



REGULATORY GUIDELINE AND PRUDENTIAL STANDARD

Insurance Coverage

CREDIT UNION COMMUNICATION NUMBER
Regulatory Guideline 2024-01

SASKCENTRAL COMMUNICATION NUMBER
Prudential Standard 2024-01

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PURPOSE

For credit unions, this is a Regulatory Guidance Document (Guideline) as contemplated by the Standards of Sound Business Practice (the Standards). It supplements and expands upon section 2.4, *Risk Management* of the Standards and must be adhered to by Saskatchewan credit unions.

For SaskCentral, pursuant to Part XIII of *The Credit Union Central of Saskatchewan Act, 2016* (the Act), Credit Union Deposit Guarantee Corporation (the Corporation) may make Prudential Standards that apply to SaskCentral. The Prudential Standard (Standard) contained herein must be adhered to by SaskCentral.

The purpose of this Guideline and Standard is to communicate the Corporation's expectations with respect to the participation and management of mandatory insurance coverage. The Guideline and Standard also outlines parameters Provincially Regulated Financial Institutions (PRFIs) must take into consideration when making insurance deductible and limit decisions.

BACKGROUND

The Corporation prescribes mandatory insurance coverage, as per Section 445(k) of *The Credit Union Act, 1998*.

MANDATORY INSURANCE COVERAGE

Effective management of risk is fundamental to sound and prudent operations. PRFI's are expected to have a strong control environment that uses appropriate risk mitigation and/or risk transfer strategies, including insurance. All PRFI's are required to participate in the following insurance policies:

- Financial Institution Bond (Blanket Bond)
- General Liability
- Directors' & Officers' Liability
- Professional Liability (Errors & Omissions)
- Property and Casualty
- Cyber

PRFIs are required to maintain the types of insurance prescribed by the Corporation at coverage and levels:

- commensurate with the board’s risk appetite, and appropriate for all insurable risks facing the organization
- sufficient to ensure that the financial stability of the PRFI is not compromised when adverse, unexpected outcomes related to insurable risks facing the organization occur

Insurance coverage and levels must be established under the direction of the board. The Corporation expects PRFIs to review and evaluate insurance coverage annually as part of their enterprise risk management program, and to adjust as appropriate.

CONSIDERATIONS WHEN MAKING INSURANCE COVERAGE DECISIONS

The Corporation expects PRFI’s to take the following into consideration when making insurance deductible and limit decisions:

Complexity of Business Operations – Generally, financial institutions with more complex business operations are exposed to more potential claims as they are prone to more risk. While large financial institutions are generally exposed to larger potential claims due to their size, small financial institutions are not immune to the potential of larger claims. Therefore, organization size and the complexity of business operations is a key consideration when making insurance decisions.

Exposure to Outsourcing Arrangements – Generally, financial institutions with more exposure and reliance on outsourcing arrangements are exposed to larger potential claims.

Level of Capital and Liquidity – PRFIs are required to maintain sufficient coverage to ensure that the financial stability is not compromised when adverse, unexpected outcomes related to insurable risks occur.

Past Claims – Past claims may be used as a gauge of potential future claims. This approach, however, must be followed with caution, as past trends may not necessarily predict future trends.

Comparison to Other Organizations – A review of deductibles, limits and terms that other comparable financial institutions carry may be prudent.

Enterprise Risk Management Framework– PRFIs must evaluate the internal policies and controls in place when making insurance deductible and limit decisions. PRFI’s must give consideration to the ERM framework that guides their risk-taking activities. This includes goals, benchmarks, parameters, and limits to the amount of risk a PRFI is willing to accept. Increased deductible and/ or reduced limits must be offset by enhanced risk management control functions.

Financial institutions with stronger risk management control functions are exposed to less potential claims as risk control helps financial institutions reduce or eliminate threats. Risk control functions include loss prevention; risk avoidance; frequency of reviews and tests of incident response plans; loss scenarios; and guidance and training on enterprise risk management processes.

SIGNIFICANT CLAIMS

PRFI's are required to notify the Corporation of significant claims or events that have the potential to negatively impact capital and/or reputation risk.

SUPERVISORY CONSIDERATIONS

A review of a PRFI's' insurance coverage and limits will occur during the regular credit union supervisory review process. At this time, the Corporation will evaluate whether the PRFI's' process of determining adequate insurance coverage is appropriate, and if the PRFI is in compliance with the requirements contained in this guideline and prudential standard.