Caribbean Confederation of Credit Unions

Credit Union Supervision and Examination Manual

EXECUTIVE SUMMARY

As a result of the development of a modernized and enhanced regulatory framework for Caribbean credit unions, redefinition and expansion of the role and activities of Regulators and Regulatory Authorities in the examination of credit unions, has become a necessary pre-condition for ensuring the ongoing safety and soundness of the Movement.

Additionally, adherence to accepted prudential standards and industry best practices by examiners, is considered to be of prime importance in ensuring that the supervisory framework for credit unions is consistent with established international standards.

In this regard, Credit Union Examiners must have at their disposal adequate supervisory measures and examination tools, to bring about timely corrective action when credit unions fail to meet prudential requirements; where there are regulatory violations or where depositors are threatened in any other way, In extreme circumstances, this should also include the ability to take over the operations.

In recognition of the need for and its role in facilitating the development of a safe and sound co-operative financial sector as an integral part of the wider financial system, the Caribbean Confederation of Credit Unions (CCCU) has commissioned the development of this Examinations and Supervision Manual to better assist Regulators in fulfilling their mandate.

The Manual provides an overview of the state of regulation in the region and is designed to facilitate credit union supervision and examination in accordance with the new requirements for regulation, It is also designed to strengthen the technical capacity of the Regulatory Authorities in the conduct of examinations.

For ease of application and usage, the manual has been designed in two (2) parts The first part consists of the rationale and the methodology for the conduct of Supervision and Examination while the second part details training tools as well as working instructions, administrative forms, data collection and analysis checklists, for practical application.

The CCCU remains committed to furthering the development of a modernized and enabling legislative and regulatory framework for the Caribbean Credit Union sector.

THE REGULATION AND SUPERVISION OF THE CAFIBBEAN CONFEDERATION OF CREDIT UNIONS AREA CREDIT UNION SECTOR.

OVERVIEW.

The structure of the co-operatives sector in the Caribbean, consists of legally registered autonomous credit unions and other co-operatives, at the primary level...

The regional sector is further networked, as co-operatives are also organized through national Associations or Leagues at the secondary level and then through the regional Caribbean Confederation of Credit Unions (CCCU), which is a trade association for Credit Unions as well as other co-operatives.

The purpose of the Confederation is to represent, promote, strengthen, monitor and integrate the Co-operative Movement in the Caribbean. In keeping with this objective the CCCU has deepened its with relationship with the regulatory authorities and has created and implemented mechanisms to assist in further strengthening the monitoring and supervision of Caribbean credit unions.

1. THE LEGAL AND REGULATORY FRAMEWORK

1.1 BACKGROUND

The Legal and Regulatory framework of the Caribbean Credit Union sector, has three (3) main components. Firstly, there is the Co-operative Societies Act which provides for both Credit Unions and other Co-operatives. Secondly there is the Co-operative Societies Regulations which clarifies the provisions of the Act. It should be noted however that in some countries there is an omnibus Co-operative Societies Act with specific sections for credit unions as well as consumer societies. In other countries, notably Belize, there are separate Acts for credit unions and for other types of co-operatives.

The third component of the Legal and Regulatory Framework is the Bye-laws of the Credit Union, which are developed in accordance with the provisions of the Act and the Regulations

Traditionally, credit union regulation and supervision has been the exclusive domain of the Department of Co-operatives. Emerging and current regulatory trends have however resulted in the creation of new regulatory regimes. As a result, there are approximately four (4) different regulatory approaches in that credit unions are now regulated either directly by the Central Bank, or indirectly by the national Ministries of Finance, by Single Regulatory Authorities, or by the Department of Co-operatives.

1.2 THE CO-OPERATIVE SOCIETIES ACT.

The Co-operative Societies Act and Credit Unions Act where applicable, make provision for the position of Registrar or Commissioner of Co-operatives, confers regulatory and supervisory authority and specifies the duties that are to be performed,

These Acts set out qualifications under which institutions can be regarded as co-operatives and establishes procedures for the Registration, Operation, Receivership, Re-organisation or Dissolution of Credit Unions, These Acts also make provision for Credit Unions to submit monthly and special returns to the Registrar or Commissioner of Co-operatives.

