2020 ICURN Member Baseline Survey Results

EXECUTIVE SUMMARY

May 2020

ICURN

INTERNATIONAL CREDIT UNION REGULATORS' NETWORK

The International Credit Union Regulators' Network (www.icurn.org) is an independent not-for-profit association of financial cooperative supervisors from around the world. ICURN provides supervisors with training, research and networking opportunities and is governed by a board of directors comprised of its members.

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I: Executive Summary & Key Survey Findings

From September, 2019 through January, 2020[1] ICURN conducted its Member Baseline Survey. The purpose of the survey is to provide information for supervisors to benchmark their local settings with those of their peers from around the world. Thirty-one credit union[2] regulators from 22 countries on six continents participated in the 49-question survey.

Comparted to the last survey conducted by ICURN in 2006 there has been a shift from credit unions being supervised by Ministries of Cooperative or Agriculture (37% in 2006 and only 10% today) to more of them being supervised by central banks (11% in 2006 and 32% today). At the same time, the percentage of credit unions supervised by independent agencies has decreased slightly (from 32% to 29%) and those supervised by a financial sector supervisory authority has remained unchanged (16%).

Data gathered for five main areas were divided into responses from G-20 and non G-20 countries in order to observe any differences that are present. The G-20 countries that participated in the survey are: Australia, Brazil, Canada, India, Ireland (EU), South Africa, United Kingdom, and the United States. In Canada, nine provincial regulators participated in the survey. In South Africa, two different organizations (one responsible for prudential and the other for market conduct supervision) took the survey. Non G-20 survey participants include: Barbados, Belize, Eswatini, Guatemala, Kenya, Kyrgyz Republic, Lesotho, Malawi, Rwanda, Seychelles, St. Vincent & the Grenadines, Uganda, Ukraine, and Vietnam.

The survey revealed clear differences but also commonalities between supervisors in G-20 and non G-20 countries. The range of issues facing supervisors are diverse, however, there are several shared issues such as their own financial pressures and increasing cyber security risks. The survey has also reported large variations in terms of access to deposit insurance, the structure of supervision, funding sources and risk-based capital standards.

This is the second time ICURN has conducted such a survey with the first being done in 2006. ICURN will continue to periodically poll its members (with a possible increase in frequency) to aid in benchmarking, identify future trends and needs for further advancement.

1. Note that the survey was conducted before the onset of COVID-19.

2. The term “credit union” is used here to also refer to savings and credit cooperatives, cooperative banks and other financial cooperatives.

Key Survey Findings

1. Issues Supervisors Face[3]

The range of issues facing supervisors are as diverse as the ICURN membership itself. Nonetheless, we can see several common issues which include: 1) their own financial constraints, 2) cyber security, and 3) attracting and retaining talent (see p. 14). When breaking responses down into G-20 and non G-20 groups, it is evident that attracting talent is primarily a concern for G-20 countries. In non G-20 countries legal/regulatory systems are a more important challenge.

What are the most urgent issues that your organization faces?

