



Regulation Culture Renovation

25 May 2023

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DEIRDRE WARD

Agenda

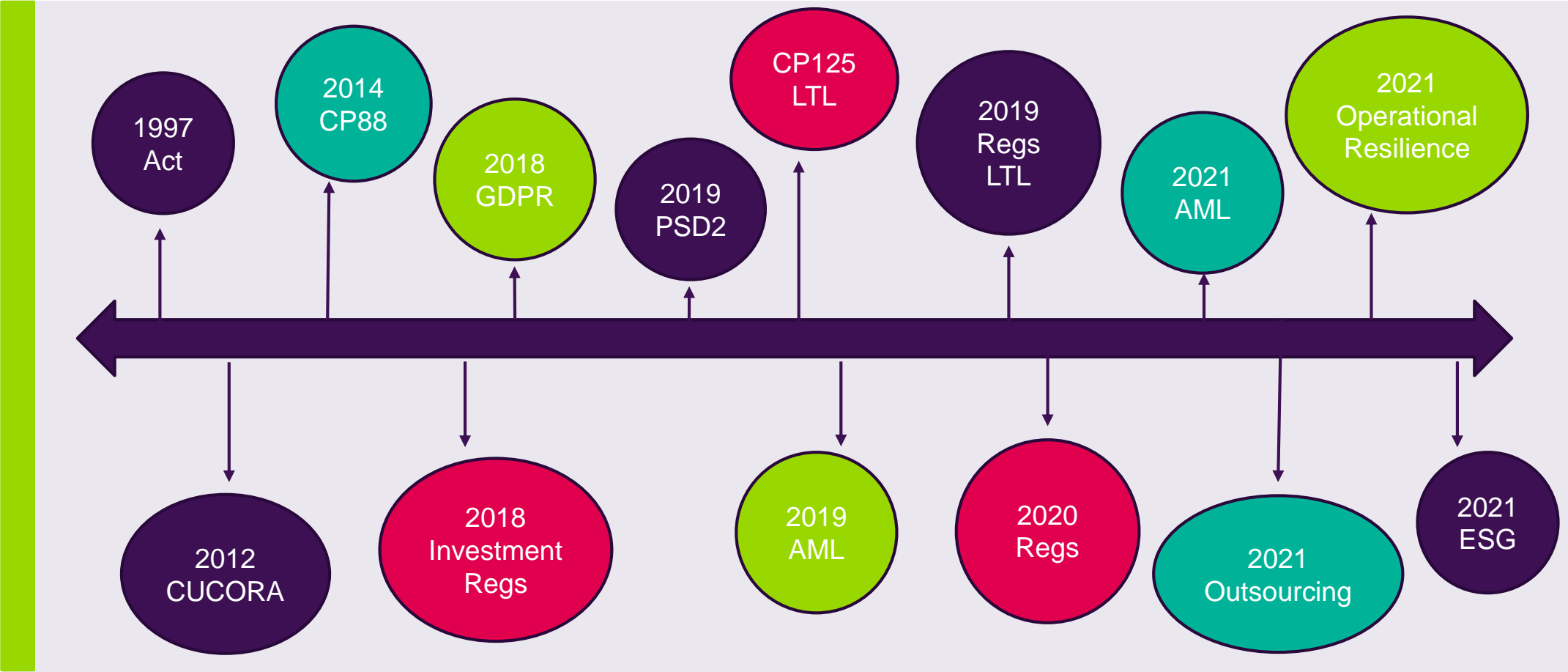
1. A Regulation Timeline
2. Regulation Update
3. Regulation Maturity and Culture
4. A Case Study
5. Conclusion





