

4711 Yonge Street
Suite 700
Toronto ON M2N 6K8
Telephone: 416-325-9444
Toll Free 1-800-268-6653
Fax: 416-325-9722

4711, rue Yonge
Bureau 700
Toronto (Ontario) M2N 6K8
Téléphone : 416 325-9444
Sans frais : 1 800 268-6653
Télécopieur : 416 325-9722



SECTOR RELEASE

September 10, 2010

No. 62

To all Boards of Directors, Managers and CEOs

Subject: Proposed Deposit Insurance Premium Rates for 2011

In order to protect depositors from loss and maintain stability in the sector, DICO has had to intervene in the affairs of several failed credit unions over the past three years. These interventions have resulted in claims against the Deposit Insurance Reserve Fund (the Fund”) of over \$50 million relating primarily to losses which arose from alleged fraudulent/illegal activities at three institutions.

As a result, the balance in the Fund has decreased to \$89 million or 42 basis points of insured deposits – well below the target range of between 56 and 68 basis points.

In recommending premium rates for 2011, the Board considered a number of factors including:

- the status of the Fund;
- ongoing developments with respect to potential recoveries on past losses from various sources including the fidelity insurer; and
- the potential for future claims.

DICO’s Board of Directors believes that an increase in premium rates is necessary at this time to ensure that the Fund is rebuilt to an acceptable level within three years. The board considered a number of options including various premium increases and a one-time assessment. There has also been industry discussion on a range of premiums options. However, it was felt that any higher increase in premium rates than that recommended could cause financial stress for the sector during these challenging economic times.

As a result, DICO’s Board of Directors has recommended to the Minister of Finance a revision to Regulation 237/09 to increase premium rates effective January 1, 2011 as outlined in the table on the next page.

The changes in premium rates outlined will provide an increase of approximately \$3 million or 15% in aggregate premiums for 2011 although it is proposed to increase premium rates by different amounts according to premium class or risk rating. This approach further emphasizes the guiding principle of the Differential Premium System by providing additional financial incentives for higher risk institutions to adopt lower risk behavior. Most institutions (80% by assets) are in premium class 1 or 2 and would see an increase in premiums of 15% or less under the proposed changes.

If significant recoveries on past losses, and better than anticipated claims experience are not realized, DICO will need to evaluate whether additional increases will be recommended. In order to meet the Fund target range within the three year period, additional increases for each of 2012 and 2013 may be required.

Proposed Premium Rates per \$1,000 of Insured Deposits

Premium Class	Current Premium Rate	Proposed Premium Rate	% Increase
1	\$0.90	\$1.00	11%
2	\$1.00	\$1.15	15%
3	\$1.15	\$1.40	22%
4	\$1.40	\$1.75	25%
5	\$2.10	\$3.00	43%

Advance notice of this proposed change is being provided so that institutions can plan accordingly.

Consultation

The Province has posted a summary of the proposed increase on its Regulatory Registry at <http://www.ontariocanada.com/registry/view.do?postingId=3862&language=en>. Comments may be forwarded to the government during the 45-day posting period using the link provided.

Implementation

An increase in premium rates requires changes to Ontario Regulation 237/09 and approval of the Lieutenant Governor in Council. Subject to approval of the changes as proposed by DICO, invoices for annual premiums issued for the financial year starting on or after January 1, 2011 will be based on the premium rates outlined in the above table.

Should you have any questions, please contact your Regional Manager.