These Acts include provisions for the audit of the annual financial statements of Credit Unions, the holding of Annual General Meetings and authorizes the Regulator to perform both regular and special inspections of credit unions.

Matters relating to the conduct of the members, Board, Committees, Officers and others concerned with the management of the credit union are clearly spelt out. The Acts also cover the credit union’s relationship with the Regulator and compliance with the requirements of the Act.

These Acts also make provisions for the Regulator to issue Directives with respect to financial standards to be attained and maintained by Credit Unions and to impose sanctions for non-compliance.

Provisions for the supervision and regulation of the credit union sector however, are subject to changes and amendments, as the development of this and the wider financial system dictate.

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1.3 OTHER LEGISLATION AND SECTOR INFLUENCES.

In addition to the specific legislative provisions which govern its operations, credit unions are also subject to national legislation and guidelines governing anti-money laundering activities.

Additionally, the creation of national Single Regulatory Authorities Acts which seek to bring all financial institutions under a single Regulatory Authority, will also impact on regulation in the credit union sector.

Supervision and examination mechanisms in the credit union sector, must also be allied to the developments in the wider financial system and the impact of regional harmonized banking and financial services sector legislation and regulations.

1.4 REGULATIONS AND ORDERS.

An important feature of the Co-operative Societies Act, is the flexibility provided by the ability to introduce Regulations. The Minister responsible is empowered to make such Regulations as may be required from time to time for giving effect to the provisions of the Act.

1.5 PRUDENTIAL GUIDELINES

In addition to the legal components of the regulatory system, another tool used by the Regulator and the CCCU, is the PEARLS Monitoring System, which is a set of international prudential standards and guidelines for Credit Unions.

These standards and guidelines while not having the force of law in every country, are very effective in promoting safety and soundness in the credit union system.

2 CREDIT UNION EXAMINATION FRAMEWORK

2.1 BACKGROUND

In concert with the new and emerging regulatory framework, redefinition and expansion of the role and activities of Regulators and Regulatory Authorities in the examination of credit unions, has become a necessary pre-condition for ensuring the ongoing safety and soundness of the Movement. Regional credit unions have generally been recognized not only as savings and loan institutions but have also been identified as critical vehicles in the regional strategic plan for Money and Capital Market Development, particularly as mobilisers of finance, as providers of capital for small and medium enterprises and as the providers of financial advice for their members.

2.2 CO-OPERATIVE PRINCIPLES FOR EFFECTIVE CREDIT UNION SUPERVISION

Adherence to accepted regulatory and supervisory best practices in the wider financial sector,is considered to be of prime importance in ensuring that the supervisory framework for credit unions is consistent with established international standards. Accordingly, the following principles should inform the supervisory and regulatory function:

- An effective credit union examination system will have clear responsibilities and objectives for each agency involved in the supervision of credit union organizations. Each such agency should possess operational independence and adequate resources.

- A suitable legal framework for credit union examination is also necessary, including provisions relating to authorization of credit union organization and their on-going examination; powers to address compliance with laws as well as safety and soundness concerns and legal protection for supervisors. Arrangements for sharing information between examiners and protecting the confidentiality of such information should be in place.

2.2.1 REGISTRATION AND STRUCTURE.

- The activities of institutions that are registered as Co-operative Credit Unions must be clearly defined and the use of the word “co-operative” in names must be controlled as far as possible.

- Regulators must have the right to set viability criteria for credit unions and to reject the applications for institutions that do not meet the standards set.

- Regulators must have the authority to establish criteria for reviewing major acquisitions on investments by a credit union and ensuring that the credit union is not exposed to undue risks.

2.2.2 PRUDENTIAL REGULATIONS AND REQUIREMENTS.

- Credit Union Regulators must set prudent and appropriate minimum standards for all institutions.

- Evaluation of a credit union’s policies, procedures and practices related to the granting of loans and the making of investments and the on-going management of its loans and investment portfolios, is an essential part of a supervisory system.

- Credit Union Examiners must be satisfied that credit unions establish and adhere to adequate policies, procedures and practices for evaluating the quality of assets and the adequacy of loan loss provisions and loan loss reserves.