A Regulation Timeline

The Regulation Timeline

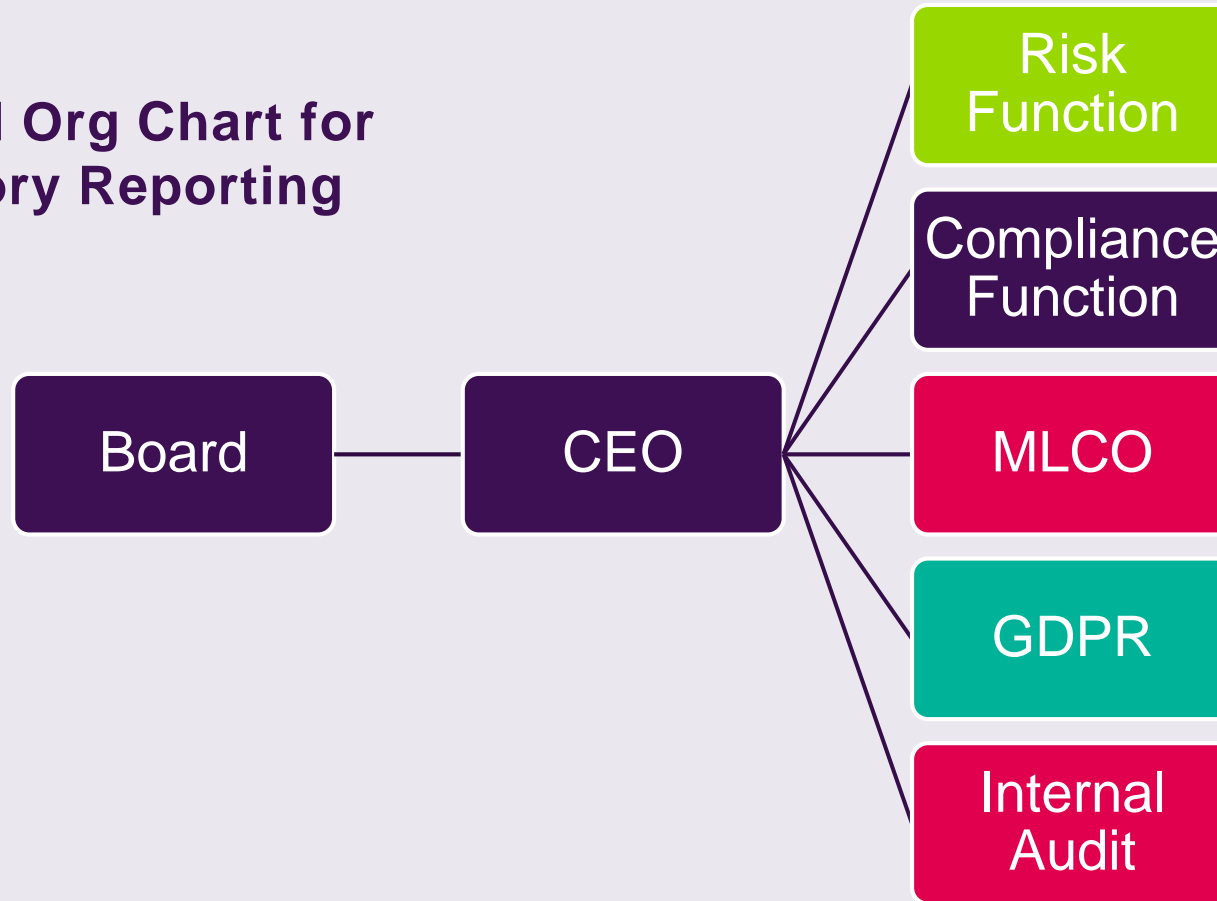


The Regulation Timeline

- Since the enactment of the 1997 Act, there has been a host of amendments.
- Regulation has become more complex and wide reaching.
- Its becoming harder to keep abreast of changes.
- The challenge is to avoid regulatory functions working in silo.

The Regulation Timeline

Simplified Org Chart for Regulatory Reporting



The Regulation Timeline

- CEO now has multiple functions reporting into him/her.
- All checking the same thing.
- All reporting on level of compliance and/or “*risks*”.
- Regulation and compliance are accepted as a “*must do*”.
- But there can be a lack of strategic thinking and an enabler mind-set.
- Getting the functions mature and the culture right are key to success and change.



