Saskatchewan

Rate Review Panel

Report to the Minister Responsible for Crown Investments Corporation of Saskatchewan

Regarding the Saskatchewan Auto Fund 2021 Rate Application
Effective date January 21, 2022

Report submitted October 20, 2021

SASKATCHEWAN RATE REVIEW PANEL

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Executive Summary

It has been seven years since the Saskatchewan Auto Fund (SAF) has submitted an application to the Saskatchewan Rate Review Panel (the Panel) for consideration. The recommendations in that 2014 report not only impacted rates and rebalancing for various vehicle classes, but it also led to the replenishment of SAF's Rate Stabilization Reserve (RSR), which acts as a reserve fund to alleviate rate shock and the need for rate rebalancing.

In 2013, the provincial government directed SAF to review the issues affecting motorcycle riders and owners to develop ways to improve motorcycle safety, consider options for injury benefits, and review factors that were leading to substantial insurance rate increases. SAF initiated the motorcycle review committee, which looked at ways to increase requirements for acquiring a motorcycle learner's license, change requirements for new riders, and new rider training incentive programs. SAF created a new no-fault coverage program and revised its graduated driver licensing program to encourage more safety training. These initiatives appear to have generated a significant number of positive benefits from the loss data reported as claims are down. Based upon the feedback received during this review, the Panel believes a re-engagement with the motorcycle review committee may be able to resolve some of the current issues raised including seasonal rates and affordability.

The taxi industry has been significantly impacted since the last application through the introduction of ridesharing companies and the COVID-19 pandemic. SAF initiated a stakeholder process in 2018 to gather ideas and feedback on how ridesharing should take place in the province. As ridesharing companies have eroded market share for taxi companies, the pandemic has added another financial hardship to this industry. With health directives in place, fewer people were venturing out of their homes, which led to fewer fares. A vibrant taxi industry is important for Saskatchewan as these drivers provide a public service by driving people in poor road conditions and inclement weather, ensuring intoxicated people do not endanger themselves or others while on the road, and assisting those who do not have access to credit cards or smartphones. The taxi group raised a number of issues which the Panel feels would be best resolved through a formal working group focused purely on those issues.

The pandemic has also had an impact on SAF's operations. As vehicle traffic has declined, so too has the number of accident claims. This has, in turn, led to an increase in SAF's Minimum Capital Test (MCT), a policy designed to ensure that the corporation has sufficient funds to cover the volatility that exists in its investment and underwriting operations. As the MCT increased, the amount in the Auto Fund's RSR also increased. The RSR has grown to such an extent that it rebated $285 million to policy holders in May of 2021. The MCT remains above the established policy and is forecasted to remain above the target for the foreseeable future.

Since the intervening years from the last application, claims cost trends have increased and so have operational costs increased. SAF has also identified the need to revise its current rate structure and rebalance these rates to ensure that classes are paying an adequate rate for the claims in their classes as these rates can change over time. These factors led SAF to submit an application to the Panel on June 1, 2021, for a proposed revenue-neutral rate rebalancing effective January 21, 2022. This application proposed that there would be an overall average 1.7% indicated rate increase, but that would be offset by a 1.6% decrease to the capital margin from the currently embedded rate of 2.23% to 0.56% for all vehicles. These two changes would result in a net 0% overall revenue change to SAF, although different vehicle groups would be impacted. For example, about 385,000 Canadian Loss Experience Automobile Rating (CLEAR) vehicles will receive a rate increase, while there will be premium decreases for about 457,700 other vehicles. Since some vehicle classes would receive significant increases in order to bring them to their adequate rate, SAF has proposed in this application to cap increases of premiums over $1,000 per year to 15% to prevent rate shock.

The Minister of the Crown Investments Corporation of Saskatchewan directed the Panel to review this application for its fairness and reasonableness, while indicating that there were certain parameters that the Panel must take as givens including the existing program parameters of the International Registration Plan, Safe Driver Recognition Program, the Business Recognition Program; the terms of the approved Capital Management Policy and approved target levels; the vehicle risk groups used by SAF; and its operating policies and procedures.

The Panel engaged two independent consultants to review this application and make recommendations that would be consistent with the Minister's terms of reference. The Panel also invited public input on this application and held both virtual and in-person meetings as part of the consultation process. There was considerable input from both the motorcycle and taxi communities.

There were a number of recommendations from the consultants that the Panel reviewed and considered in arriving at the recommendations. It was noted that while the pandemic has had a material impact on SAF's operations, this impact was not reflected in the original application. SAF provided a financial update that indicated that its RSR had increased to $1.243 billion and its MCT has grown to 181.8%, both of which exceeded its forecasted projections and MCT policy.

Following this review and analysis, the Panel makes the following recommendations to the Minister:

1. **That the rate indication calculations presented in the application should be increased accordingly from the original application calculation of +1.7% to + 2.2%. This change represents the increased costs to the Saskatchewan Auto Fund that results from the delay of the effective date of August 17, 2021 to January 21, 2022.**

2. **That based upon the most recent financial update that the overall rate level indication for the capital management plan margin adjustment be further adjusted from the proposed application adjustment of -1.6% to -3.4% for an additional 1.8% reduction.**

3. **That the proposed 15% rate cap for base premiums greater than $1,000 be reduced to 10% and that a scaled cap with reductions ranging from $25-$100 be implemented for base premiums up to $1,000. The Panel also recommends that the financial impact of rate capping, which is shifted to CLEAR-rated vehicles in the application, be offset to the Rate Stabilization Reserve (RSR).**

4. **That SAF develop a meaningful, formal engagement process with the province's taxi community to resolve their industry-specific issues.**

5. **That SAF re-engage the motorcycle review stakeholder committee process with the province's motorcycle community to resolve their industry-specific issues.**

6. **That SAF provide the completed business case and project plan for the Corporate Transformation (CT) project in its next rate application so that the full implications of the project on rates is apparent.**

7. **That SAF undertake an external review of the Integrated Cost Allocation Methodology (ICAM) and report back at the next rate application.**

8. **That SAF consider several enhancements to its filing standards in its next application.**

The Panel's recommendations will provide a decrease in rates compared to the 0% originally proposed in the application. Although the recommended rate indication calculations are 0.5% higher than in the application, they are more than offset by the recommendation that the capital margin be reduced by an additional 1.8%. These recommendations will lead to a reduction of approximately 1.3% in rates, although individual customer rates will vary depending on several factors including vehicle class.

