alterna savings

November 6, 2020

Mark White
Chief Executive Officer
Financial Services Regulatory Authority
5160 Yonge Street, 16th Floor
Toronto, Ontario
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Re: Proposed 2021-22 Statement of Priorities

Dear Mark,

Thank you for the opportunity to comment on the FY2021-2022 Proposed Statement of Priorities. As a member of the credit union sector Stakeholder Advisory Committee, I appreciate the dialog that you and the FSRA management team have engaged in with the Committee regarding next year's budget and priorities. Alterna Savings is supportive of FSRA's efforts to improve regulatory effectiveness and efficiency relative to its predecessor organizations as reflected in the consultation document. However, we remain concerned with the proposed 20% increase in assessment fees for our sector. Not only is the magnitude of this increase concerning, it also comes at a time when the credit union sector needs support. We elaborate below.

Fiscal Restraint

The cost of regulation for Ontario credit unions is already very high. We can appreciate that, compared to some other jurisdictions, there are less assets over which to distribute fixed costs for necessary supervisory activities. But fiscal responsibility is paramount for FSRA to avoid an unnecessary drag on our sector, particularly during these very uncertain times.

Since the onset of COVID-19, all levels of government have looked for ways to support our economy by sustaining individuals that cannot work and businesses that have been forced to shut down. Credit unions actively engaged in such ongoing efforts by keeping their doors open to serve members, providing loan deferrals and participating in lending programs such as CEBA and BCAP. But the impact of the pandemic on credit unions is far from over as it will likely have a long tail from an economic perspective. Shrinking margins, the risk of loan losses, the reduction in credit volumes and ongoing costs of PPE will impact our sector's profitability for the foreseeable future. This economic environment is forcing credit unions to make hard choices, so it stands to reason that the same would be expected from our regulator.

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In particular, we note that one of FSRA's priorities for next year is to modernize systems and processes, which involves significant investments in technology. We understand that the cost of this multi-year project is some $35 million. There is no doubt that FSRA needs to replace its obsolete systems to be effective in delivering on its important mandate. But many credit unions are being forced to defer investments in their own systems and the cost transfer of FSRA's proposed new platform will further impede their ability to invest in better technology.

Viewed from another perspective, the cost increase is likely to impact jobs. For example, a 20% increase to Alterna's assessment from FSRA represents the cost of three FTEs. Credit unions should not be forced to make the hard choice between keeping staff employed to serve members or paying for regulation.

In the current economic environment, perhaps FSRA could take another hard look at its proposed spending with a view to narrowing the scope of technology investments and removing any new spending that is not critical at this time.

Timing

If increased spending is absolutely necessary, it should be in lock step with credit union system growth and prosperity. Otherwise it will have the unintended consequence of weakening the sector, by lowering credit union profitability and/or precluding their own much needed investments. To help address this issue, FSRA could consider staggering assessment increases over several years, and apply such increases only after the effects of the pandemic subside. Deferring the fee increase by even a few months would make a difference. In addition, while we appreciate that FSRA will spread the cost of the Digital Transformation project over 5 years, the size of the project would suggest that a minimum 10-year cost recovery proposal would be more appropriate and supportable.

Cost Allocation within Sector

While the allocation of the annual assessment among credit unions based on risk weighted assets makes sense on the surface, it does not reflect the relative draw on FSRA resources. Consideration should be given to assessing a larger amount to those credit unions where greater supervision is required. This may not be a popular position for some credit unions, but those who oppose it are likely in an inherent conflict.

Conclusion

To summarize, our ask is that FSRA consider a reduction, or at least a deferral of the credit union fee increase while the sector manages through the pandemic. This could be achieved by narrowing the scope of FSRA's initial technology investments, amortizing the investment over a longer period such as 10 years, deferring other costs or simply putting off the fee increase until the Province reaches a point of economic stability. We also look forward to gaining greater insight on FSRA's evolving plans and investments, and perhaps revisiting the fee allocation formula to better align with risk within our sector.

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Mark, we trust that our comments are constructive and helpful. Thank you once again for the opportunity to share our thoughts, and please feel free to reach out to us if you would like to discuss these in greater detail.

Best regards,

José Gallant
SVP & Chief Administrative Officer

cc. Rob Paterson, President & CEO
Guy Hubert, EVP, Credit Union and Prudential, FSRA

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