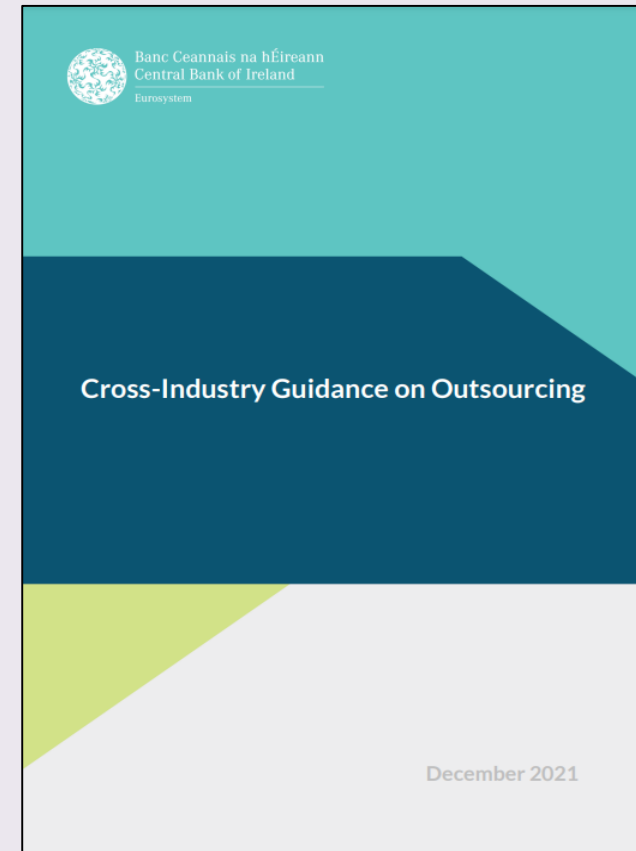
Regulation Update

Regulation Update

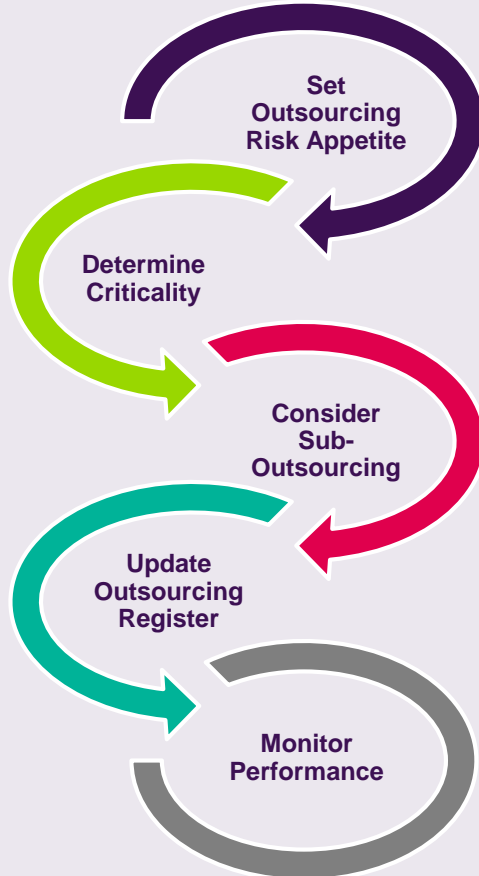
- Outsourcing
- Fraud & Cyber
- ESG
- Credit Union Amendment Bill

Outsourcing

- CP138: Cross Industry Guidance on Outsourcing.
- Draft Guidance published in February 2021.
- Final document published in December 2021.
- Central Bank deems the guidance “*relevant to any regulated firms*”.
- A number of areas which require enhancement.



Outsourcing



Enhancements required:

- Set the outsourcing risk appetite
- Defined methodology for determining what is a critical or important outsourcing arrangement.
- Identification of “*sub-outsourcing*”.
- Update of Outsourcing Register
- Completion of regular monitoring and comprehensive reviews outsourced activities using a risk based approach.

Fraud and Cyber

15%

of Survey Respondents confirmed they had a known cyber attack in the past 12 months

45%

of Credit Unions only complete cyber training once a year

236m

ransomware attacks occurred globally in the first half of 2022

\$4.35m

was the average cost of data breaches in 2022

Phishing

is the most common threat

27th

is where Ireland ranks on the National Cyber Security Index

€45m

Was stolen by fraudsters in the second half of 2021

Fraud and Cyber

- The stats show that cyber and fraud prevention remain key areas of focus for regulatory functions
- Improvements in the following areas are needed:
 - Policies and procedures
 - Training
 - Testing
 - Detection and
 - Prevention

Fraud and Cyber

- Resourcing this area should be reviewed –
 - Larger Credit Union's have IT managed services
 - Smaller Credit Union's are vulnerable in that many don't even have an IT officer
- Operational resilience requirements (including DORA) will require enhancements to a number of areas:
 - Business Continuity Plans
 - IT policies and procedures
 - IT skills and competencies including training
 - Service Level Agreement management for outsourced providers

Environmental, Social & Governance (ESG)

- The “***Dear CEO***” letter in November 2021 highlights the need to take action:
 - Governance
 - Risk Management
 - Scenario Analysis
 - Strategy and Business Model
 - Disclosures



Environmental, Social & Governance (ESG)

- Positive to see that 87% of Credit Unions reported including ESG within the strategic planning framework. However, 60% of credit unions have not formalised their policy in this area
- A lot of positive work being done
 - Strategic plans updated
 - Green products launched
 - Moving away from paper and into online
 - Risk assessments completed – risk registers reflect some transition risks
- Some considerations include:
 - Transition risks such as loan concentration, investment makeup, products and pricing
 - Physical risks such as office locations and sustainability
 - Strategic risks such as what is the overall business model going to be?

Environmental, Social & Governance (ESG)

- New climate change reporting coming in 2026
- There must be a framework in place –
 - Benchmark your Credit Unions commitment to ESG standards
 - Involves scoring in a number of areas
 - Must look at your business partners and score them
- Central Bank Survey – can you demonstrate improvements year on year?

