



Please note: This letter has been prepared for the website. Square brackets show where this letter may differ slightly from the versions sent directly to firms.

The Board of Directors

[Marcela Hashim
Credit Unions Team]

October 2021

Dear Directors

PRA Annual Assessment of the Credit Union sector

Your firm is a part of a group of credit unions (CUs) with total assets below £15 million and fewer than 10,000 members. While you are not subject to an individual review, we carry out an annual assessment of your credit union as part of this group. This has now been completed and this letter gives our findings.

This letter should be considered by all directors.

Covid-19 pandemic

We recognise that CUs across the UK continue to face a period of unprecedented operational and financial challenges. Each CU is different, and the level to which it is impacted by the current crisis will depend on its business model and membership. It is therefore crucial that the Board regularly monitors the prudential position, including compliance with key financial ratios and key risks, and takes appropriate, timely action.

We are committed to engaging with CUs on regulatory matters in a proportionate way, which relies on CUs being open and transparent with the PRA. Fundamental Rule 7 states that 'A firm must deal with its regulators in an open and cooperative way and must disclose to the PRA appropriately anything relating to the firm of which the PRA would reasonably expect notice'. If you become aware of any events that are likely to impact on your prudential position or ability to continue to offer your services to members, we expect you to notify the PRA as soon as reasonably possible, by emailing prudential_creditunions@bankofengland.co.uk or by telephoning the Firms' Enquiries Function on 020 3461 7000. You may also wish to contact your trade body.

Single Customer View (SCV) – frequent issues and self-verification portal

Where a CU is likely to have to close, an up-to-date and accurate Single Customer View (SCV) file is crucial for orderly resolution. While we continue testing CUs' SCV files, prioritising those where we have concerns about sustainability and/or viability, all CUs, regardless of size, should undertake regular reviews and updates of their SCV data, and carry out testing of SCV files and procedures.

In reviewing SCV policies and procedures, CUs should consider the following:

- Can the SCV file be produced in the correct format with all the required fields (see [The Financial Services Compensation Scheme \(FSCS\) Guide to SCV](#))?
- Is the CU able to submit the SCV without input from a third party and within the set time limit (24 hours)?
- Does the CU have documented SCV procedures to ensure accuracy and consistency, and to minimise the reliance for submission on key individual(s)?
- Does the CU compare its SCV file to other management information, databases, and returns?
- How often does the CU review its members' details? How does it test their accuracy?
- Is the SCV included in the supervisor committee review or internal audit plan?

The most frequent issues identified during the SCV testing over the last 12 months included (in order of frequency):

- missing mandatory data items;
- file format issues;
- ineligible depositors included in the main SCV file;
- duplicate entries (each depositor should be allocated a single SCV ID);
- balance issues;
- missing depositors; and
- exclusion file format issues.

In addition to full SCV testing, we continue to offer the CUs access to the FSCS self-verification portal, which allows them to test their SCV file at a time that suits them and to use the portal repeatedly as they address issues identified by the testing. The portal's capacity is currently limited, so if you would like to use it, please contact the Supervision team on prudential_creditunions@bankofengland.co.uk.

Credit risk

Average arrears in your peer group have increased by 11% over the last 12 months, but there are large differences between different CUs. Boards should continue to closely monitor the impact of the pandemic on bad debts and the potential impact on their firm's financial position, and take timely and effective remedial action. This is especially important for a small number of CUs that temporarily closed without alternative arrangements for members to make loan repayments, or CUs with a significant number of loans with special arrangements (eg payment holidays or reduced payments).

Where the Board intends to increase its loan book through new products/types of loans or generally increased lending, it should ensure that the lending continues to fall within the Board's agreed risk appetite. It should also ensure that it has sufficient resources and systems and controls to mitigate any new/increased risks.

Bad debt provisioning

On 7 October 2020, the PRA informed all CUs about a further PRA rule modification by consent (MBC) applying to minimum provision requirements, which is available to all consenting CUs from January 2021 until 31 December 2022. This reduces the minimum provisioning requirement for bad debt in accordance with the direction available on our website.¹ If CUs wish to take advantage of the MBC, they can consent by sending us a short email with the CU's name and Firm Reference Number to prudential_creditunions@bankofengland.co.uk.

