

January 24, 2017  
File No.: 73000-06  
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**To: Board Chairs/CEOs/General Managers, British Columbia Credit Unions**

**Re: Update on the Proposed CUDIC Risk Based Premium Assessment Methodology**

The purpose of this letter is to provide British Columbia (BC) credit unions with an update on the work being undertaken to revise the method used to calculate the Credit Union Deposit Insurance Corporation of BC's (CUDIC) assessments.

Last year, FICOM and CUDIC staff consulted the system on a Proposed Risk-Based Premium Assessment Methodology (Methodology) that was intended to replace the existing assessment methodology. As a result, FICOM and CUDIC staff determined that further work was necessary. A Working Group which consists of FICOM and CUDIC staff and representatives from the credit union system is formed and is chaired by Mr. Andy Poprawa, former CEO of the Deposit Insurance Corporation of Ontario.

The Working Group met on December 16, 2016, and approved the attached Terms of Reference. From the initial meeting, the Working Group also identified some key criteria for evaluating the premium assessment system including, fairness, predictability, competitiveness, affordability, simplicity and the ability to incentivize prudent risk management practices.

Over a series of meetings scheduled in the next few months, the Working Group will evaluate the proposed metrics and identify new metrics to use in determining the assessment that are consistent with the key criteria and improve measuring risk to the fund.

The review is expected to be completed by the end of April 2017, at which time the group will present to the Superintendent its recommendation for the new assessment methodology. The system will receive progress updates in due course.

FICOM and CUDIC staff expect to release the proposed new methodology for comment to the system by Fall 2017. FICOM and CUDIC staff will continue to use the existing methodology until the finalization of the proposed new methodology takes place.

Meanwhile, if you have any questions or comments regarding the revision of the assessment methodology, please reach out to your Peer Group representative. A list of the Peer Group representatives is attached for your reference.

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

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

If you have any questions, please do not hesitate to contact Caitlyn Sue, Analyst, CUDIC Fund Risk, at 604-660-2553 or [Caitlyn.Sue@ficombc.ca](mailto:Caitlyn.Sue@ficombc.ca), or myself directly at 604-660-1916 or [Stanley.Chang@ficombc.ca](mailto:Stanley.Chang@ficombc.ca).

Yours truly,

A handwritten signature in blue ink, appearing to read "Stanley Chang".

Stanley Chang  
Acting Executive Director,  
Deposit Insurance

Enclosures

pc: Working Group Participants

SC/es/sc

## **Terms of Reference**

### **Credit Union Deposit Insurance Corporation of BC (CUDIC) Risk-based Premium Assessment Methodology (Methodology) Working Group**

#### **Purpose**

The Financial Institutions Commission (Commission) is seeking input from credit union representatives to collaborate on finalizing the proposed revisions to the CUDIC Methodology for the BC credit union system.

#### **Background**

In January 2016, the Commission directed staff to commence a review of CUDIC's Methodology to ensure it remains effective and consistent with best practices and under changing conditions.

In March 2016, an initial consultation was undertaken by way of a questionnaire to credit unions. Feedback received from that questionnaire was used to inform changes to the Methodology. Staff proposed changes to the Methodology to incorporate additional metrics to capture various risks to the CUDIC fund and features that address pro-cyclicality, Cliff effect and differentiation effectiveness.

A second consultation was undertaken over a period ending on September 15, 2016 asking for feedback from credit unions on the proposed changes. During the consultation, credit unions expressed concerns about the proposed changes. This working group will explore those concerns and provide recommendations for amending the proposed changes supported by financial modelling and analysis of the impact on the Methodology's effectiveness. Your participation in the working group will ensure a transparent, objective and collaborative approach to finalizing the proposed Methodology.

#### **Objectives**

The objectives of the working group will be to:

- identify and provide supporting analysis for the changes proposed that do not reflect risk to the CUDIC fund;
- propose alternatives for the risk activities/metrics that provide better measures of credit unions' risk to the CUDIC fund;
- test alternatives for effectiveness of the Methodology; and
- recommend changes to the proposed Methodology.

## **Membership**

The working group will consist of representatives from all credit union peer groups and other system representatives.

Andy Poprawa, previously CEO of the Deposit Insurance Corporation of Ontario, will chair the working group. Promontory PLC will provide analytical support.

## **Deliverable**

The working group will provide input and recommendations in a report to the Superintendent addressing each objective.

## **Member Responsibilities**

Each member or designate of the working group will be responsible for:

- attending meetings in person or by telephone;
- participating in discussion;
- providing input to the final report to the Superintendent; and
- committing to participate in meetings twice a month at most from December 2016 to April 2017.

## **Support**

Staff will co-ordinate with Central 1 to plan and administer the work of the working group.