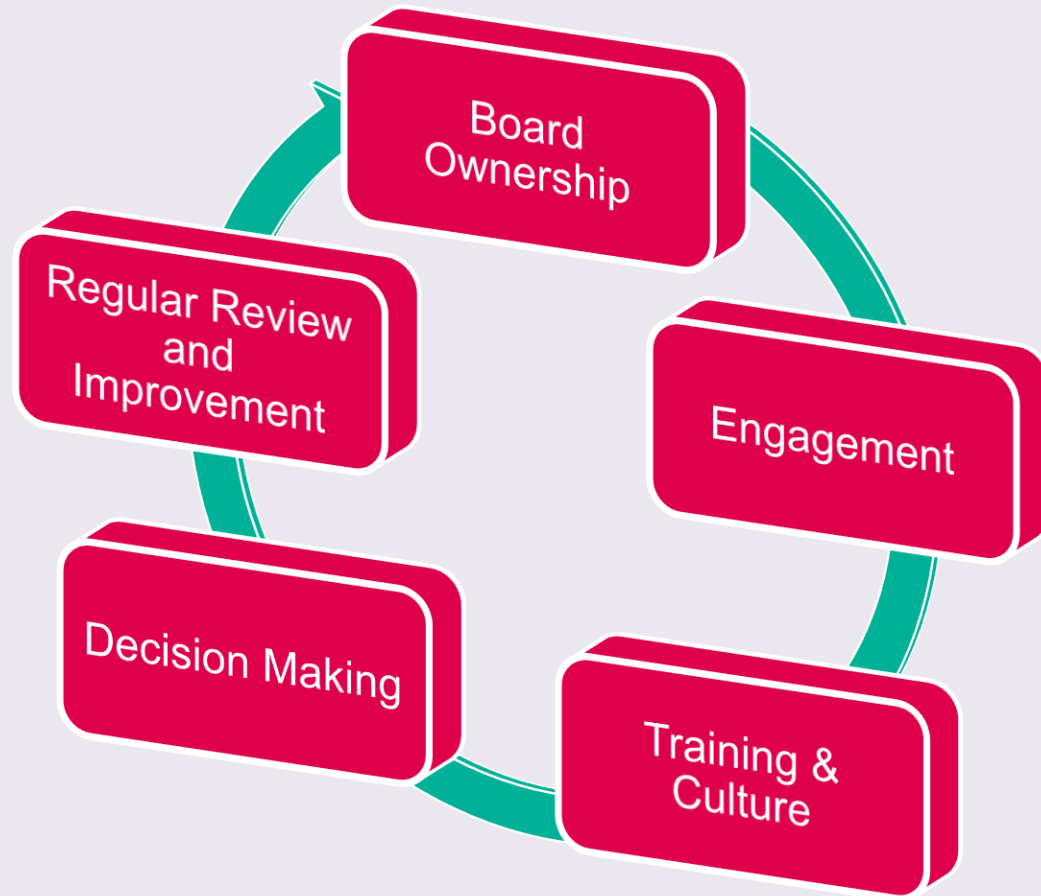
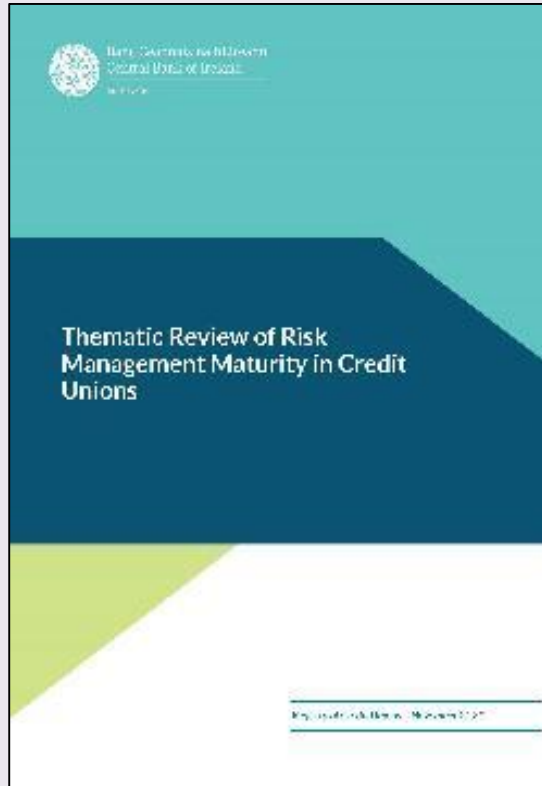
Credit Union Amendment Bill

- A move towards enhanced governance and greater emphasis on strategic planning
 - CEO can become a board member
 - Reduced number of board meetings
 - Reduced frequency of policy reviews
 - Fewer admin issues to be mandatory for Board to approve
- Allows Credit Unions refer members to each other – useful in cases where the Credit Union does not offer a service
- Changes to the max interest rate that Credit Unions may charge
- Allows for the formation of corporate Credit Unions