- In order to prevent risks arising from connected lending, regulators must have in place requirements that credit unions lend to related institutions and individuals on an arm’s-length basis; that such credit is effectively monitored and that other appropriate steps are taken to control or mitigate the risks

- Credit Union Examiners must determine that credit unions have in place internal controls that are adequate for the nature and scale of their business. These should include clear arrangements for delegating authority and responsibility, separation of the functions that involve committing the credit union; paying away its funds and accounting for its assets and liabilities; reconciliation of these processes; safeguarding its assets and liabilities and appropriate independent internal or external audit and compliance to test adherence to these controls as well as applicable laws and regulations.

- Credit Union Examiners must determine that credit unions have adequate policies, procedures and practices in place, including strict "know-your-customer" rules, which promote high ethical and professional standards in the financial sector and prevent the Credit Union being used intentionally or unintentionally by criminal elements.

2.2.3 METHODS OF ON-GOING CREDIT UNION SUPERVISION AND EXAMINATION.

- An effective Credit Union regulatory system should consist of some form of both off-site and on-site examination.

- Credit Union Examiners must have a thorough understanding of the credit union's operations.

- Credit Union Examiners must have a means of collecting, reviewing and analyzing prudential reports and statistical returns from credit unions both on an individual and consolidated basis.

- Credit Union Examiners must have a means of independent validation of supervisory information, either through on-site examination or use of external auditors.

2.2.4 INFORMATION REQUIREMENTS

- Credit Union Examiners must be satisfied that each institution maintains adequate records drawn up in accordance with consistent accounting policies and practices that enable the Examiner to obtain a true and fair view of the financial condition of the institution and the profitability of its business and that the credit union produces on a regular basis, financial statements that fairly reflect its condition.

2.2.5 FORMAL POWER OF EXAMINERS.

1. Credit Union Examiners must have at their disposal adequate supervisory measures to bring about timely corrective action when credit unions fail to meet prudential requirements, where there are regulatory violations or where depositors are threatened in any other way, In extreme circumstances, this should include the ability to take over the operations.

2. Credit Union Examiners must require the operations of credit unions to be conducted to the same high standards as are required of other domestic institutions and must have power to share information needed by a country's financial authorities.

3 APPLICATION AND USE OF THE EXAMINATIONS AND SUPERVISION MANUAL

3.1 Background.

In accordance with the general efforts of regional governments to modernize and re-engineer the regulatory and institutional framework of the Co-operatives Sector and specifically to ensure that credit unions operate in accordance with internationally accepted best practices, regular examinations will ensure greater loss prevention and accountability in the credit union system.

Accordingly, the international PEARLS Monitoring System provides a system of benchmarks and standards for Credit Union management to guide their operations to higher levels of performance.

3.2 PURPOSE OF THE MANUAL

This Manual is designed to facilitate credit union supervision and examination in accordance with the new requirements for regulation, It is also designed to strengthen the technical capacity of the Regulatory Authorities to fulfill effectively their Mandate and Statutory requirements in pursuance of their legal responsibilities.

For ease of application usage, the manual has been designed in two (2) parts The first part consists of the Supervision and Examination rationale and methodology while the second part outlines the working instructions, administrative forms and data collection and analysis checklists and forms.

4. THE SUPERVISION AND EXAMINATION PROCESS.

In performing its supervision and examination tasks, Regulatory Authorities have employed a dual approach which combines a mix of off-site surveillance and on-site techniques in order to optimize their supervisory capacity.

In most jurisdictions, supervision is carried out by the Inspectorate of the Department of Co-operatives, whose objective is to enhance the soundness of the Movement and ensure reliability of the financial information, so as to maintain member and public confidence in the Movement and the wider financial sector.

The supervisory function is divided into three (3) parts namely (a) off-site examination, (b) on-site examinations and (c) the supervisory actions.

4.1 OFF-SITE EXAMINATION

Off-site surveillance involves the monitoring of the credit union system and the continuous assessment and evaluation of individual credit unions to ensure their liquidity and financial viability. This is conducted through telephone contacts, review of reports and statistical data and analysis of monthly and other periodic financial and prudential performance reports, submitted to the Regulator by each credit union in the system.

Surveillance Processes and Procedures.