Regardless of whether the CU consents to the MBC, Boards should be mindful of the overarching PRA requirement on provisioning in Rule 3.10 of the Credit Unions Part of the PRA Rulebook ('A credit union must make adequate provision for bad debts'), which may sometimes result in higher provisions than those in the MBC and/or the minimum requirements set out in Credit Unions 3.11.

Governance

Prudent management

All Boards must meet their obligations relating to prudent management and the monitoring and mitigation of risks. The Directors must be able to demonstrate that they measure and monitor compliance with key financial ratios, including deterioration in credit quality, with a view to prompt remedial action.

Where the pandemic resulted in a fall in lending, and/or increase in arrears, and/or significant growth in shares, or significant divergence from their business plan, CUs should update their financial projections and regularly review financial performance against these projections to allow them to monitor whether the CU continues to be viable and/or sustainable.

¹ The MBC is available on the ['Waivers and modification of rules' part of our website](#). The letter explaining the modification and how to consent is available on the [Credit Unions webpage](#).

If your CU is in **financial difficulty** or you have identified that it is likely to have prudential issues in the future, you should notify the PRA as soon as possible by emailing prudential_creditunions@bankofengland.co.uk or telephoning the Firms' Enquiries Function on 020 3461 7000.

Succession planning

CUs must comply not only with PRA rules, but also with their own internal requirements for the composition of the Board and key committees. Where the Board is unable to attract a sufficient number of active directors to continue running the CU, existing directors should consider the future of the CU and take appropriate action. If you are in that situation, you should contact the PRA to discuss the various options available to you. You may also wish to speak to your trade body.

Many of your peers told us that the last 12 months have made it more difficult to attract and retain new Board members and/or supervisors. The Board should take an active role in succession planning to ensure the CU can identify, attract, and retain volunteers with relevant skills, with good governance being fundamental to the safety and soundness of each credit union.

Regulatory returns

Where a CU is unable to submit regulatory returns (therefore making it not possible for the PRA to monitor its prudential position), it is unlikely to be able to demonstrate that it has an effective Board and is operating prudently. Where this is the case, the Directors should contact the PRA as soon as possible, with a plan of how they propose to return the firm to a compliant position. We will engage with CUs that have insufficient non-financial resources, including those that fail to submit regulatory returns.

Operational risk and resilience

Operational change notifications

In January 2021, we wrote to you with details of our expectations around notifying the PRA about material operational changes, for example, the replacement of a core banking system, change of third party service supplier, or data centre/Cloud migration. When considering operational changes, the Board should ensure that it has appropriate governance, risk management, and mitigation in place for the change.

Outsourcing

We additionally reminded you that where a CU outsources important operational functions, it remains fully responsible for all its obligations under the regulatory regime. The Directors should review any plans in the light of the requirements listed in Chapter 14 (Outsourcing) of the Credit Unions Part of the PRA Rulebook. Additionally, you may also wish to consider the PRA's [Supervisory Statement 2/21 'Outsourcing and third party risk management'](#). t

Cyber

We continue to receive reports of cyber incidents in CUs, from cyber fraud to ransomware attacks. CUs should assume that operational/cyber incidents will happen, and have mitigating policies/ procedures in place to ensure their system is resilient, ie can absorb shocks rather than contribute to them.

Next steps

As directors of a CU, you have personal and joint obligations to serve your members and to meet regulatory and legal requirements. In doing so, please consider the points set out above and to act appropriately. The content of this letter has been shared with all UK trade bodies and CU auditors, and you may wish to discuss the points we have made with them.

If you have questions about the content of this letter, please contact the PRA's Firm Enquiries Function on 020 3461 7000 / PRA.FirmEnquiries@bankofengland.co.uk.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Marcela Hashim', written in a cursive style.

Marcela Hashim
Credit Unions Team