relation to the area of Training and Culture, it was clear from the Review that there is a need for credit unions to enhance the level of risk management maturity and culture through pro-active and tailored training and communications. While the majority of credit unions appear to be undertaking general training in key risk areas, there were a high number of credit unions in the sample that did not have a specific training programme in place for staff and members of the Board, tailored to the credit union's own risk management framework. Furthermore, it is evident that there is a need for credit unions to increase the level of interaction and engagement between the RMO, staff, management and the Board, in order to increase awareness and knowledge in the area of risk management, which should help enhance the risk management maturity level within the credit union.

The Central Bank expects all credit unions to reflect on the issues set out in the Report, to review the examples of good practice, supervisory expectations, regulatory requirements, where applicable and the recommendations for enhancing risk management maturity and to consider how these examples can inform the further development and embeddedness of risk management frameworks going forward. Boards and senior management must take steps to ensure that there is an embedded and effective risk management culture operating in their credit unions in order to ensure that the risk management framework underpins and supports the ongoing operations of the credit union in a business as usual context and as the credit union evolves through business model change and restructuring.

Appendix 1 – Regulatory Framework

Legislation

Credit Unions are required to have a risk management system in place, which is defined under the Act “...the sum of those components that provide the basis (including organisational arrangements) for designing, implementing, monitoring, reviewing and continually improving risk management processes throughout the credit union.”

Section 76B of the Act sets out requirements for credit unions in relation to risk management systems and systems and control. Specifically, the Act sets out:

- *76B (2) A credit union shall develop, implement, document and maintain a risk management system with such governance arrangements and systems and controls to allow it to identify, assess, measure, monitor, report and manage the risks which it is, or might reasonably be, exposed to.*
- *76B (3) The risk management system—*
 - *shall be clearly set out and documented, and*
 - *shall clearly set out the related tasks and responsibilities within the credit union.*
- *76B (4) A credit union shall develop, adopt, implement, monitor, document and maintain systems and controls to manage and mitigate the risks identified by the risk management system.*

Section 55 of the Act sets out the functions of the Board of Directors. Specifically, Sections 55(1)(l), 55(1)(o)(xv) and 55(3) set out the obligations of the Board of Directors in relation to risk management:

- *55(1) Without prejudice to the generality of section 53(1), the functions of the board of directors of a credit union shall include the following:*
 - *(l) reviewing and approving all elements of the risk management system on a regular basis, but at least annually and, in particular-*
 - *assessing the appropriateness of the risk management system,*
 - *taking account of any changes to the strategic plan including the credit union’s resources or the external environment, and*
 - *taking measures necessary to address any deficiencies identified in the risk management system;*
 - *(o) approving, reviewing and updating, where necessary, but at least annually, all plans, policies and procedures of the credit union, including the following:*
 - *(xv) risk management policy;*
- *55(3) The board of directors shall implement a risk management process that ensures that all significant risks are identified and mitigated to a level consistent with the risk tolerance of the credit union.*

Regulations

Part 8, Section 45 of the Regulations sets out obligations for Credit unions in relation to the establishment and maintenance of a Risk Register:

- *45(1) A credit union shall establish and maintain a written risk register, maintained by a risk management officer, that documents the risks that the credit union is, or may be, exposed to and the systems and controls that the credit union has established to manage and mitigate those risks.*
- *(2) A credit union shall ensure that the board of directors of the credit union review and approve the risk register, at least annually, to ensure that the risks that the credit union is, or may be, exposed to are contained on the risk register and that the systems and controls are appropriate to manage and mitigate these risks.*

Guidance

The Credit Union Handbook, assists credit unions by bringing together in one place the legal and regulatory requirements and guidance that apply to credit unions. Guidance from the Handbook in relation to risk management includes:

A credit union's risk management system should include policies, processes and controls that provide adequate, timely and continuous identification, assessment, measurement, monitoring, management and reporting of risks that the credit union is, or might reasonably be exposed to, through its current activities and the external environment.

The risk management system, which should be clearly set out and documented, should cover the following at a minimum:

- A risk management policy;
- A risk management process;
- A risk register;
- Systems and controls; and
- Review by the board of directors.