Figure 1

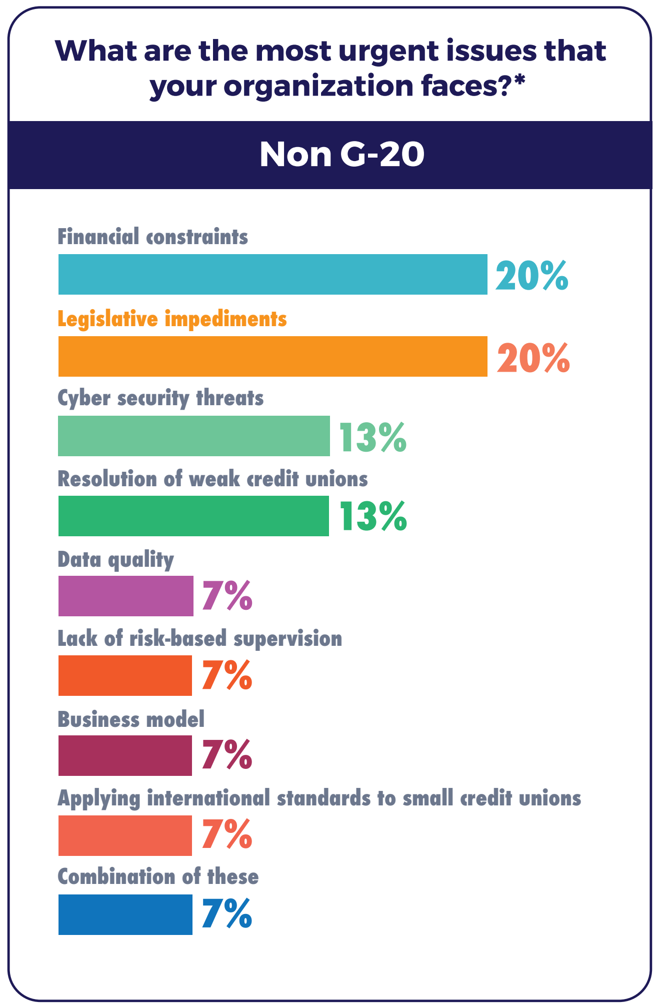

Figure 2

3. Note that the survey was conducted before the onset of COVID-19.

**Note: Percentage data does not always add to a perfect 100% due to the fact that each percentage was rounded to the nearest whole number.*

2. Capital

For all the time and much ink spilled on Basel over the years, not using any risk weighting remains the predominant method to calculate credit union capital requirements. Even among G-20 supervisors only 56% use risk-based capital standards. In addition, the two main forms of capital are still retained earnings and member shares. There is surprisingly little uptake of subordinated debt and preferred shares as permitted forms of regulatory capital even as broader corporate debt markets have grown.

Section VI on Capital Framework provides data on the minimum amount of capital a new credit union must have to obtain a license (Figure 35 on p. 22) that shows 50% of respondents have no set minimum amount required. The same section offers additional details on the minimum capital adequacy ratio and which approach (i.e., standardized or international ratings-based) supervisors have taken to Basel capital standards.

Did you implement a risk-based capital standard among credit unions?