The objective of the PEARLS based monitoring system, is to identify developing financial and management problems at credit unions between examinations, in order to set priorities for the allocation of examination and other supervisory resources. Output from the system is used to accelerate the on-site examination of credit unions showing financial deterioration or to identify the areas of most supervisory concern in those credit unions scheduled for examination.

4.2 ON-SITE EXAMINATION

4.2.1` Pre-examination planning

Pre-examination planning is the preparatory work necessary for the conduct of the on-site examination. The examination plan is structured along the following lines:

1. Identification of the inspection to be done;
2. Determination of the sample size;
3. Selection of the team: manpower planning;
4. Selection of the team leader;
5. Preparation work;
6. Inspection process and Schedule outlined to management;
7. Conduct of the actual inspection
8. Report delivery; and
9. Follow-up

The main activities of the planning process are as follows:

1. Study and analyse the file of the credit union, including reports from previous examinations if they exist, in order to be aware of real or potential problems and weaknesses.

2. Analyse the historical and current financial data and performance reports, such as year-end or semi-annual Financial Performance Reports, external audits. Review the financial history, key ratio analysis, loans, investment, and share (savings) trends..

3. Read all communications on the last , including, copies of any changes in bylaws, changes in policies and procedures, changes in the operation and management and note any type of action taken by the credit union in order to correct problems and weakness.

4. Decide the date and duration of the examination.

5. Prepare a list of reports and information that is required based n the scope of the examination.

(See TM for sample examination work plans)

4.2.2 Examination Conduct

The on-site examination involves the physical examination of the subject credit union's books and records at its place of business. The examination team looks at all aspects of the credit union's operations, in order to ensure that sound and prudent management and operating standards are maintained and to determine its overall financial condition.

During the on-site examination, the credit union is evaluated with respect to the following areas:

1. Administrative and Operational Practices.
2. Asset Quality.
3. Financial Analysis
4. Anti-Money Laundering Guidance.
5. Management Information Systems.
6. Management
7. Risk Analysis.

4.2.2 (1) Administrative and Operational Practices

This component of the examination looks at the other aspects of credit union operations. It has an element of surprise and is also a loss prevention tool. The first phase of the process accounts for all of the cash or ledger dollars by ensuring that the general ledger, all subsidiary ledgers and cash are in balance. The second phase is to review the activities, policies, procedures and business processes in the credit union, to test the internal controls and to assess the degree of compliance with the Act, Regulations, Bye-laws and Policies.

(See TM for Administrative and Operational Practices Analysis Work Plan).

4.2.2 (2) Asset Quality

Credit Analysis is the main thrust of this examination component given the relative importance of the loan portfolio in the asset base. The Board of Directors of the credit union is required to establish and the credit union is required to adhere to Credit Administration policies, that a reasonable and prudent person would apply in respect of a portfolio of loans, to avoid undue risk or loss. Lending policies, procedures and guidelines are assessed and the quality of the portfolio evaluated.

Investment Analysis is the other phase of the asset quality examination component. Each credit union must apply the same standards of care to its investments portfolio and ensure compliance with the investment requirements set out in the Act, Regulations and Bye-laws.

(a) Credit Administration - Loan Examination Size and Requirements

Although the nature of the examination and the size of the samples will be determined by a series of basic principles, there are a core group of files which should always be reviewed. This list of required files include the following:

- Loans to staff members, management and their immediate families including past and present loans. After the initial examination, this review should include all activity since the last examination.
- Loans to Directors, Committee members and their immediate families.
- All delinquent loan files including accounts in arbitration and other litigation.
- A random sample of recent loans granted during the last twelve (12) months.
- About twenty (20) to fifty (50) of the Credit Union's largest loan files, noting that the size of a large loan will vary from one Credit Union to another.

The basic purpose is to evaluate and improve the Credit Union's credit administration process towards improving asset quality and reducing delinquency.

(See TM for Loan Analysis Work Plan),

(b) Investments

Investments are liquid and marketable securities held by the credit union in its asset portfolio. After loans, investments are the main source of a credit union's earnings and generally serve two (2) key functions: as a source of credit union liquidity, or funding to meet loan demand or member needs for cash.

