

January 16, 2018
Ref. No.: 0032

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

Re: Consultation on Risk-Based Premium Assessment Methodology

The purpose of this letter is to remind British Columbia credit unions that the final date for providing comments regarding the Risk-Based Premium Assessment Methodology (Methodology) Working Group Report is **this Friday, January 19th**.

In December 2016 a Working Group was formed to develop recommendations for changes to the Methodology proposed by the Credit Union Deposit Insurance Corporation (CUDIC) for the purpose of determining annual assessments for the Deposit Insurance Fund. The Working Group's final report was shared with credit unions in October 2017. CUDIC will present final recommendations on the **base methodology** (see below) to the Commission for approval in spring 2018.

The Methodology can be divided into two parts: (1) the **base methodology** (i.e., how credit unions are assigned to risk categories), and (2) the **premium structure** (i.e., the amount each credit union in each risk category is assessed).

The **base methodology** considers:

- **Quantitative metrics:** The metrics are the specific quantitative variables upon which the Methodology is based (e.g., capital adequacy ratio). The Working Group made several recommendations with respect to the metrics used.
- **Scoring ranges:** The scoring ranges are the specific quantitative ranges that are used to score each quantitative metric. Certain metrics will be scored using fixed ranges (e.g., capital adequacy ratio), while it has been proposed that others are scored using a dynamic range approach. Although the Working Group supported the dynamic range approach, there has not yet been detailed analysis of the appropriate spread (i.e., number of standard deviations) that should be used to score each metric, to ensure that any scoring differences between credit unions are meaningful.
- **Weighting:** The weighting sets out the number of points given to each metric. The main differences between the CUDIC proposed methodology (2016) and the Working Group's recommendations relate to the weighting of assets and qualitative metrics.

In relation to liquidity metrics, as the Liquidity Coverage Ratio (LCR) metric is not yet readily available for all credit unions, the Working Group recommended that the assets to total capital

ratio and agent deposits to total deposits ratio be used as a proxy for the LCR. The Working Group recommended that these metrics be replaced by the LCR when it is available.

In making final recommendations on the *base methodology*, staff will carefully consider the Working Group's recommendations, undertake a fulsome review of quantitative (including liquidity) metrics, scoring ranges and weightings, and consider feedback received through the current consultation process.

The Methodology also considers the *premium structure*. Under the current structure, premiums are set at 100%, 150%, 200%, and 300% of the base assessment rate for credit unions in each risk category, respectively. While the Working Group supported maintaining four risk categories, they recommended a flatter premium structure in which the increase in premiums is smaller as a credit union moves to the second or third risk scoring category. This type of change would materially impact all credit unions, even those in the lowest risk category as in order to maintain target revenue, a flatter premium structure would necessitate a higher base assessment rate.

A specific *premium structure* was not proposed by the Working Group; no changes were made to the *premium structure* in calculating hypothetical assessments and further consultation with credit unions may be necessary before staff can recommend a *premium structure* to the Commission.

The hypothetical credit union assessment figures, based on the templates sent to credit unions in December 2017, do not represent actual premiums for the coming year. The templates only demonstrate how the Working Group's proposals could affect the *base methodology* and credit union's risk scoring if they were fully implemented.

Stakeholder input is received on a confidential basis in order to obtain valuable and forthright input to assist us in our policy decision making process. The Commission will treat submissions as confidential records and will not publish individual submissions or attribute content. However, please note that all submissions received are subject to the *Freedom of Information and Protection of Personal Privacy Act*.

If you have any questions, please do not hesitate to contact Shannon Pendergast, A/Policy Director, Deposit Insurance at DepositInsurance@ficombc.ca.

Yours truly,



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