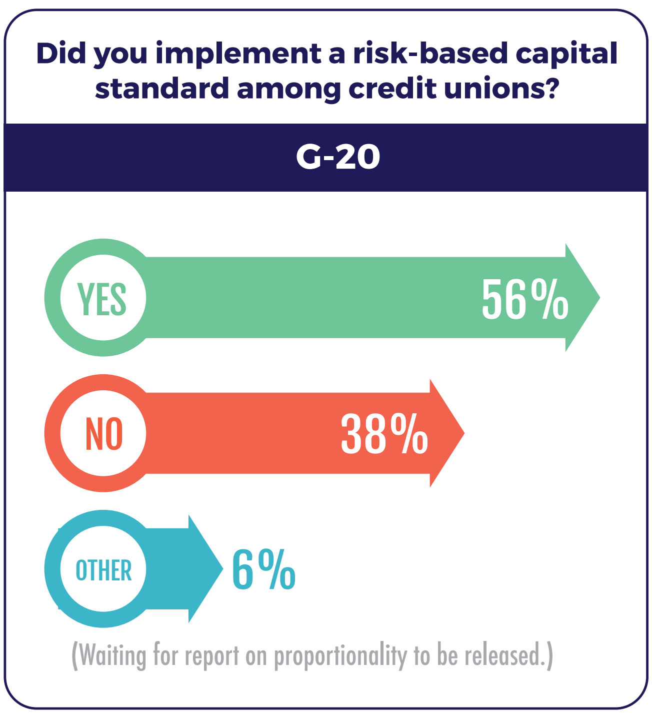

Figure 3

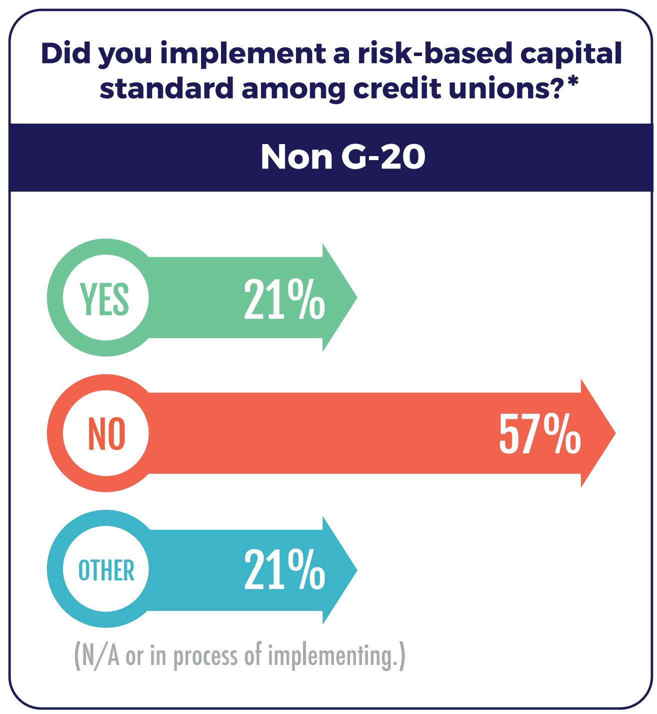

Figure 4

**Note:* *Percentage data does not always add to a perfect 100% due to the fact that each percentage was rounded to the nearest whole number.*

3. Deposit Insurance

For banks, deposit insurance systems are active in 144 countries. For credit unions, 42% of the surveyed jurisdictions globally do not yet have access to deposit insurance (see p. 26). This area shows the biggest variance between the G-20 and non G-20 countries. Nearly 80% of non G-20 countries lack deposit insurance and 88% of G-20 jurisdictions do have deposit insurance for credit unions. Of those who do have deposit insurance, 53% of institutions take over five weeks to pay depositors when a failure occurs (see p. 29).

Do credit unions have deposit insurance in your country?