Saskatchewan Auto Fund's Rationale for the Application

The Saskatchewan Auto Fund (SAF) submitted an application on June 1, 2021, for a revenue-neutral rate rebalancing for its rates effective January 21, 2022. The application included:

- An overall average 1.7% indicated rate increase, offset by
- A 1.6% decrease to the capital margin for all vehicles (the current embedded capital margin of 2.23% is being reduced by 1.6 ppt to 0.56%).

The following table presents the 2021 average indicated and proposed rate changes for each vehicle class:[1]

	Indicated	Proposed
CLEAR-Rated	-0.7%	0.8%
A - Commercial Light Trucks		17.1%
F - Farm Light Trucks (1994 -2003)		-19.2%
F – Farm Light Truck – (2004 & Newer)		2.3%
LV - Private Passenger Vehicles (PPV)		-1.0%
LV - PPV - Farm Cars, SUVs & Vans		5.3%
LV - Police Cars		-12.2%
LV - Police Trucks, Vans & SUVs		20.5%
LV - U Drives		3.9%
PT - Taxis (Rural)		-0.7%
Conventionally-Rated		
Ambulances	18.3%	13.2%
A - Commercial Vehicles:		
Heavy Truck & Van IRP	8.3%	5.4%
Heavy Truck & Van IRP $15K Ded.	8.9%	7.0%
Heavy Trucks & Vans Non-IRP	12.0%	8.5%
Power Units IRP	36.6%	13.1%
Power Units IRP $15K Ded.	73.3%	13.1%
Power Units Non-IRP	10.6%	7.1%
C&D - Commercial Vehicles:		
Heavy Trucks & Vans	-6.6%	-8.0%
Power Units	-8.2%	-9.7%
F - Farm Vehicles:		
Heavy Trucks & Vans	-5.1%	-2.0%
Light Trucks (1993 & Older)	-14.5%	-15.9%
Power Units	14.3%	10.3%
Hearses	6.0%	4.3%
L - Dealer Plates	5.9%	4.1%
L - Snowmobile Dealers	0.0%	-1.6%
LV - Antiques	11.2%	9.4%

	Indicated	Proposed
Conventionally-Rated		
LV - Buses	2.8%	1.1%
LV - Buses (Restricted)	12.2%	10.3%
LV - Motorcycles	34.2%	10.1%
LV - Motorhomes	134.6%	19.9%
MT - Snowmobiles	-6.0%	-8.9%
PB - Passenger Inter-City Buses	16.2%	9.3%
PC - Passenger City Buses	21.2%	3.0%
PS - Passenger School Buses	13.3%	11.4%
PT - Taxis	37.9%	13.1%
Trailers		
F - Trailers	15.9%	13.4%
LT - Trailer Dealers / Movers	-2.6%	-0.5%
T - Personal Trailers	76.8%	27.5%
T - Utility	-7.5%	-10.0%
TS - Commercial Trailers	2.1%	-0.2%
Miscellaneous Classes		
A - Excess Value	-6.2%	0.0%
C&D - Non-Resident	0.0%	-2.6%
C&D - Excess Value	-17.3%	0.0%
Industrial Tracked Vehicles	0.0%	-1.4%
LV - Motorized Bicycle	0.0%	-1.6%
PV - Converted Vehicles	-1.4%	-3.0%
PV - Heavy Trucks & Vans	-7.9%	-8.6%
PV - Power Units	-5.0%	-6.1%
TS - Excess Value	-12.0%	0.0%
Permit		
24-Hour	123.7%	120.0%
8-Day	180.0%	104.2%
In-transit	76.6%	76.5%
TIC	149.7%	145.5%
Total All Vehicles Including	**1.7%**	**0.0%**
All Vehicles Excluding Trailers &	**0.8%**	**-0.3%**

[1] Consultant's Report, P. 4

The proposed changes would result in a net 0% overall change to SAF with rates being rebalanced to move each vehicle group closer to paying a sufficient amount to cover the costs for insurance claims in that group. The changes would result in:

- Premium increases for about 385,000 CLEAR-rated vehicles or 46% receiving a rate increase (including capital margin). The average rate increase will be $98 with a maximum increase of $501 per year;
- Premium decreases for about 457,000 vehicles, or 54% will have an average decrease of $104 with a maximum reduction in rates of $501 per year; and
- No premium change for 900 vehicles (or less than 1%) will experience no rate change with this application.

The application proposed caps to reduce rate shock: a maximum of $150 per year for an annual premium under $1,000 and a cap of 15% for premiums over $1,001 per year.[2] The following table outlines the ranges and caps that are proposed in this rate application:[3]

Current	Annual Rate		Maximum Cap	Maximum Monthly Cap
$1	–	50	$25	$3
$51	–	100	$50	$5
$101	–	250	$75	$7
$251	–	500	$100	$9
$501	–	750	$125	$11
$751	–	1,000	$150	$13
$1,001 or greater			15%	15%

This application forecasts the total vehicle population to be 1,164,997 vehicles of which 830,267 are CLEAR-rated vehicles and the remaining 334,730 conventionally rated vehicles. Over 71% of the total vehicle population (88% of all no-trailer vehicles) are CLEAR-rated.[4] SAF is recommending a 0.7% decrease in premiums for CLEAR-rated vehicles. The indicated rates for these vehicles is based on the loss experience and premiums for the entire group. Rates for the individual classes are then determined based on the loss experience of each class in relation to private passenger vehicles.[5]

All other class rates are either surcharged or discounted from the private passenger vehicle rates. SAF is proposing a new program to split up the existing Farm Light Truck class according to model year. The new discount is designed to help bridge the gap in rates between these CLEAR-rated trucks and the conventionally-rated Farm Light Trucks class for model years 1993 and older. SAF indicated in its application that having the CLEAR Farm Light classes split will help ensure a smoother rate progression between these classes and more accurately reflects the costs.