A credit union should document its risk tolerance statement, setting out the quantified level of risk that the credit union is willing to accept in various risk areas in pursuit of its strategic objectives. There is an important link between a credit union's strategies or goals and its risk tolerance. A credit union's strategic goals should be aligned with its risk tolerance. Risks within a credit union's risk management system should be managed and mitigated to ensure that they are consistent with the credit union's risk tolerance and commensurate with its sound operation, financial strength and strategic objectives.

The Board of Directors should promote a strong risk management culture within the credit union, including the communication of the policies, roles and responsibilities relating to risk management to all officers of the credit union.

Appendix 2 – Information Request

Risk Management Maturity – Thematic Review 2021

As part of the Risk Management Maturity Thematic Review for 2021, the Central Bank of Ireland is requesting, under Section 91 of the Credit Union Act 1997, submission of the following information.

Risk Management – Procedures and Policies:

- Risk Management Policy;
- Credit / Lending Policy;
- Investment Policy
- Risk Management process / procedural documents;
- Risk Tolerance Statement / Risk Appetite;
- Risk Register;
- Outsourcing Policy and process / procedural documents;
- Documented risk limits and controls and / or copies of policies and procedures outlining limits and controls; and
- Any other process / procedural documents applicable to Risk Management.

Risk Management Function (“RMF”):

- Description of Risk Management Officer (RMO) role including functions, responsibilities and reporting lines;
- The credit union’s Organisation Chart to include RMF structure and overview of reporting lines to management and the Board;
- Overview of any other functions carried out by the RMO in addition to the RMF. If applicable, a breakdown of how the RMO splits time between the various functions;
- Outline of time committed (hours per week) to the RMF by the RMO and any other staff specifically assigned to support the RMO;
- Overview of risk management system(s) in use, (to include IT and any other systems in place); and
- Copies of all RMO reports provided to the Board in the last 24 months.

Risk Management – Strategy and Cost:

- Copy of current credit union Strategic Plan;
- Overview of investments made in the past 3 years to assist in risk identification, mitigation and management. Please include cost and description of investments, in the specific areas of:

- Resourcing (internal and / or outsourced remuneration as a percentage of total expenses and total assets);
- IT program development and technology (software and hardware);
- Security (hardware, software, premises and other); and
- Training.

Board of Directors:

- Copies of all Board Meeting minutes in the last 24 months;
- Evidence of receipt and discussion and response, by the Board, of the aforementioned RMO reports from the last 24 months;
- Evidence of the most recent review by the Board, of the standard of risk management work and performance of the RMO;
- Copies of documented reviews undertaken in the last 24 months (if review was not undertaken and documented in last 24 months, please provide the last review that was undertaken and documented, including the date of that review) on the following:
 - Review of strategic plan;
 - Review of credit union policies and procedures;
 - Review of existing risk limits, systems and controls and / or setting of new risk limits, systems and controls;
 - Review of Risk Register; and
 - Review of existing products / services and introduction or proposed introduction of new products / services (where relevant).
- *The documented reviews requested above may include, but are not limited to:*
 - *Name of document / product / service being reviewed;*
 - *Date of review;*
 - *Roles of persons involved in the review;*
 - *Any changes made? (Yes / No);*
 - *If Yes, provide brief summary of change(s);*
 - *Brief reason for change(s) e.g. “following audit findings”, “to reflect new regulations”, “to reflect tightening of controls”, etc.;*
 - *Copy of board meeting minutes or other documents evidencing the above details.*

Training and Communication:

- Most recent risk-related training plan;

- Overview of risk-related training and communications undertaken by the credit union in the last 24 months to include:
 - Topic(s);
 - Date(s);
 - Role(s) of staff / directors receiving training / communication; and
 - Role(s) of staff delivering training / communication.
- If not included in the list above from the last 24 months, please also provide an overview of training/communications specifically undertaken in the following areas:
 - Risk management, the role of the RMO and the board in relation to risk management;
 - The credit union's risk management framework and the underlying procedures and processes;
 - Technology and processes used in risk management reporting;
 - The obligations of all staff in relation to risk management; and
 - The process for staff to identify and report risks (including potential and / or emerging risks).
- Any board meeting minutes evidencing discussion of training and / or communications in the area of risk management in the last 24 months; and
- Documentary evidence of any other communications / communication channels relating to risk management, either from board / management to staff, or from staff to management, in the last 24 months.



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