The ability of the credit union to select investments with minimal risk or to offset the various types and levels of risk through proper investment analysis, determines the quality of these assets.

The scope of the investment analysis will therefore be informed by the risk assessment performed by the credit union and an analysis of the investment policies, procedures, practices and internal controls relating to investments.

(See TM for Investments Analysis Work Plan)

4.2.2 (3) Financial Analysis

The Financial Analysis function performs an in-depth analysis of the credit union's financial and operating results. The PEARLS Monitoring System developed by the World Council of Credit Unions (WOCCU) is the accepted international system for analyzing credit unions' financial performance, according to industry standards. In addition to the financial indicators, it also measures growth and development.

The acronym reviews the following areas

Protection (loan loss provisioning)
Effective Financial Structure (Asset diversification and Ratios)
Asset Quality (level of delinquency and quality of investments)
Rates of Return and Cost,
Liquidity
Signs of Growth.

Adherence to international regulatory and supervisory best practices is considered critical to the operations of the Credit Union.

(See TM for the PEARLS Analysis System and Work Plan)

4.2.2 (4) Anti-Money Laundering Guidance.

Money laundering is the process of concealing or disguising the existence, illegal source, movement, destination or illegal application of illicitly derived property, or funds, to make them appear legitimate. It generally involves the placement of funds into to a financial institution or system, the layering of transactions to disguise their source, ownership and location of the funds and the integration of the funds into society, in the form of holdings that have the appearance of respectability.

The credit union's policy should outline the processes and procedures to be followed to enable any officer, employee or regulatory personnel to detect and report any activity on money laundering activities.

The credit union should develop programmes against money laundering.

(See TM for Anti-Money laundering guidance review procedures)

4.2.2 (5) Management Information Systems.

Credit Unions that are computerized and operating in an on-line environment, will be critically dependent on their information and communication It is important therefore that the system and its environment be assessed, to determine the level of risk which the Credit Union faces and its procedures for mitigating the risks.

The system should be assessed with respect to documentation; physical and system security; transaction processing and output; disaster recovery; and overall efficiency.

(See TM for Management Information System review Work Plan)

4.2.2 (6) Management (Board of Directors, Committees and Operational Management)

The review of management is very important in the overall examination process as the effectiveness of management can determine the credit union's ability to diagnose problems and take corrective measures.

The assessment of management can be quite varied depending on the size and complexity of each credit union. A review of management should consider the following four (4) broad areas of the credit union's operation:

1. Business Strategy and Performance
2. Internal Controls
3. Management Conduct
4. Service to Members.

Consideration should also be given to the following::

- Management is evaluated for its ability to manage the business affairs of the Credit Union in a safe and sound manner.

- The quality of management is the most forward looking indicator of conditions and a key determinant of whether a credit union can correctly diagnose and respond environmental and financial challenges.

- The training of management is an important task and requires an ongoing commitment. A current assessment of management and the credit union must be made in order to determine the needs.

- The management assessment should not be solely dependent on the financial condition. A review should be done on the objective indicators and not purely subjective indicators.

- The Board of Directors has the ultimate decision making authority. The Board approves policies that direct the daily operational management and that delegate the necessary authority to staff so that they can fulfill their responsibilities

- A review of Board and Committee Minutes, the credit union's policies, the business plan and the financial and operational results is a good barometer of Board and Committee effectiveness.

(See TM for Management Review Work Plan)

4.2.2 (7) Risk Analysis

Financial transactions by nature entail taking a wide array of risks. Examiners need to understand these risks and be satisfied that credit unions are adequately measuring and managing them. The key risks faced by credit unions are as follows:

Credit Risks

The extension of loans is the primary investing activity of credit unions and this requires credit unions to make judgements related to the creditworthiness of borrower. As the creditworthiness of a borrower may decline overtime, a major risk that the credit union faces is the failure of a counterpart (borrower) to perform according to a contractual arrangement.

Country and Transfer Risk

Country and transfer risks refers to risks associated with the economic, social and political environment of the borrower's home territory. Country risks may be most apparent when lending to or investing in foreign governments or their agencies since such lending is typically unsecured.

Market Risks

Market risks can be measured both as the changes in the value of financial instruments and currencies, as well as the credit union's exposure to interest rate risks and/or foreign exchange risks.