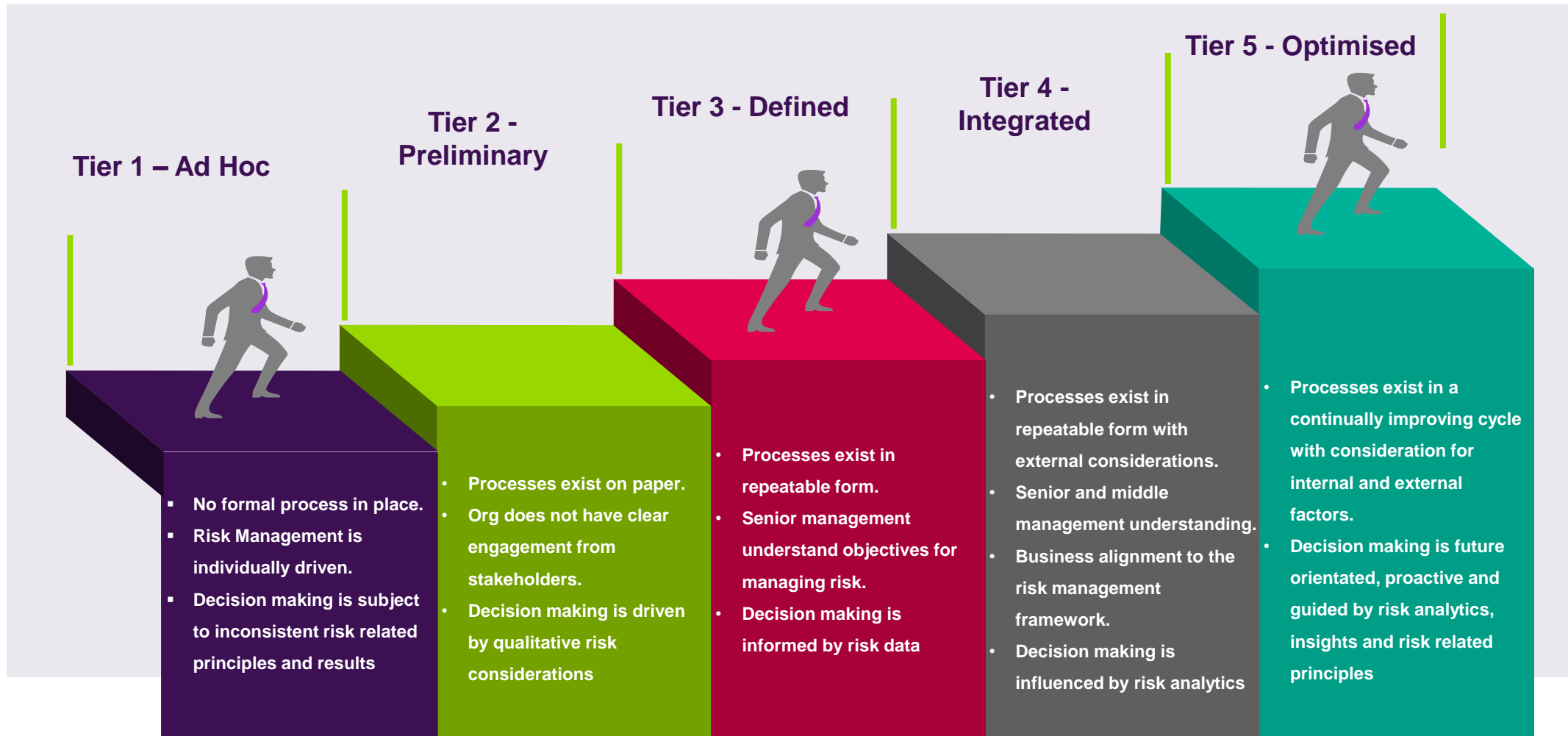


Regulation Maturity & Culture

Risk Management Maturity



The Concept of Maturity



Definition: Institute of Risk Management 2011:

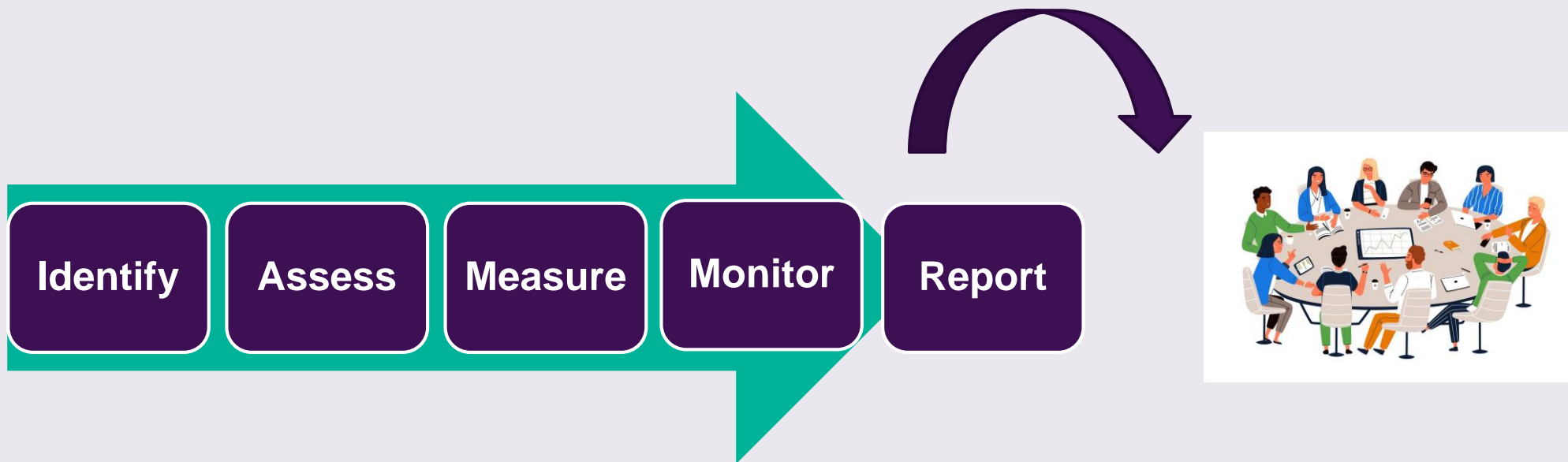
“Risk Culture is complex and multi- faceted. At its simplest it is how risk management is factored into decision making...”

