



Credit Union Chair

By E-Mail

8 March 2018

Re: Thematic Review of Prize Draws in Credit Unions

Dear Chair

During 2017, the Registry of Credit Unions (RCU) undertook a thematic review of prize draws in the credit union sector. This review was conducted to assess the number of credit unions providing this service to their members, the quantum of prizes, and the governance and controls in place within credit unions to manage the operation of draws and disbursement of prizes to members. The review was performed by issuing an initial survey to all credit unions in the sector. From the responses received a sample of credit unions was selected for onsite inspection. We have now published a report setting out the key findings from this review - 'Thematic Review of Prize draws in Credit Unions'.

The Central Bank selected prize draws as a theme for 2017 as there had been issues identified on the operation of such draws in some individual credit unions in 2016. The purpose of the Report is to share the Central Bank's findings and observations from the thematic review of prize draws with credit unions. We expect credit unions to review the recommendations and examples provided in the report, and consider how these can inform boards when updating and developing their systems and controls in place over prize draws. It is also expected that boards and management teams of all credit unions fully appreciate and understand the obligations to ensure ongoing compliance with the regulatory conditions and guidance on prize draws.

Background

Prize draws within credit unions are exempt from the Additional Services requirements under the Credit Union Act, 1997 (Regulatory Requirements) Regulations 2016. The 2016 Regulations require credit unions conduct prize draws on a break even basis. In addition, the Central Bank issued guidance in February 2017, setting out the Central Bank's expectation that, "*where a credit union is operating a draw for its members, it will be done in a clear and transparent manner with appropriate systems and controls in place*". The guidance advises that credit unions should ensure;

- Members are only included in draws where they have given their written consent for inclusion; and
- Clear terms and conditions are documented and provided to participating members. Such terms and conditions would be expected to include items such as:
 - Eligibility criteria for entry into the draw and the process for entering the draw (it should be clear whether or not volunteers and/or staff are eligible to enter)
 - How the draw fee will be collected
 - Information on when and where draws will take place
 - How winners will be advised of their win
 - How any surplus funds arising from the draw will be dealt with
 - How members participating in the draw will be recorded
 - How the draw will be accounted for and audited (e.g. by internal and external audit)



Survey

A survey was issued to 276 credit unions, the purpose of which was to obtain an overview of the number of credit unions conducting prize draws, the quantum of prizes, the governance and systems and controls in place to manage the operation of prize draws. The Central Bank used the findings of the survey to assist in the selection of a sample of credit unions for on-site inspections.

On-site inspections

Thirty four on-site inspections were conducted across a sample of credit unions (which were selected to provide a mix of asset size, urban and rural locations and a mix of industrial and community based credit unions) and focused on 4 areas of the operation of prize draws namely:

- 1) Governance
- 2) Member participation
- 3) Operation of Prize Draws
- 4) Recording of Financial Transactions

Set out below are some of the key findings from the survey and the on-site inspections.

Sectoral overview

- 128 (46%) of credit unions operate a prize draw
 - 79% of larger credit unions (assets great than €100m) operate a prize draw
 - 25% of smaller credit unions (assets less than €25m) operate a prize draw
- Approximately 446,000 members participate in prize draws, an increase of circa 46,000 from 2015 to 2017
- Circa €40m in prizes was disbursed between 1 Oct 2014 and 31 March 2017
- Participation is higher in credit unions with an industrial common bond than a community common bond. As a result the average value of prizes over the period was €860,000 in industrial credit unions compared to €215,000 in community credit unions. Two industrial credit unions distributed over €1m per year in prizes.

Key Findings

- Break-even Basis
 - The requirement to conduct prize draws on a break-even basis has been interpreted in a variety of ways, and some credit unions have accumulated large cash balances which have not been distributed to members.
- Governance
 - 25% of credit unions had no documented policies or procedures in place for the operation of prize draws.
 - In many cases where there were policies or procedures in place they had not been reviewed and updated to reflect current practice.
- Member Participation
 - In several credit unions there was poor record keeping of members' written authorisation and withdrawal forms.
 - Circa 85% of credit unions allow staff and directors to participate in prize draws.
 - In approximately 30% of credit unions who operate prize draws, staff and directors have won prizes over the period October 2014 to March 2017.
- Operation of Prize Draws
 - Draws were conducted by staff, who were eligible to enter the draw, with no independent oversight present.
 - In some credit unions there was poor record keeping on the disbursement of prizes to winners, and copies of correspondence to members were not retained on file.
- Recording of Financial Transactions
 - 17% of credit unions who operate a prize draws had never had the draw reviewed by internal or external audit.
 - In some cases there was no formal reconciliation of the prize draw prepared.



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

The report sets out recommendations which credit unions should consider when addressing the issues identified above.
If you have any queries in relation to the contents of this letter, please contact your supervisor in RCU.

Yours sincerely

Registry of Credit Unions