Interest Rate Risks
Interest rate risks refers to the exposure of a credit union's financial condition to adverse movements in interest rates. The risks impacts both the earnings of the credit union as well as the economic value of its assets, liabilities and off-balance sheet instruments such as guarantees.

Liquidity Risks
Liquidity risks arise from the credit union's inability to accommodate decreases in liabilities or to fund increases in assets. In some cases, insufficient liquidity can lead to the insolvency of the institution.

Operational Risks
Operational risks is the risk of loss due to deficiencies in information systems, business processes or internal controls, that may result in unexpected loss, i.e any risk that is not market or credit related.

Legal Risks
The legal risks to which credit unions may be subjected include the risk that assets will turn out to be worth less or liabilities to be greater than expected, because of inadequate or incorrect legal advise or documentation.

(See TM for Risk Analysis Work Plan)

4.3 SUPERVISORY ACTIONS

A fundamental element of the regulatory process, is the initiation of supervisory actions. To enhance the process, a hierarchal range of remedial actions has been developed and introduced, in conformity with the Act and Regulations. These involve actions that are designed to correct specific problems that have been identified in the on-site examination of the credit union.

These may take the form of the following:

- Letter of Commitment
- Memorandum of Understanding (MOU)
- Formal Agreement (Cease and Desist Order)
- Financial Directives (Temporary Cease and Desist Order)
- Removal and Suspension
- Prudential Meetings.

Letter of Commitment

A Commitment Letter is the least severe instrument. It is a letter drafted by the Regulator and signed by the Board of Directors of the credit union or the principal officers of the

Board. The letter enumerates the problems that require corrective action and outlines the plan and timetable to remedy the problems.

A Commitment Letter may be used when the problems identified do not pose an immediate threat to the credit union. For example, the credit union has been responsive in the past and does not have a history of serious problems.

Memorandum of Understanding (MOU)

The MOU is initiated by the Regulator and entered into between the Board of Directors of the credit union and the Regulator. The MOU details the credit union's agreement to take certain actions within specified time periods to correct violations of the Act and Regulations or unsafe or unsound practices.

An MOU will only be considered when the problems do not pose an immediate threat to the credit union and when the Regulator expects that the credit union will co-operate in correcting the problems so that legal enforcement will not be required to achieve compliance.

If the credit union fails to comply with the MOU, then the Regulator will consider stronger action.

Formal Agreement (Cease and Desist Order)

Cease and Desist Orders are intended to be issued when the Regulator is not confident that the management of the credit union will take the necessary corrective action, where management fails to do so, or when the problems are so severe that a lesser action cannot be justified.

When the Regulator determines that a cease and desist order is required, he will bring the problems to the attention of the Board of Directors of the institution and present them with an order specifying the corrective action that is to be taken. The order should be presented at a Board meeting. The Regulator will request consent from the Board to the order and the signature of a majority of the Board. Once an order becomes effective, all of the directors are responsible for compliance.

If a cease and desist order is not complied with, the Regulator can enforce this through the relevant legal provisions of the Act.

A cease and desist order shall remain in effect until it is terminated by the Regulator.

Temporary Cease and Desist Order.

The Regulator may issue a temporary cease and desist order before a cease and desist proceeding is completed when one of the following is likely to occur::
Prejudice to the interest of members.

Weakening of the credit union's financial condition;
Significant impairment of the credit union's assets or earnings

In addition, the Regulator may issue a temporary cease and desist order when the credit union's books and records are so incomplete or inaccurate that the credit union cannot through the normal supervisory process, determine the financial condition of the institution or the details or purpose of any material transaction.

Financial Directive

The Act and Regulations make specific requirements for liquidity, statutory reserve, loan loss provisioning. When necessary or appropriate, the Regulator may issue to the institution a financial directive when the credit union has failed to submit or is not in compliance with a reasonable plan to achieve the required financial requirements.

Removal and Suspension

The Regulator may initiate an action to remove and if necessary to protect the credit union, may suspend a Board of Directors for a particularly serious violation of law, unsafe and unsound practice, violation of a cease and desist order, or other breach of duty.

