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Evaluation of Deposit Insurance Fund Sufficiency Based on Risk Analysis: Credit Unions Approaches

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Abstract: (max. 300 words)

The main approaches to evaluate a Deposit Insurance Fund sufficiency are based on estimation of assured members probability of default and DI Fund cover losses. In this context, when studying the solvency of financial institutions associated with guarantee funds, it is important to realize that there are some differences when dealing with credit unions compared to traditional commercial banks.

In Brazil, for example, around 90% of credit unions are affiliated with an umbrella organization, which act as an extra layer of support, protecting the system from image risk and promoting inter-cooperation. In addition, there are also particularities of some types of paybox plus funds, such as the Guarantee Fund of Credit Cooperatives (FGCoop), which through financial assistance, encourages healthy credit unions to incorporate those that may be at risk of liquidation.

It is therefore considered a best practice to bring this specifics issues about cooperative institutions in order to give this more in-depth view of the probability of default, as one of the main proxies for determining the DI fund target. Thereby, this paper presents a forecast time series analysis combined to a stepwise logistic regression of the determinants of bank failure. Using this method with PEARLS (WOCCU, 2009) attributes as explanatory variables, for being a set of financial ratios to monitoring the performance of credit unions, allows a more forward-looking view of these institutions risk reality.

Keywords: Credit Unions, Deposit Insurance, Probability of Default