SAF is requesting that as a result of rate capping in other classes, the CLEAR-rated vehicle rates are adjusted to offset any shortfall or excess. The proposed rate indication for CLEAR-rated vehicles was -0.7% in the application and this is increasing to 0.8% after the proposed rebalancing.

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[2] Ibid, P. vi
[3] Ibid, P. 6
[4] Ibid, P. 4
[5] SAF 2021 Rate Application, P. 25

The distribution of CLEAR-rated vehicles that are within +/- of adequate rates before and after the proposed rate changes are shown in the following table:[6]

Difference between Current Rate and Adequate Rate (Excluding Capital Margin)	**Before 2020/21 Rate Program**		**After 2020/21 Rate Program**	
	# of Vehicles	**% of Vehicles**	**# of Vehicles**	**% of Vehicles**
Less than -10%	189,423	22%	2,563	0%
Between +/-10%	488,415	58%	834,751	99%
Greater than +10%	165,196	20%	5,720	1%

SAF indicated that the application was designed to receive enough premium revenue to cover all claim obligations and operating expenses for the proposed rating year (January 21, 2022 to January 20, 2023). The primary factors impacting the proposed rate change are improving injury claims experience, offset by increasing damage claim costs, and recent increases to administrative and other expenses. SAF calculates that there is a need for a 1.7% increase to the overall premium collected to match the expected claims and expenses in the rating year. With the adjustment to decrease the capital margin, the overall change is a net 0% change.[7]

The injury frequency and severity loss trends selected by the current rate program are lower than those used in the 2014 rate program, which reflects the improving injury loss experience of the last few years. Due to a mix of both decreasing frequency of injury claims and decreasing severity, SAF estimates that the projected future average injury trend is now -2.4%, compared to 3.3% in the 2014 rate program. Increasing damage claim costs have offset the reduced injury costs. Rising repair costs due to increased complexity of technology, procedures and materials used in newer vehicles have mitigated what could have been a rate decrease.[8]

As well as collecting sufficient premium to cover anticipated claim costs, SAF needs to maintain an appropriate level of capital in the Rate Stabilization Reserve (RSR), which holds funds to cover emergencies. It ensures customers are protected in the event of higher-than-expected claim costs or lower-than-expected investment income in any given year. SAF indicates that a capital margin of 0.56%, applied to all vehicles, will help to release capital to move the RSR toward the target level over the next five years. This is a 1.6% decrease from the capital margin reflected in current rates.[9] SAF estimated that the total amount of premium collected during the rating year period is expected to fall short of projected claim costs and other expenses so a 1.7% increase is required and is not intended to change the balance of the RSR. Due to the proposed rebalancing, this increase is not applied to every vehicle rate equally across the board.[10]

[6] Consultant's Report, P. 6
[7] Saskatchewan Auto Fund 2021 Rate Application, P. 1
[8] Ibid
[9] Ibid, p. 2
[10] Ibid

SAF indicates that the capital margin is needed to maintain the balance in the RSR in order to cushion customers in case of unexpected events. SAF uses the Minimum Capital Test (MCT) to measure the level of capital in the RSR, and has set a target for the RSR to have a 12-month rolling average MCT of 140%. Since it is expected to exceed that target, SAF is seeking to decrease the current capital margin from 2.23% to 0.56% so that the projected RSR moves towards the target.[11]

SAF is self-sustaining and does not pay dividends to, nor receive money from, the provincial government.

[11] Ibid

Introduction

This year marks the first time since 2014 that SAF has applied for a rate application. At that time the Panel recommended a 3.4% general rate increase before the capital margin, and an additional one percentage point greater than the 1.23% Rate Stabilization Reserve (RSR) surcharge built into the then-current rate, for a total 4.4% increase.

Since that time, there has been significant changes that have impacted vehicle insurance. Vehicles continue to become more complex and safer overall, but have also become more expensive to repair. There has also been the emergence of new electric vehicles which use electric motors instead of internal combustion engines.

Ridesharing companies such as Uber entered the Saskatchewan market in 2018, which connects drivers with passengers in the area through a smartphone app. This has had a significant financial impact on taxi companies' usage in the province's major cities as these new ventures have eroded their market share.

The COVID-19 pandemic has had numerous affects. Since mid-March 2020 the province issued "Stay At Home" orders and other healthcare directives that have led to a significant decline in claims frequency. Since these loss amounts are less than SAF assumed within its premium levels for the fiscal years 2020-21, the excess funds have flowed to the RSR, which is a reserve to protect drivers from large rate increases that would result from higher-than-expected claims or lower-than-expected investment earnings.

For the fiscal 2021-22, there is still some uncertainty on the loss trends and risk profiles as we are still in the pandemic. In this application SAF is forecasting the loss trend will return to near normal during the second fiscal quarter of 2021.

As the RSR has increased, so too has the Minimum Capital Test (MCT), which is a regulatory guideline under which SAF is measured for the adequacy of its capital to pay claims. The MCT ratio is expressed as a percentage and is calculated by dividing the issuer's capital available by the minimum capital required at the target level for specific risks. Federally regulated insurers are required, at a minimum, to maintain an MCT ratio of 100%. The SGI Board of Directors approved a capital management policy with target MCT for SAF at 125%, which was increased to 140% upon the request of the Crown Investments Corporation Board.

