



May 3, 2018  
Ref. No.: 0552

**To: Board Chairs/CEOs/General Managers, BC Authorized Credit Unions**

**Re: Notification of Changes to the 2018 Deposit Insurance Assessments and an Update Regarding the Proposed Revised Risk Based Premium Assessment Methodology**

The purpose of this letter is to provide British Columbia (BC) credit unions with notice of a change to the current Deposit Insurance Premium Assessment calculations for the 2018 Deposit Insurance Assessment, and to provide an update on the timelines for approval and adoption of the Proposed Risk Based Premium Assessment Methodology working group recommendations.

As credit unions are aware, the Financial Institutions Commission (FICOM) has employed a Risk Based Premium Assessment Methodology (Methodology) for determination of Deposit Insurance premiums since 2009. The Methodology has three primary components: 1) the base methodology, which consists of the quantitative metrics (metrics), scoring ranges for metrics, and the weighting of metrics; 2) the premium structure; and 3) the Base Assessment Rate (BAR).

#### **Proposed Methodology: Update**

The current Methodology employed by FICOM for annual Deposit Insurance Premium Assessments for BC credit unions was developed in 2012 and implemented in 2014. In 2016, FICOM and the Credit Union Deposit Insurance Corporation (CUDIC) began work on revising the Methodology and in December 2016, a working group was formed to develop recommendations for changes to the Methodology. The working group's report was released for comment to the credit union system in October 2017, with the comment period ending in January 2018. CUDIC received responses from 12 credit unions including Central 1 Credit Union. While some credit unions were supportive of the working group recommendations, some credit unions recommended further changes for CUDIC to consider. CUDIC has reviewed the recommendations proposed by the working group and the feedback from the credit union system and will present final recommendations on the base methodology to the Commissioners (Commission) for approval in June 2018.

The second component of the Methodology under review is the premium structure. While the working group's report recommended a flatter premium structure, rather than the current stepped structure, a specific premium structure was not proposed by the working group. Given that a

- 
- Superintendent of Financial Institutions
  - Superintendent of Pensions
  - Registrar of Mortgage Brokers

2800-555 West Hastings  
Vancouver, BC V6B 4N6  
Telephone: 604 660-3555  
Facsimile: 604 660-3365  
[www.fic.gov.bc.ca](http://www.fic.gov.bc.ca)

change in premium structure could potentially impact credit unions, following the approval of the base methodology by the Commission, CUDIC will release for consultation proposed options for changes to the premium structure to the credit union system. Upon the conclusion of the consultation period, CUDIC will conduct a review and analysis of credit union feedback. CUDIC intends to bring forward a final recommendation on premium structure to the Commission in Fall 2018.

Given the period for comment and the final recommendation on the premium structure of the Methodology, and to give credit unions sufficient time to plan for the new Methodology, the implementation of the revised Methodology will be determined based on feedback from the system and could be implemented in the 2020 assessment year at the earliest.

**Current Methodology: Changes to 2018 Deposit Insurance Premium Assessments**

When the current Methodology was developed in 2012, it was determined that the scoring ranges used to score the quantitative metrics be reviewed periodically to ensure they remain appropriate and effective. The scoring ranges were based on the then previous ten years of system data. With the extension of the timeline for the approval and adoption of the proposed Methodology, CUDIC has conducted a review of the scoring ranges used for the quantitative metrics under the current Methodology, as concerns were expressed regarding the effectiveness of the scoring ranges relative to more recent financial results for credit unions.

FICOM has conducted a review of the scoring ranges with data encompassing a more recent ten year period ending December 2016. Following this review, it was determined that two of the earnings metric scoring ranges will be updated as outlined in the table below:

Earnings as a Percentage of Total Assets:

	Updated 2018 Range			Previous Range		
	Range		Maximum Points	Range		Maximum Points
	Zero Pts.	Max. Pts		Zero Pts.	Max. Pts	
1) Net Operating Income	<b>0.25</b>	<b>0.60</b>	5	0.30	0.70	5
2) Operating Income Excluding Subsidiaries	0.20	<b>0.50</b>	5	0.20	0.60	5

The changes to these two ranges result in a narrowing of the spread between the lower and upper scoring bounds, as well as, lowering the threshold needed to achieve a full point score for these metrics. This is consistent with the compression in system earnings in the low yield, low spread environment. Testing has shown a modest increase in scores for these metrics with the updated 2018 ranges.



The data did not show a need for a revision to the third earnings metric, Net Income as a Percentage of Total Assets. CUDIC is aware of the upcoming IFRS changes occurring in 2018, and will monitor the impact on credit union earnings and adjust as appropriate.

The calculations for earnings ratios and all other risk metric components of the 2018 Premium Assessment calculations will remain the same as used in prior years. This Methodology will remain in place until the implementation of the revised Methodology.

The other component used to determine the 2018 Deposit Insurance Premium Assessment calculations, the Base Assessment Rate (BAR), will be determined by the Commission in August 2018. Following the approval of the BAR by the Commission, FICOM will send the 2018 Deposit Insurance Assessment Notices to credit unions in August 2018.

CUDIC intends to hold webinar sessions regarding the proposed Methodology and will be available to present directly to credit unions. CUDIC will continue to keep credit unions updated as the Methodology is finalized and approval is received from the Commission.

If you have any questions, please do not hesitate to contact Stanley Chang, A/Executive Director, Deposit Insurance at [Stanley.Chang@ficombc.ca](mailto:Stanley.Chang@ficombc.ca).

Yours truly,



Frank Chong  
A/Superintendent of Financial Institutions  
and A/CEO of CUDIC