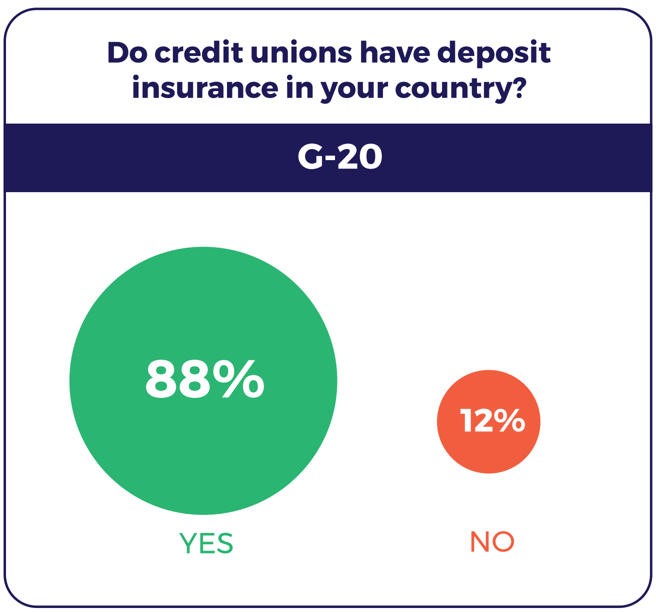

Figure 5

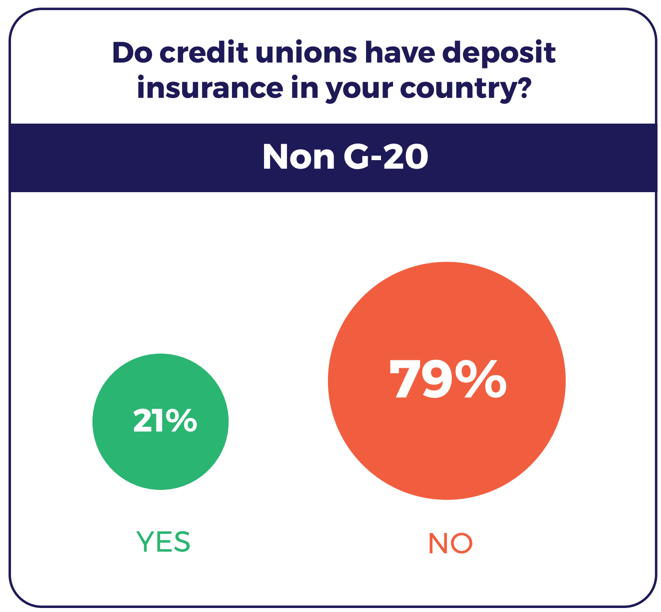

Figure 6

4. Funding Model

The survey shows a variety of structures for funding the supervision of credit unions. However, the funding model is clearly trending toward relying less on government allocation of resources, which is 16% overall (see p. 12) and down from 35% when surveyed in 2006. Today supervisors are relying much more on internally generated resources and the supervised entities to pay the full cost of supervision, even though the survey shows that 68% of supervisors do not assess fees on a risk-basis (see p. 12).

How is your regulatory agency paid for?

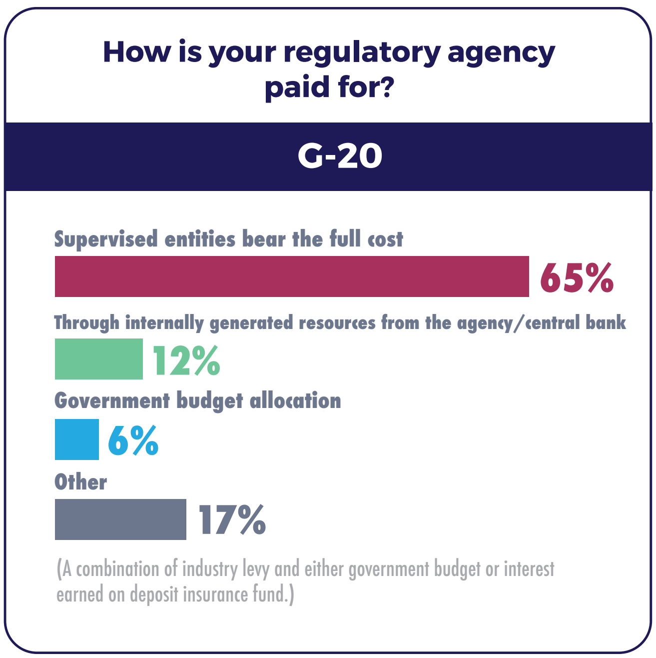

Figure 7

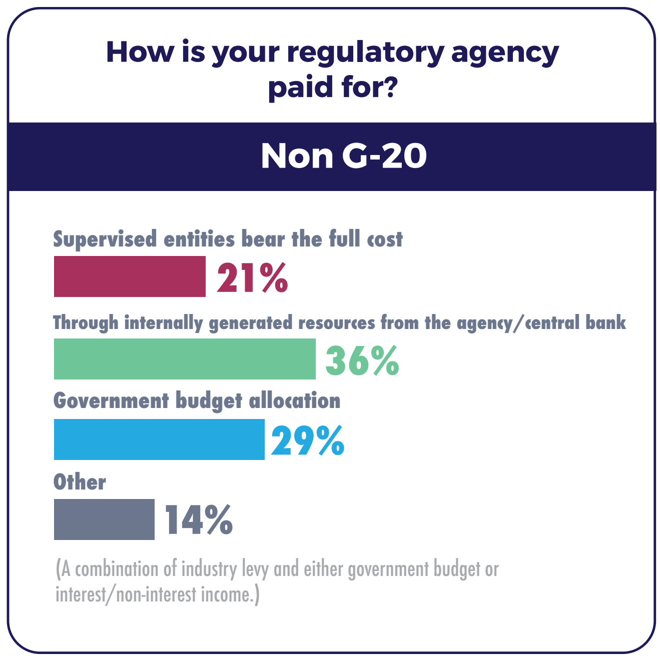

Figure 8

5. On-site Supervision

Relatively few supervisory agencies conduct on-site exams with large teams of supervisors. The survey shows 74% of regulators send up to 3 supervisors to conduct on-site exams (see p. 18). While the "gold standard" traditionally has been to visit a credit union every 12 months, the range of practice shows no clear norm: on-site exams generally occur between 12 to 36 months for medium-sized[4] credit unions (see p. 17). The survey reports that the most common form of supervision is the risk-based supervisory structure and that regulators use some form of combined risk profiles to determine when to schedule on-site examinations (see p. 15). This represents a change from 14 years ago when on-site exams occurred a bit more frequently and were more driven by dates than risk-based profiles of credit unions.