Suspension is an interim procedure the Regulator may use while removal ;proceedings are underway, to protect the credit union and its members from immediate threat.

To remove a Board, the Regulator must show that an improper act was committed and that the institution has or will probably suffer financial loss or other damage, that the person has received financial gain or that the members' interest could be prejudiced and that the act involved personal dishonesty, or demonstrated willful or continuing disregard for the safety and soundness of the credit union.

4.4 Prudential Meetings

Regulators have introduced and should continue to hold a system of ongoing prudential meetings with the management of the credit unions.. At these meetings, which supplement the off-site and on-site supervision and examination process, issues relating to the performance of the credit union, management strategy, compliance issues and other pertinent area, are discussed in a frank, open manner in a non-threatening environment. These meetings can be useful to Regulators since a significant amount of information on the credit unions and the sector, can be obtained that might not be available in a formal examination setting.

5. ADHERENCE TO INTERNATIONAL STANDARDS AND BEST PRACTICES

Caribbean Regulators consider the adherence to credit union industry standards and best practices to be of prime importance and place considerable emphasis on ensuring that its supervisory framework is consistent with established strategies for prudent regulation.

Regulators therefore have established and maintain linkages with national and international financial sector regulatory and development agencies, as part of the process of modernizing the regulatory framework.

Caribbean Regulators have also established a formal association, called the Caribbean Association of Regulators of Co-operators, (CASROC) as one of the initiatives to harmonise approaches to regional regulation. Additionally, principles of effective supervision based on international financial standards, are being utilized to further enhance the capacities of the Regulators.

6. EXAMINATION REPORT

The typical examination report should include the following:

1. A brief background of the credit union.

2. The objectives of the examination.

3. Methodology

4. Comments on the issues and findings, which should be compared to the minimum level of acceptable performance.

5. Areas of risk evaluation
   - (i) Operational and Administrative Management
   - (ii) Financial Analysis – PEARLS (ratings compared to minimum acceptable performance level.
   - (iii) Credit Administration
   - (iv) Investment Analysis
   - (v) Management Information Systems.
   - (vi) Anti-money laundering policies and procedures.

6. Management Performance and Compliance (Act, Regulations, Bye-laws, International Prudential Standards, existing policies and other relevant statutory instruments.

7. Recommendations for improvements through collaborative approaches and subject to the approval of the Regulator.

8. A comparative analysis compared to last inspection.

9. Conclusion.

The covering letter should outline the time frame by which date the credit union should respond to the report, outlining its actions in respect of the specific weaknesses and recommendations in the report as well as its response to compliance violations.

The report becomes a valuable management tool. Areas of weakness should become the primary concern of the Board and operational management until satisfactorily resolved.

7. MONITORING AND FOLLOW-UP

The first follow-up is the credit union's response to the weaknesses identified. Depending on the seriousness of the issues, the follow-up should be more frequent for ;poor and unacceptable results. All follow-up should be "issues specific" dealing with the deficiencies identified. All follow-up should be clearly documented and should follow a work plan.

The follow-up ;process will be outlined in an appropriate work plan and focused on an individual credit union basis. The follow-up should be issue specific and if serious deficiencies are present, the follow-up will be more frequent.

Special conditions should be stipulated by the Regulator for follow –up and consultation on issues which seriously affect the viability of the credit union.

8. CONCLUSION AND REFERENCE

In their supervisory role, Regulators adopt a strategic approach which while ensuring soundness and stability, also takes into consideration the reasonable co-operative business interests and aspirations of the Credit Union Movement. This approach is to a large extent consultative and collaborative, so as to minimize friction in the application of regulations.

This manual is designed to strengthen the system of harmonized regulation in the region. The main features of this approach have been described in this manual and are intended to provide an overview of the present state of the regulatory environment and the intended approach which is designed to result in a comprehensive and effective regulatory and supervisory framework for the regional credit union sector.

Caribbean Confederation of Credit Unions

Credit Union Supervision and Examination Manual

Assistance in the compilation of this manual was provided by the Registrars of Co-operatives of the State of Grenada, St. Vincent and the Grenadines, a representative of the St. Lucia Department of Co-operatives, the Dominica Co-operative League, in addition to Consultants.