In 2020-21, the RSR had grown to $1.375 billion and an MCT of over 190%, and this buildup can be attributed to lower-than-forecast claims costs due to the pandemic and higher-than-forecast investment income for the year. This buildup prompted the government to announce a rebate of $285 million to ratepayers in February 2021 with the cheques being issued in May 2021. The rebate reduced RSR to $1.090 billion and an MCT to 168%. After this rebate, the 12-month rolling average MCT was 184% as of June 30, 2021, which is still considerably higher than the 140% MCT target.[12]

SAF's application indicated that the primary factors impacting the rate change are increasing damage claims costs as well as recent administrative and other general expenses. SAF reported that the combined impact of those higher costs was a 1.7% increase in its the revenue requirement for an August 17, 2021 effective date. The application also proposes a 1.6% reduction in capital margin provision from the current 2.23% to 0.56%. The combined financial effect of both of these results in this application proposed overall 0.0% rate change or revenue neutral.. These adjustments impact four major classes of risk for SAF:

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[12] Consultant's Report, P. 48

1. **CLEAR** (Canadian Loss Experience Automobile Rating) which includes private passenger vehicles, commercial light trucks, and farm light trucks, amongst others. These vehicles are rated based on the Insurance Bureau of Canada's (IBC) system of rating specific vehicles known as CLEAR. This is the largest category with 88% of all non-trailer vehicles.

2. **Conventionally Rated** vehicles include heavy trucks, farm vehicles, buses, motorcycles, amongst other vehicle types that are not rated like those under CLEAR.

3. **Trailers** with separate subcategories aligned to other vehicle classes.

4. **Miscellaneous** includes special categories, such as 24-hour and 8-day permits.

The specific impact on rates by vehicle classes are detailed on Page 5 of this report.

This application forecasts the total vehicle population to be 1,120,188 of which 843,035 are CLEAR vehicles. The CLEAR system is built upon insurance claims data from across Canada and is used to assess how likely it is that a specific vehicle will be involved in a claim and what that claim will likely cost. The remaining 277,153 vehicles are considered conventionally rated vehicles. Over 71% of the total vehicle population (88% of all no-trailer vehicles) are CLEAR-rated.

In order to reduce the rate shock to customers that would experience significant rate increases, SAF proposes to cap increases at 15% for premiums above $1,000 with a scaled cap amount for premiums less than $1,000.

As a result of the capping of rate changes to 15% in conventionally-rated classes, CLEAR-rated vehicle rates are adjusted to offset any shortfall or excess. After accounting for this capping, SAF is recommending an increase in this category from -0.7% to 0.8% for an overall change of 1.5%.

There are several types of vehicles that benefit from this capping approach including:

- Motorcycles at +34.2% before capping, +11.9% after capping[13]
- Motorhomes at +134.6% before capping, +21.9% after capping
- Taxis at +37.9% before capping, +15.0% after capping

Updated Financial Information

SAF's rate indication is based on the operating results forecast for 2020-21 and 2021-22. SAF originally assumed an effective date of August 17, 2021 for the proposed rate program, but due to unforeseen delays in the process, the effective date was postponed until January 21, 2022.

The rate indication calculations presented in the application are +1.7% before the capital management plan margin adjustment of -1.67% with an effective date of August 17, 2021. During the review process, SAF finalized the 2020-21 financial results and provided the updated rate indications based on the January 21, 2022 effective date. SAF estimated that the rate level indication of +1.7% would increase by 0.5% to 2.2%.[14]

As well, SAF provided updated financial results for the first quarter to June 30, 2021. These positive results showed an increase to the RSR to $1.236 billion and a 12-month rolling average MCT of 184%. Both these

[13] In these examples, the capped change is further adjusted by the capital management plan margin of -1.6%.
[14] Consultant's Report, P. 35

measurements are significantly above budget albeit they are only for a three month (first quarter) current year financial forecast time period.

The consultants requested that SAF update the capital margin requirement to reflect these updated financial measurements. As a result, the new capital margin calculation shows an additional reduction of 1.8% which reduces the margin from 0.56% to -1.24%. In effect, a drawdown of the RSR by 1.24%.

Panel's Mandate

The Saskatchewan Rate Review Panel (the Panel) advises the Government of Saskatchewan on rate applications proposed by the SGI Auto Fund. The Panel reviews each application and provides an independent public report stating its opinion about the fairness and reasonableness of the rate change, while balancing the interests of the customer, the Crown corporation and the public.

The Minister of Crown Investments Corporation established the Terms of Reference for the Panel while reviewing this application. The Terms of Reference identified the factors that the Panel was to consider while conducting its review as well as parameters that are outside the Panel's purview. These parameters include:

- The compulsory insurance coverage provided by the Auto Fund through its legislative mandate;
- The Auto Fund is a public fund for motorists with no profit component required in pricing of the product;
- SGI CANADA and SGI CANADA Insurance Services Ltd. are separate commercial entities from the Saskatchewan Auto Fund and shall not be considered part of the Auto Fund rate rebalancing review;
- The existing program parameters of the International Registration Plan, SafeDriver Recognition Program and the Business Recognition Program;
- The terms of the approved Capital Management Policy and approved target capital levels;
- The vehicle risk groups used by the Auto Fund; and
- The accounting and operating policies and procedures used by the Auto Fund.

Operating within these parameters, the Panel has been directed by the Minister to review the proposed rate rebalancing while considering the revenue neutral approach, that SAF is mandated to operate on a self-sustaining basis over time, the forecasted premium revenue requirement for each vehicle risk group, and stability and fairness so that each vehicle class pays sufficient premiums to cover its anticipated claims to minimize cross subsidization of classes.

Panel's Recommendations

The Saskatchewan Rate Review Panel, following its review and analysis that included meetings with Saskatchewan Auto Fund management, specific information requests, several meetings with its technical consultants, the consultants' independent report, and taking into account public input regarding the application, makes the following recommendations to the Minister:

1. **That the rate indication calculations presented in the application should be increased accordingly from the original application calculation of +1.7% to + 2.2%. This change represents the increased costs to the Saskatchewan Auto Fund that results from the delay of the effective date of August 17, 2021 to January 21, 2022.**

SAF originally assumed an effective date of August 17, 2021, for the proposed rates in this application. Due to unexpected delays in the application process, the effective date was moved to January 21, 2022. The rate indication calculations in the application are based on the August 17, 2021 date and not the January 21, 2022 effective date. The Panel requested that SAF provide the updated rate indications based upon the new effective date to determine the impact.