Lastly, the survey identified a gap regarding cyber-security supervision, which was identified as one of their top concerns, yet 52% of respondents do not yet have regulatory requirements in place on cyber security (see p. 19).

On average how often is a typical medium-sized credit union examined on-site?

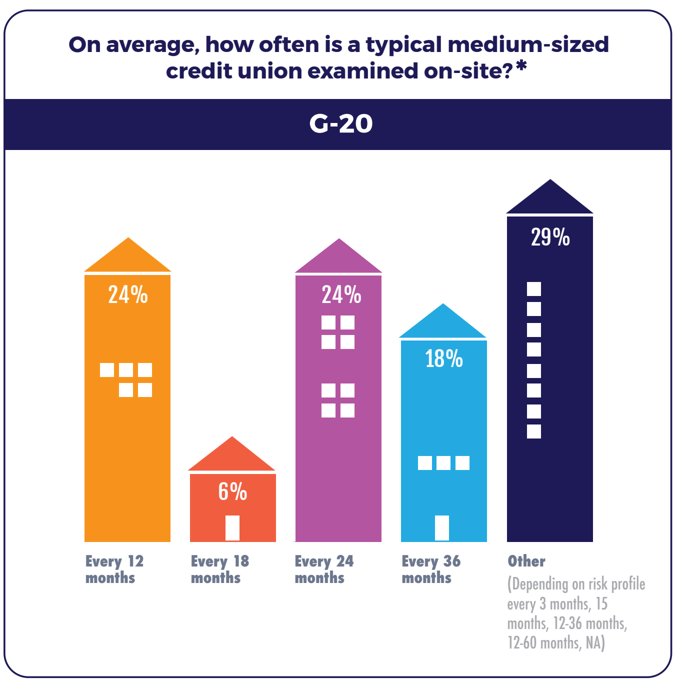

Figure 9

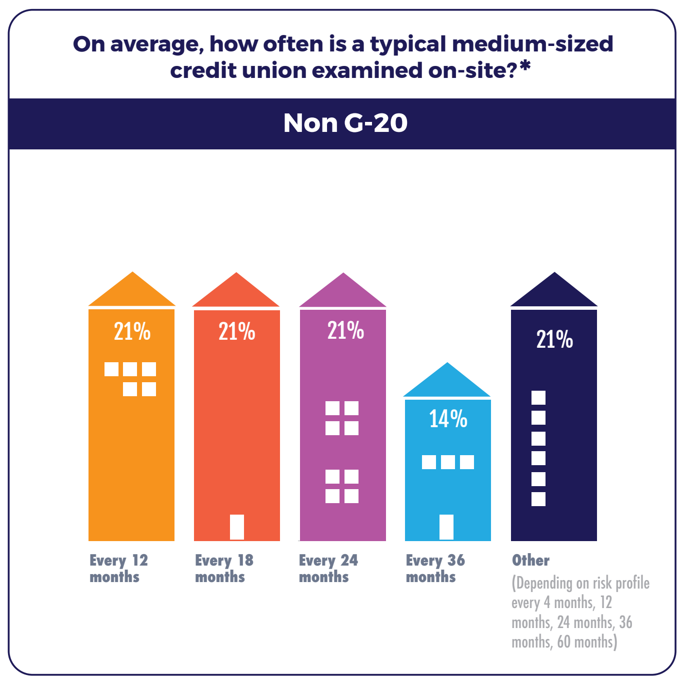

Figure 10

4. Given wide variances between countries we did not define a "medium-sized credit union" but rather let supervisors decide what that looks like in the context of their country.

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