Culture

Business Wide						
Hard Controls	Procedures	Segregation of Duties	Risk Analysis	Four Eye Review	Physical Security	Internal Controls
Soft Controls - Instruments	Training	Monitoring	Whistle-Blowing Procedures	Codes of Conduct	Performance Reviews	
Soft Controls	Culture					

Regulation Culture

Culture will define how the decision making process is impacted by the regulation framework



Culture – Why Good People Do Bad Things

- Everyone else is doing it – the actions are already justified
- Its not fair – feelings of exclusion
- Tired and emotional – physical/mental exhaustion weaken integrity
- Slippery slope – small transgressions gradually becoming bigger
- Loyalty wins – loyalty turns into collusion
- Severe consequences – the goal matters above all else, .e.g Wells Fargo, Enron

Improving Culture

- Define a clear vision for the future and criteria for success
- *“If you don’t know where you’re going, you’ll end up someplace else” (Yogi Berra – New York Yankees)*
- Ask “What will success look like” - Have commonality of purpose and values
- Understand the value of risk management and the consequence of not embracing it
- Involve everyone to seek out better outcomes
- Engage in Data Driven Decision Making – no reliance on “gut feelings”
- People talk openly and are free to challenge others – to get the best outcomes

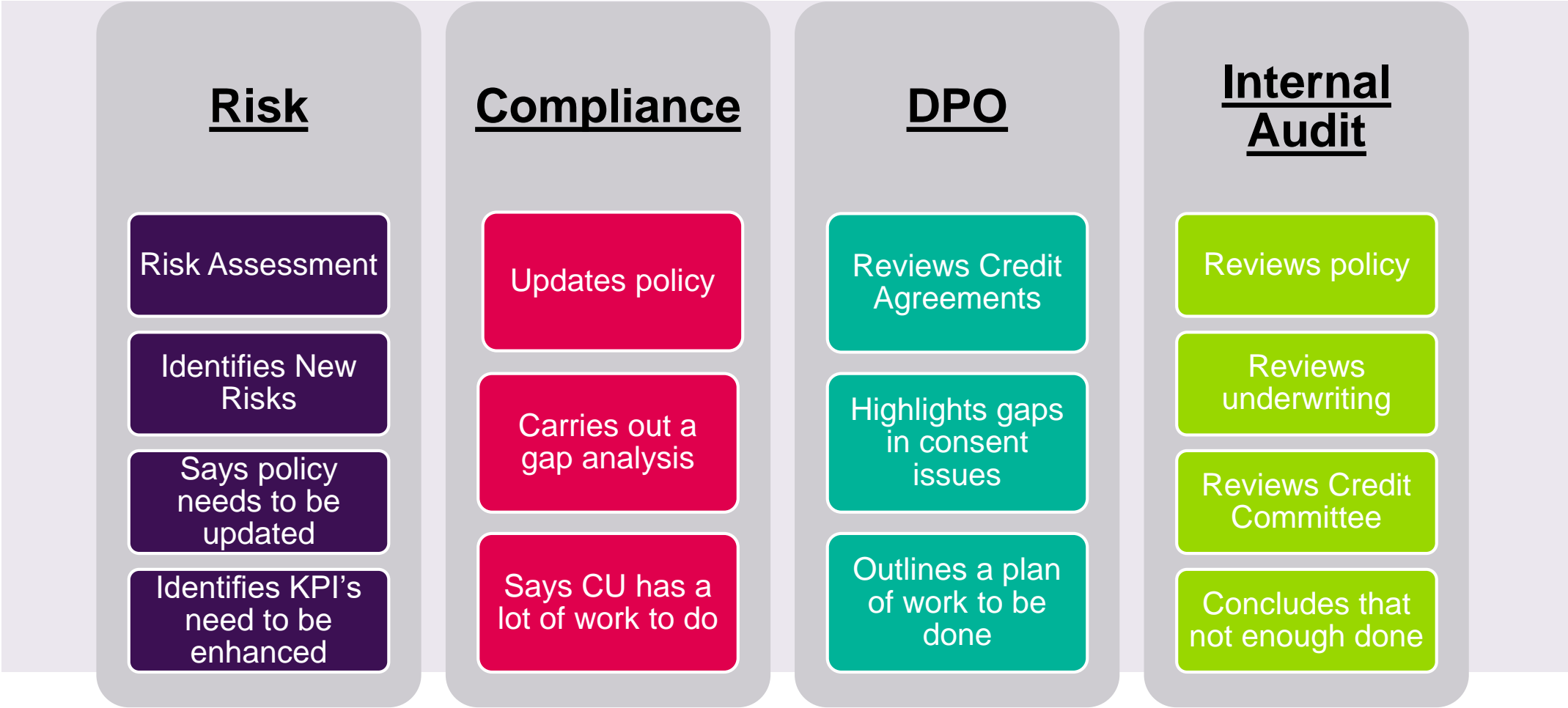


Regulation Maturity – A Case Study

Case Study - Background

- Good Governance Credit Union is engaged in mortgage lending
- Currently issuing mortgages up to the value of €200k
- Rising house prices means that mortgage pipeline is dropping off
- Credit Union considers increasing the maximum mortgage to €300k
- Good Governance Credit Union engages its regulatory functions to see what it needs to do
 - **Example A:** Functions operate in Silos
 - **Example B:** Functions work collectively to consider what to do

