

OUTSOURCING SERVICING OF OWNED ATMs

Credit unions must ensure outsourcing arrangement to service ATMs materially meets the following criteria. Where these criteria are not met, cash held in the ATMs must be reported as a commercial loan.

Background

Some credit unions have elected to adopt an outsourcing model for owned ATMs. For the purposes of this Advisory, owned ATMs include ATMs subject to capital leases where the lease includes a buy-back arrangement.

Credit union branded ATMs are typically located on premises owned or leased by the credit union for the primary purpose of servicing members. Access to cash compartments is restricted to credit union employees or an independent armoured car service company acting as custodian for the credit union. Access to the cash compartments area of an ATM by a service provider can only occur under the physical supervision of a credit union employee or an independent armoured car service company acting as custodian for the credit union. However, the credit union retains the ability to conduct spot audits of cash in ATMs. Insurance for the benefit of the credit union is maintained on the cash at all times whether the cash is with the armoured car carrier or in the ATM. The insurance company must provide prior notice to the credit union of any proposed change to the policy. The credit union must have the right and ability to shut down any or all ATMs without prior notice at its sole discretion.

Robust records and controls must be in place to ensure ongoing tracking of cash in each ATM. This tracking includes the daily reconciliation of all armoured car cash transactions for each ATM, related electronic switch reports and debits and credits to the credit union's ATM settlement accounts, including related general ledger and bank accounts. Periodic ATM cash counts should also be undertaken.

Further information on best practices for outsourcing of services to third parties is set out in Section 9410 of DICO's Sound Business and Financial Practices Reference Manual,

which is available on our website. Additionally, ATM servicing agreements established with suppliers should conform to OSFI's Outsourcing Guideline B10 - Outsourcing of Business Activities, Functions and Processes.

While diligent risk management practices will mitigate potential losses, owing to risks associated with outsourcing programs of this nature, credit unions should limit aggregate amounts maintained in ATMs to 1% or less of total assets.

Legislative References

Pursuant to subsection 52(2) of the Regulation, where cash is supplied to an ATM that is not owned and operated by the credit union, it must be treated as a commercial loan.

By-law No. 5 – Standards of Sound Business and Financial Practices requires that institutions have appropriate and prudent policies, procedures and controls to manage the operational risk including outsourcing of services.

Please ensure that your credit union's outsourcing policies and practices reflect these requirements.

DICO's examination process will include a review of any outsourcing arrangements established by the credit union for ATMs. Where those arrangements do not materially meet the above conditions, the credit union will be deemed to have granted a commercial loan.

If you have any questions, we ask that you contact your Regional Manager at DICO.