The loss cost trend rates are selected by SAF, each of the ten historical accident years (though to March 31, 2020) are individually projected to the cost level of the average accident date of the proposed rate program.[15] The rate indication calculations presented in the application (+1.7%, before the capital management plan margin adjustment of -1.6%) are based on the original effective date of August 17, 2021. In response to a request from the Panel, SAF estimated that based on the January 21, 2022 effective date that the overall rate level indication would increase by 0.5% to 2.2%.[16]

2. **That based upon the most recent financial update that the overall rate level indication for the capital management plan margin adjustment be further adjusted from the proposed application adjustment of -1.6% to -3.4% for an additional 1.8% reduction.**

The onset in March 2020, and continued impact of the COVID-19 pandemic has had a material impact on SAF's operations which is not entirely reflected in the original application. The pandemic has resulted in a significant unanticipated increase in capital accumulated since the last rate application.

The most recent financial update from SAF indicates that the RSR has grown to $1.244 billion and the 12 month rolling average MCT was 184% as of June 2021.[17] In the original application, SAF forecast that the balance in the RSR would be $1.090 billion and the MCT would be 157.6%. SAF has acknowledged that these changes are significant:

Yes, the change in the MCT and capital margin could be considered material. While a higher materiality would likely apply to forecasts like these given the uncertainty around projections of investment results and/or claims experience, the RSR balance at the end of FY 2021 was $70 million higher than expected under the initial 5-year forecast. This is a significant difference."[18]

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[15] This is performed for each class and sub-coverage. In addition, the loss data is adjusted for changes in reforms, PST rate, and Labour costs.
[16] Information Request 2-22
[17] Consultant's Report, P. 48
[18] Consultant's Report, P. 40

Using the updated figures, SAF indicated that the needed capital margin is now -1.29% rather than the 0.56% proposed. This change causes a decrease of 3.4% from the current capital margin of 2.23%. The end result is that the overall rate level indication would be a decrease of 1.8%.[19]

The Panel concurs with SAF's updated information and recommends that SAF revise its rate indication to reflect the updated capital margin of -1.29% rather than the 0.56% in the original application. The capital margin of -1.29% is consistent with SAF's capital management plan and is based on actual data rather than forecasts.

Based on the actual financial information, should the Panel's recommendations be adopted and implemented the overall rate level indication will decrease by approximately 1.3%, however it should be noted both changes affect the rate model and are not strictly additive.

Due to the current buildup of the MCT over and above SAF's current capital management build and release provisions, the Panel suggests that the Minister may wish to consider additional measures to reduce this buildup to bring it closer to the approved minimum capital management policy of 140%.

3. **That the proposed 15% rate cap for base premiums greater than $1,000 be reduced to 10% and that a scaled cap with reductions ranging from $25-$100 be implemented for base premiums up to $1,000. The Panel also recommends that the financial impact of rate capping, which is shifted to CLEAR-rated vehicles in the application, be offset to the Rate Stabilization Reserve (RSR).**

In making this recommendation, the Panel must balance the concerns of insurance rates stability and affordability among certain vehicles with the impact that a lower cap limit has on the cross-subsidization to the CLEAR class. The Panel must also take into account SAF`s requirement to ensure classes are paying an adequate rate for the claims in their classes. During this process the Panel received significant input on the proposed rates from licensed motorists, motorcycle owners and riders and their concerns about rising costs, as well as from taxis owners and drivers who are facing a rate increase during a changing competitive marketplace in addition to the effect of the pandemic on their economic livelihood.

This application contains two components to the existing rates. There is an overall average 1.7% increase to rates due to increasing damage claims costs that are partially offset by improvements in the injury claims experience. This increase is also offset by a 1.6% decrease in the capital margin provision (from the 2.23% to 0.56%) for all vehicles. Essentially, the decrease in the capital margin offsets the overall rate increase leaving an overall net revenue-neutral rate for the corporation.

While this is to be a revenue-neutral rate application, there are rate increases and decreases for various vehicle groups. SAF strives to ensure that each vehicle class pays sufficient premiums to cover its anticipated claim costs. Since some vehicle classes are relatively small, a single incident can have a significant impact on rates in those classes. To minimize this impact, SAF places a rate cap on various classes to reduce the shock of significant increases, and shifts the shortfall to its largest class – CLEAR-rated vehicles, which represent over 71% of the total vehicle population (or 88% if trailers are excluded).[20]

Under the 15% cap proposal, 93% of the vehicles are within +/-5% of their adequate rate. With a revised cap of 10% cap, SAF estimates that 83% of the vehicles would be within +/-5% of their adequate rate.[21] Although the recommendation will result in fewer vehicles reaching SAF's adequate rate in this application, the Panel notes

[19] Information Request, 2-25
[20] Consultant`s Report, P. vi
[21] Consultant's Report, P. 25

that the Auto Fund's mandate is to operate on a self-sustaining basis over time. Since this is the first application in seven years, the Panel feels that attempting to reach such a high adequate rate in a single application would have a significant negative financial impact on a number of vehicle owners and phasing this target over a longer period of time would ease the financial burden on these policy holders. As well, the Panel has traditionally maintained that rate increases above 10% are considered rate shock by the consumer.

SAF also proposes a scaled cap of up to $150 for premiums up to $1,000. The Panel recommends a rate adjustment for vehicles in these classes for the same reasons that apply to those with base premiums greater than $1,000. The revised capping would be as follows:

Rate Ranges and Capping Limits		
Premium	**Proposed Cap**	**Recommended Cap**
$1-50	$25	$25
$51-100	$50	$25
$101-250	$75	$25
$251-500	$100	$50
$501-750	$125	$75
$751-1,000	$150	$100
$1,001 or greater	15%	10%

This recommendation also takes into account the purpose for the RSR, which is to help buffer customers from significant rate shock. The fund has accumulated a "once-in-a-lifetime"[22] buildup of MCT which is outside the current capital management build and release provisions. This new cap allows the reserve fund to be used in the manner consistent with its mandate.

