



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

The Board of Directors

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Dear Directors

PRA Annual Assessment of the Credit Union sector

Your credit union is a member of the peer group made up of credit unions with total assets below £15 million. While you are not subject to an individual review, we carry out an annual assessment of your credit union as part of a larger peer group. The 2017 assessment for this peer group has now taken place and we write to you with our findings.

Governance

All credit unions must ensure that their boards meet their obligations relating to prudent management, monitoring and mitigation of risks in line with Section 10 (Governance) of the PRA Rulebook Part for Credit Unions.¹ Credit unions must be able to measure and monitor their compliance with key financial ratios and their underlying financial position and be able to demonstrate this is being done. Additionally, credit unions carrying out any additional activity² must have a financial risk management policy and ensure that the board monitors and assesses the risks associated with the undertaking of such activities on at least a monthly basis.

Where directors identify that their credit union is facing financial or other problems, they must notify the PRA as soon as is reasonably possible. Should the credit union have to close, we expect directors to recognise and fulfil their legal and regulatory responsibilities.

Succession Planning

While boards are generally aware of the need for succession planning, many credit unions in this peer group do not have an agreed succession plan in place. In the event of an unforeseen or abrupt departure or absence of key individuals, this could impact the operational effectiveness of the credit union and its ability to deliver on its objectives, sometimes resulting in the need for the credit union to close. Without a clear succession plan in place, this could result in the failure to appoint an individual of appropriate calibre in a timely fashion. We actively encourage credit unions in this peer group to have a formal, written succession plan that has been approved by the board. The succession plan should have a specific focus on the board and should define the roles, responsibilities and duties of key individuals.

Single Customer View and orderly resolution

Five small credit unions failed since 1 August 2016 and by using the up-to-date and accurate Single Customer View (SCV) files, the Financial Services Compensation Scheme (FSCS) has been able to make payment to eligible depositors in fewer than seven days in all five cases. During the last twelve months,

¹ See <http://www.prerulebook.co.uk/rulebook/Content/Chapter/320149/05-02-2016>.

² Please see Chapter 4 of Supervisory Statement 2/16 'The prudential regulation of credit unions', February 2017: <http://www.bankofengland.co.uk/pru/Pages/publications/ss/2017/ss216update.aspx>.

we have noted an improvement within this peer group with directors assuming the overall responsibility for SCV.

While the FSCS worked closely with most SCV software providers when SCV requirements were first introduced and their systems are largely consistent with the FSCS's requirement, where a credit union relies on its IT system for producing the SCV, it is crucial that the credit union keeps its system updated to ensure that it meets current requirements. The new SCV format became mandatory in 2016 and where credit unions have not updated their IT systems, SCVs may not be produced in the correct format and thus not meet the current SCV requirements.

The FSCS' feedback on areas for improvement from testing SCV files included that:

- credit unions tend to depend heavily on a single individual and/or their IT supplier to produce the SCV file and/or to resolve data issues. Frequently there is a lack of training for staff at credit unions on SCV and some credit unions do not have sufficiently detailed procedures and controls for their SCV processes;
- errors in SCV files are frequently caused by manual changes made to the SCV files by credit unions resulting from lack of controls or technical knowledge;
- many credit unions are unable to submit their SCV within 24 hours; and
- transactional accounts can introduce an additional level of complexity in how credit unions produce their SCV files as they may be managed separately from credit unions' core systems.

We expect you to implement regular reviews and updates of SCV data, and testing of SCV files and procedures. When undertaking testing, credit unions should pay particular attention to:

- joint accounts;
- members with multiple credit union accounts; and
- the correct extraction of members' details in line with the minimum address criteria.

You should note that transactional accounts and new services can introduce an additional level of complexity for SCV files as they may be managed separately from credit unions' core systems.

Should you be in financial difficulty we expect you to notify the PRA as soon as is reasonably possible.

Next steps

As directors of a credit union, you have personal and joint obligations to serve your members and to meet regulatory and legal requirements. In doing so, we expect you to bear in mind the points set out above and act appropriately. This letter has been shared, anonymously, with all UK trade bodies and you may wish to discuss with them the points we have made. If you have any questions about the contents of this letter, please contact the PRA's Firm Enquiries Function on 020 3461 7000 or email PRA.Firmenquiries@bankofengland.co.uk.

Yours faithfully



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