Example A: Each Function Works in Silo



Example A: Each Function Works in Silo

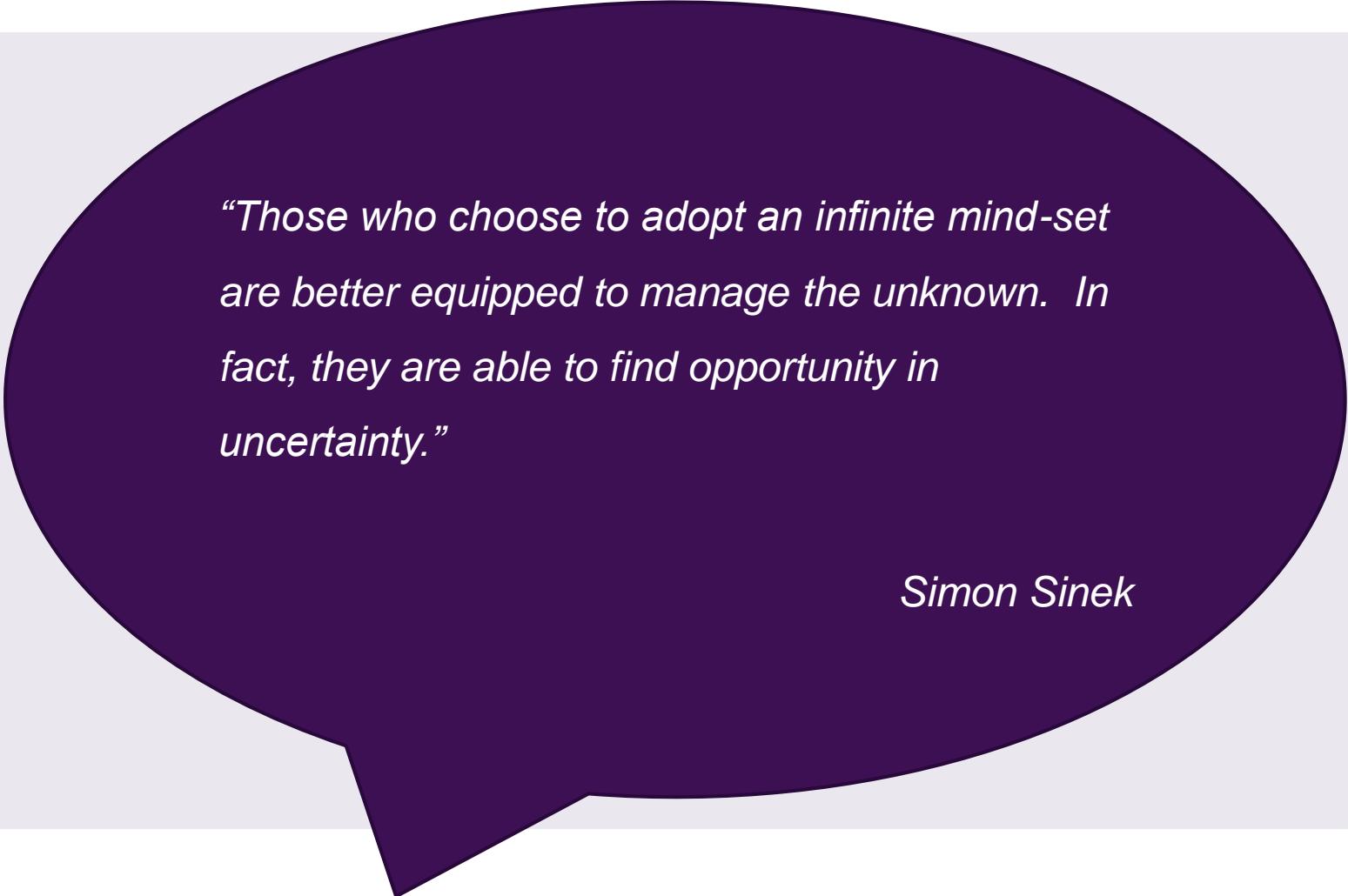
- In this example, all functions review the proposal in isolation
- Each comes up with a list of things to do
- Board gets unclear information due to the number of gaps identified
- Board defers making a decision pending further information
- Potential business is lost due to lack of strategic thinking on how to fix the problem

Example B: Each Function Works Together



Case Study: Benefits of Example B

- The **WHY**, **WHAT** and **HOW** are clear
- Process begins with a business rationale - led by the department that is generating the strategic initiative
- All other functions feed into the process at the **SAME** time – each take a piece of the puzzle
- Board more likely to make an immediate decision as the project scope is clear and there are timelines to implement
- Internal audit comes in last and completes a post implementation review – provides an opportunity to get independent confirmation that the brief has been met and outlines any areas for improvement



“Those who choose to adopt an infinite mind-set are better equipped to manage the unknown. In fact, they are able to find opportunity in uncertainty.”