Secondly the application proposed that the resulting cost of rebalancing (the shortfall of revenue associated with rebalancing), should be assigned to the CLEAR group rating class. In this application, before capping, the CLEAR category rate indication is -0.7% which is then increased to +0.8% (a 1.5% increase) after rebalancing. The Panel is concerned that, in principle, the CLEAR rating group solely bears the full financial brunt of rebalancing when other groups also benefit. This leads the Panel to further recommend that the full cost of proposed rebalancing should be borne by the RSR, which is in keeping with its purpose. Since it has been seven years since a full rebalancing has occurred through a rate application, the costs in this instance is not something the Panel believes should be solely borne by the CLEAR vehicle group alone, especially since the rate indication model suggests a minor decrease is warranted.

4. **That SAF develop a meaningful, formal stakeholder engagement process with the province's taxi community to resolve their industry-specific issues.**

The Panel heard from drivers and taxi owners about the impact that the proposed rates would have on their business operations. This feedback indicated that the industry has been suffering from a sluggish economy, the pandemic, and new competitive forces like ridesharing, which has significantly impacted utilization. This situation is causing a migration of taxis drivers to ridesharing or exiting the profession altogether.[23] This is a concern since taxis perform a public service, often providing service to the individuals during inclement weather and poor road

[22] Ibid, P. 48

[23] SRRP Public Meeting, August 16

conditions, keeping impaired drivers off the road, and assisting those members of the public who do not have access to smart phones and credit cards.

SAF uses historical loss data to reflect a change in usage (i.e. reduced annual km/taxi rates), but that data does not reflect the current market situation in Saskatchewan. The application loss trend data used in this application was for fiscal year ended March 2020, the start of the pandemic. The rate indication model for this class shows that a 37.9% rate increase overall is required. The dynamics of the market has also been shifting since the development of Transportation Network Companies (TNCs), such as Uber, and the pandemic and these factors were not considered in the current rate application. Other jurisdictions, notably ICBC, have also introduced new options for taxi companies to access a per kilometre rate option.

The Panel urges SAF to engage with the taxi community to develop initiatives and collect data to ensure rates are competitive and recognize the insurance risk profiles these enterprises generate and are just and reasonable for the industry and serve the public interest.

5. **That SAF re-engage the motorcycle review committee stakeholder process with the province's motorcycle community to resolve their industry-specific issues.**

The Panel heard from individual riders and received presentations from motorcycle groups about their concerns. This feedback consisted of a number of issues including the rationale for setting motorcycle rates based on engine size; the demographics of those who purchase motorcycle insurance, applicability of a separate Safe Driving Recognition program for motorcycles, setting rates based on other rating criteria, reduction in rates to increase ridership and premiums, and classes with best not-at-fault claims ratings.[24]

A motorcycle review committee had been established in 2013 to review issues affecting motorcycle owners and riders at that time. The committee consisted of representatives from dealerships, riding schools, clubs, the Saskatchewan Safety Council, medical doctors and insurance brokers. This committee recommended and received government approval to increase requirements for acquiring a learner's license, change requirements for new drivers, and incentives for new riders to take training. Most of these changes were targeted to improving safety among motorcycle riders to assist with lowering insurance rates. The changes proposed by the committee and implemented by SAF have clearly demonstrated positive results and rate indication trends. The Panel believes that a renewed engagement process may be able to address many of the issues that have emerged from this review.

6. **That SAF provide the completed business case and project plan for the Corporate Transformation (CT) project in its next rate application so that the full implications of the project on rates is apparent.**

The CT project addresses a deficit in information technology (IT) systems at the corporation and will replace core legacy systems that are at the end of their life span. It is crucial for SAF and its policy holders to maintain a modern IT infrastructure so it not only provides the best service offerings, but also to ensure that potential security threats are minimized. SAF's current technology base consists of vintaged, unsupported and, in some cases, critically weak technologies. SAF indicates that the CT project will lead to improved efficiency and improved service offerings including mandatory entry-level training for commercial drivers, Class 5 driver education review, and safe and quality auto repair.[25] The systems transformation initiative will result in the modernization of the corporation's core systems along with the migration of other corporate systems to new platforms.

[24] SRRP Public Meeting, August 16

[25] Consultant's Report, P. 76

SAF is forecasting $101.2 million in capital expenditures on IT in the next five years with the majority of the proposed spending on the CT project. However, the corporation does not yet have clarity on what level of expenditures on this project that can be capitalized as this project should provide benefits for a number of years. At this time, it cannot determine the level of costs to capitalize until the nature of the solution and the proposed implementation steps are determined. The forecast expense of this project has a material impact (almost a full percentage point) and increased the revenue requirement of SAF, which in turn, is a significant part of the rate indication in this application. The current accounting treatment is a significant factor behind the 1.7% increased revenue requirement reflected in the current rate indication.[26] Part of the Panel's discussion on this issue is whether these costs should be paid for by today`s ratepayers who will not be provided with any benefit until the project is completed, or should be paid by tomorrow`s ratepayers when the project is complete and operating efficiencies become fully operational and materialize.

Prior to its next application, SAF consider engaging external professional advice on capitalizing CT projects within the International Financial Reporting Standards (IFRS) framework. SAF also consider the extent that internal staff are engaged in similar transformative activities as external resources and the activities are capital in nature and consider whether it is consistent in its treatment of these costs.

7. **That SAF undertake an external review of the Integrated Cost Allocation Methodology (ICAM) and report back at the next rate application.**

The SGI group of companies includes SAF, SGI CANADA, SGI CANADA Insurance Services Ltd. (SCISL), and Coachman Insurance Company (Coachman). These entities incur administrative, internal loss adjusting and traffic safety expenses annually.[27] Most of the expenses are first incurred within SGI CANADA and then allocated appropriately among the four companies. Many costs incurred by SGI CANADA relate to shared common services for the companies, which takes advantage of economies of scale and scope to minimize duplication of effort and expenses.

