



23 December 2021

To: All Regulated Entities

Supervisory Issues and Information Circular

Re: Thematic Credit Review

Background

The economic downturn brought on by the COVID-19 pandemic has had a varying impact globally. To assess the effect on the domestic lending institutions, the Banking Supervision Division of the Cayman Islands Monetary Authority (the "Authority") conducted a thematic credit review (the "Thematic Credit Review") of nine (9) financial institutions (the "Selected Lending Institutions" or "SLIs") from 18 March 2021 to 30 June 2021.

The Thematic Credit Review assessed the impact of the COVID-19 pandemic on the loan portfolios of the SLIs to understand the nature of concessions granted to customers and the risk mitigation measures. Additionally, the Authority assessed the credit risk policies and procedures, corporate governance structure and internal control environment of the Selected Lending Institutions.

Summary

The Thematic Credit Review revealed that loan portfolios were generally resilient through the first year of the COVID-19 pandemic. Most SLIs discontinued their previously implemented forbearance and debt payment moratorium measures without significant loan portfolio deterioration. Additionally, the Thematic Credit Review revealed several general themes across the Selected Lending Institutions, including the good practices and some areas of concern. Through bilateral communication, the Authority has outlined the deficiencies identified and the resulting requirements needed to enhance the credit risk management framework of each participating SLI. The key themes from the Thematic Credit Review are highlighted below.

Response to COVID-19

The Selected Lending Institutions implemented various measures in response to the COVID-19 pandemic. Some of the measures implemented included reviewing the risk appetite statements, reviewing underwriting practices, and implementing concessions to support customers impacted by the COVID-19 pandemic. However, the Thematic Credit Review revealed a need for improvements with respect to the practices for granting blanket waivers and concessions granted to delinquent customers. Furthermore, the review also revealed a need to improve the preparedness for managing a similar situation and a need for public education on the long-term impact of financial concessions.

Policies and Procedures

The Thematic Credit Review revealed that there was close oversight by the Board of Directors and there were established policies and procedures being applied for credit risk. However, the Authority identified several deficiencies in the policies and procedures for some SLIs, while some SLIs had no documented concentration limits for their products and collateral.

Risk Rating of Credit Facilities

There was generally a robust customer assessment being applied during credit origination along with periodic reviews and risk classification approaches that considered both the borrower's score and the facility. However, several deficiencies were identified in credit administration practices for some SLIs. Some of the key weaknesses included failure by some SLIs to implement and/or document their credit risk asset classification methodology, failure to consider qualitative indicators in the categorization of credits and failure to categorize non-performing exposures appropriately.

Ongoing Monitoring

With respect to ongoing monitoring, most SLIs had implemented a framework that allow for the early identification of credit deterioration and robust management of credits at early, mid or late delinquency stages. However, deficiencies were identified regarding the independent oversight for adding or removing customers from watch lists.

Restructure, Reclassification of Credit Facilities and Charge-Off of Uncollectible Credits

The Thematic Credit Review also highlighted delays in the reclassification of accounts from doubtful to loss after reasonable collection efforts had been exhausted, resulting in delaying the write-off of uncollectible credits. Additionally, some SLIs failed to make timely provisions for uncollectible credits. There were also instances of inadequate documentation to support the assessment of the customer's ability to comply with the new terms for the restructured or renegotiated loans.

Internal Audit

The majority of the SLIs had a control framework which included the conduct of regular internal audit reviews and also ensured timely remediation of deficiencies identified in the internal audit reports. However, there was one instance where a SLI failed to ensure that internal audit reviews were conducted regularly. Additionally, there were instances of inadequate internal audit resources to undertake a comprehensive credit review considering the size, nature, and complexity of the institution's operations.

Collateral Management

For collateral management, the SLIs generally obtained the current market value of the collateral held and actively managed the institution's collateral concentration risk. However, there were instances where some SLIs utilized outdated collateral valuations or failed to adequately document the internal valuations and assessment of collateral in the absence of an independent valuation of the collateral.

Thematic Credit Review Report

All licensees, including the SLIs, should consider the general themes contained in the Thematic Credit Review Report (the "Report") and incorporate them in their respective credit risk management framework, where applicable. The Authority's detailed Report is available [here](#). The

Authority will continue to use thematic reviews, where appropriate, to facilitate peer comparison, benchmarking, and trend analysis to promote and maintain a sound financial system in the Cayman Islands. Please email the Banking Supervision Division at contactbanking@cima.ky should you have any questions.