Simon Sinek

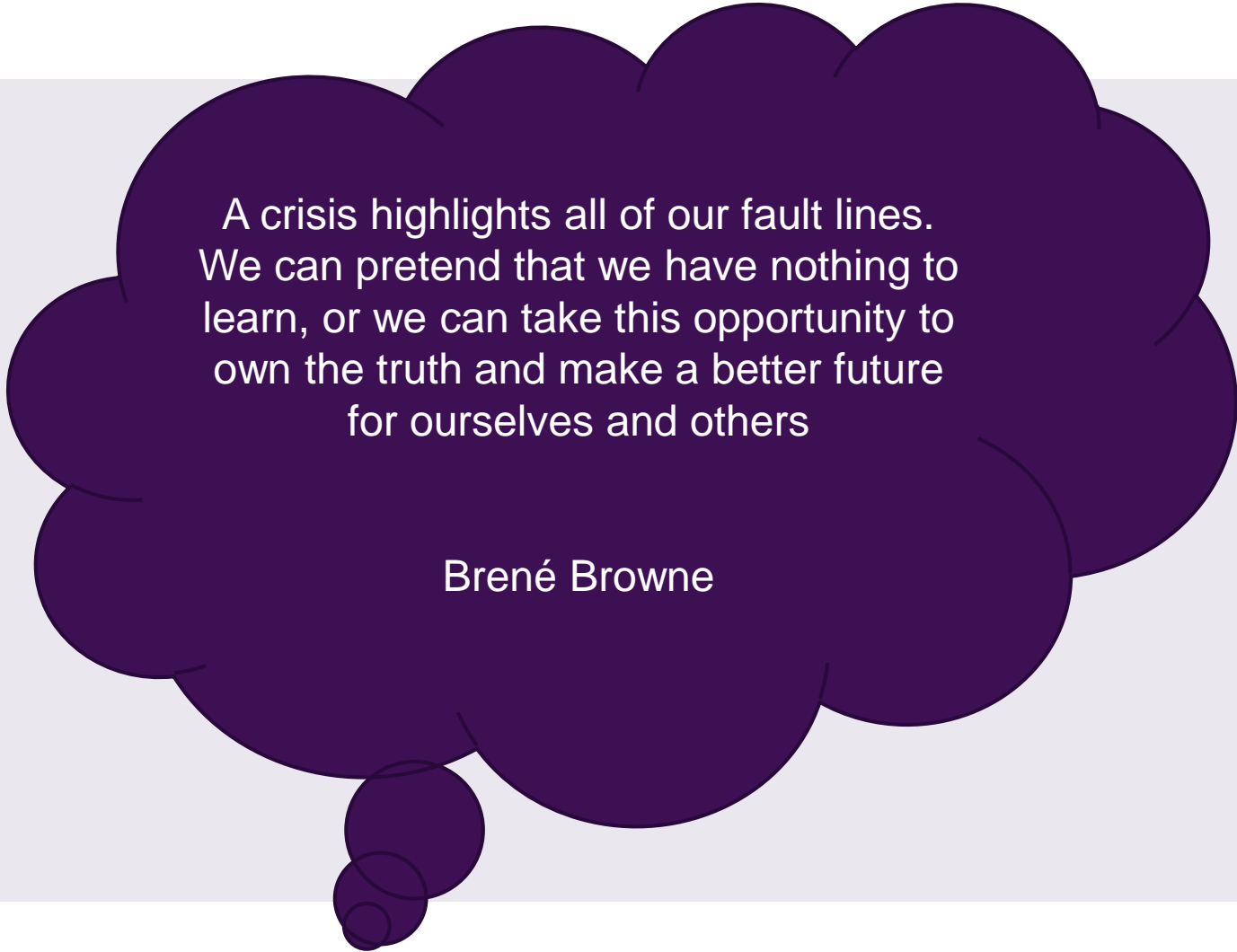
Regulation Renovation

- Still not enough evidence that regulatory functions are aligning plans
- Imperative to get the best value from each of these functions
- In-house risk and compliance – still doing operational type work
- Should be a quarterly meeting to review plans and actions – informal chat about what each function is finding
- Open the mind to an infinite mind-set

Concluding comments

- Regulation is a fact of life
- It is going to get more extensive and more complex
- Getting the culture right will improve governance and decision making
- Regulatory functions need to be independent, more strategically focused to earn a place as key business enablers
- Uncertainty is certain – there is a need to embrace this uncertainty and take advantage of the opportunities

Concluding comments



A crisis highlights all of our fault lines.
We can pretend that we have nothing to
learn, or we can take this opportunity to
own the truth and make a better future
for ourselves and others

Brené Browne



Questions?



Thank you



We're by your side

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