At the time of the review in 2013, SAF was allocated 64% of the total costs, which has trended downward in this application. Total costs allocated to SAF have declined from 57% in 2019-20 to a forecast of 54% in 2021-22. Although the share of corporate expenses has declined, the overall magnitude of the spend has increased in the 2021-22 forecast year. SAF has seen a marked increase in costs allocated, mainly due to the CT project.[28]

Overall SAF Cost Allocation 2019-20 to 2021-22[29]

Company	**2019/20**		**2020/21**		**2021/22F**	
Share of Expenses (C$000s)	**$**	**%**	**$**	**%**	**$**	**%**
SAF	172,262	57%	164,791	55%	200,509[30]	54%

[26] Ibid, P. 76-77
[27] Ibid, P. 89
[28] Ibid, P. 91
[29] Ibid, P. 90
[30] Before cost recoveries, the costs allocate were $218 million.

Traffic safety costs are 100% directly assigned to SAF. The budget for traffic safety is increasing materially in 2021-22 and the relative share of costs allocated have increased from 19% in 2020-21 to almost 23%.[31] The Panel wants to ensure that the ICAM appropriately allocates costs to SAF to ensure that there has been no cross-subsidization. SAF completed an internal review of its ICAM in 2020-21, but has not been subjected to an independent external review.

8. **That SAF consider several enhancements to its filing standards in its next application.**

As previously noted, it has been seven years since SAF submitted an application for review and the Consultant has noted several areas in the process, that have been confirmed by the Panel, that can be improved for both parties in future applications. These areas include changes and/or updates to: loss development, loss trend, accident year weights, TNC rates, Safe and Quality Auto Repair Project (SQARP), and cost allocation. More detailed information in these areas can be found within the consultant's report. The Panel requests that SAF review these changes, and implemented if reasonable, and if they are not going to be used, inform the Panel why that is the case.

[31] Ibid, P. 91

Analysis and Discussion

Rate Stabilization Reserve/Minimum Capital Test

In addition to collecting sufficient premiums to cover anticipated claim costs, SAF needs to maintain an adequate level of capital in the RSR. The Auto Fund is operated on a self-sustaining basis viewed over a long-term time frame. Any annual financial excess or deficiencies of the Auto Fund are recorded in its RSR, which serves as a reserve account. It ensures customers are protected in the event of much higher-than-expected claim costs or much lower-than-expected investment income in any one year. A proper RSR balance is necessary for the financial stability of the Auto Fund, and it acts as a buffer for customers to avoid significant rate shock.

In 2020-21 the RSR had grown to $1.375 billion and an MCT of over 190% before the provincial government declared a rebate to policy holders in spring 2021. The RSR buildup was due to lower than forecast claims costs due to the pandemic and higher than forecast investment income in the year. Policy holders received $285 million in rebates, which effectively reduced capital build up to a forecast of $1.090 billion and an MCT of 168%. The following forecast compares the projected change in the RSR removing the current 2.23% capital margin completely versus the 0.56% capital margin proposed in the bottom table forecast:[32]

Projected RSR Changes – Indicated Rate without Capital Margin						
Fiscal Year (C$ millions)	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Premiums Earned	961.2	994.3	997.8	1,009.9	1,028.0	1,046.6
Total Expenses	981.8	1,166.7	1,132.6	1,230.1	1,246.1	1,277.4
Underwriting Loss	**(20.7)**	**(172.4)**	**(134.9)**	**(220.2)**	**(218.0)**	**(230.8)**
Investment Earnings	508.5	124.3	71.0	129.6	135.6	144.7
Other Income	80.6	86.0	88.0	91.2	94.2	97.2
Change in RSR	**568.4**	**37.8**	**24.1**	**0.5**	**11.8**	**11.1**
Rebate	(285.0)	-	-	-	-	-
Year End RSR Balance	**1,090.1**	**1,128.0**	**1,152.1**	**1,152.6**	**1,164.4**	**1,175.6**
Year End MCT Ratio	**168%**	**164%**	**164%**	**159%**	**159%**	**158%**

This top table where the full 2.23% capital margin was removed, forecast the RSR to be $1.175 billion and an MCT of 158%, remaining above the 140% MCT target.

[32] Consultant's Report, P. 46

Projected RSR Changes – Indicated Rate with Capital Margin						
Fiscal Year	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Premiums Earned	961.2	995.3	1,014.4	1,032.6	1,051.2	1,070.1
Total Expenses	981.8	1,166.5	1,128.6	1,231.0	1,249.0	1,280.3
Underwriting Loss	**(20.7)**	**(171.2)**	**(114.2)**	**(198.4)**	**(197.8)**	**(210.2)**
Investment Earnings	508.5	124.3	71.1	130.8	138.4	148.9
Other Income	80.6	86.2	89.5	92.7	95.8	98.8
Change in RSR	**568.4**	**39.3**	**46.5**	**25.2**	**36.4**	**37.6**
Rebate	(285.0)	-	-	-	-	-
Year End RSR Balance	**1,090.1**	**1,129.5**	**1,175.9**	**1,201.1**	**1,237.5**	**1,275.1**
Year End MCT Ratio	**168%**	**164%**	**166%**	**163%**	**165%**	**166%**

This table includes the proposed changes to the capital margin and a 1.6% capital release, although it does provide for a release in capital, and does not trend down to the 140% target over the forecast period. The RSR is forecast at $1.275 billion at the end of the five years in 2025-26 with an MCT of 166%. SAF attributes this to two factors:

- The five-year forecast incorporates assumptions beyond the rating year. The current capital build/release focuses on the rating year, while future years capital available are considered in determining a future capital build/release provision.
- As SAF moves toward its target, the amount of future capital build/release will shrink over time, all else being equal. This provides additional stability to changes in customer rates.[33]

SAF provided an update on June 30, 2021, which indicated improved financial results in the first quarter of 2021-22 than forecast. Overall total claims costs and expenses were $34.4 million or 13% lower than forecast for the quarter. The reduction was comprised of the following components:

- Claim costs were $26 million or 12% lower than forecast for the quarter due to a COVID-19 influenced lower number of collisions than forecast.
- Administrative expenses were $5.6 million or 23% lower than forecast. These reductions were due to a delay in IT transformation expenditures (CT project).
- Traffic safety expenses were $3.3 million or 24% lower than forecast. SAF attributed the lower costs to the continuation of COVID-19 measures that resulted in fewer expenditures in safety-related advertising and event sponsorships and safety program delivery than forecast.
- SAF recorded a net investment income of $114.6 million for the quarter versus a forecast of $41.9 million, $72.6 million more than budget. The improved net investment income is due to higher than forecast unrealized returns in bonds and foreign equities.

Overall, SAF increased its RSR on June 30, 2021 by $153.8 million, which is $113.2 million higher than the $40.6 million budget for the quarter. As of June 30, 2021, the total RSR exceeded $1.244 billion, and the MCT 12-month rolling average was 184%.[34]

[33] Consultant's Report, P. 47
[34] Consultant's Report, P. 48

The Panel considers this build up of excess RSR to be a once-in-a-lifetime event that should be addressed as soon as possible. The recommendation by the Panel to limit the cap to 10% and address the revenue shortfall through the RSR will help ensure that excess RSR is returned to the policy holders in a simple, fair and reasonable manner.

Taxis and Transportation Network Companies (TNC) Rates

The taxi industry has been significantly negatively impacted with the introduction of ridesharing companies in 2018 as well as the continuing pandemic. As part of the consultation process to enable ridesharing companies entry into the province, SGI held consultations with various stakeholders to gather their ideas and feedback on how these companies should operate in Saskatchewan. During these consultations, stakeholders agreed that rideshare companies should have to hold a minimum amount of liability insurance. The amount of liability insurance required is $1 million, the same as the insurance required for taxis and limousines.

A rideshare vehicle must be registered in Class LV but with a use code to indicate it is used for ridesharing. Under the program, the vehicle owner pays the basic insurance rate for their private passenger vehicle. The rideshare company pays an additional rate for all ridesharing kilometres based on the time a fare is accepted in the rideshare app until the passenger is dropped off at their location. SAF adopted an initial rideshare rate of 11¢/km based on the taxi adequate premiums from an internal analysis.

The taxicab industry expressed interest in using the per-kilometre rate for their insurance since they estimated that it would be less than the current annual premiums within the taxi rating class. SAF clarified that the TNC rate, which was based on the taxi adequate premiums for 2018 and that if estimates of the taxi trip distance were correct, then the TNC rate is higher than what taxis would pay once the TNC's drivers private passenger vehicle insurance is factored in. The TNC rate was an initial starting point, based on the adequate taxi rate for operations in Regina or Saskatoon due to a lack of data on ridesharing. Analysis and any differentiation of rates based on location or on different phases of ridesharing will be determined once SAF has collected sufficient vehicle for hire loss experience data.[35]

This initial rate does not make any differentiation between driving experience in the rural versus urban setting. SAF acknowledges that further analysis must be undertaken to determine if differentiation of rates based on location or on different phases of ridesharing are appropriate once sufficient loss experience data is collected. The rate established is based on a fully credible taxicab rate which would include serious loss experience. From a review of the premiums collected versus claims since the introduction of ridesharing services, there has been no serious losses to date.

The Panel heard from several taxi companies and drivers about the fairness of the current rates and the impact that increasing the rates will have on the industry. Their concerns included:

- The pandemic has severely impacted income as fewer people were venturing out of their homes.
- Ridesharing companies have been taking market share.
- The timing of the increase during a market downturn places further financial pressures on the industry.

The information provided by SAF in this application does not reflect these considerations. As noted in the COVID-19 impact section of this report, demand for taxi service significantly decreased as people were under health directives to remain at home to prevent the spread of the virus. The application only includes the financial loss data up to end

[35] IR [2-2 (b)]

of March 2020, which marks the date when the initial health directives were put in place. Even now the impact of the pandemic continues to be felt on the industry and there is no clear indication when it will improve.

The Panel noted that taxi companies have been encouraging SAF to consult with the industry to investigate ways to develop more flexible rate options and the feasibility of charging a per kilometre premium to the industry. Taxis also emphasized they offer an important public service.

ICBC recently introduced a per kilometre rate provision in British Columbia and the Panel suggests that SAF consider the merits of that approach in Saskatchewan. The Panel also recognizes that the implementation of such a provision is dependent upon the corporation's technology.

Due to the nature of this changing environment, the Panel recommends that SAF engage formally with the taxi community to begin the process to resolve a number of these issues, and to report back on progress during the next application. As part of this process, SAF, for comparative purposes, could also report on the claims experience and loss ratio for the TNC rate class in the next application.

Motorcycle Rates

In 2013, the provincial government directed SAF to review the issues affecting motorcycle owners and riders including opportunities to improve motorcycle safety; options for injury benefits provided to motorcycle owners with their basic insurance coverage; and, factors contributing to the need for substantial motorcycle insurance rate increases to cover the cost of motorcycle claims. SAF reached out to stakeholder groups and formed a motorcycle review committee with representatives from motorcycle dealerships, motorcycle riding schools, motorcycle riders and clubs, Saskatchewan Safety Council, medical doctors who treat trauma injuries, and insurance brokers. This committee considered proposals from SAF and committee members, input from the public, and statistical and program analysis. This process led to several new initiatives including increased requirements for acquiring a motorcycle learners license; change requirements for new riders; and incentives for new riders to take training.[36]

This review also led to a new no-fault coverage option for motorcycle owners in 2016. The Reduced No-Fault Injury Coverage is a basic package of injury benefits available to motorcycle owners which provides fewer injury benefits in the event of a collision. The new offering provides the same benefits as the tort product but with limited ability to sue for additional losses. This option offers a lower rate for motorcyclists while still ensuring some level of insurance coverage. This coverage provides the following premium discount, based upon engine size:

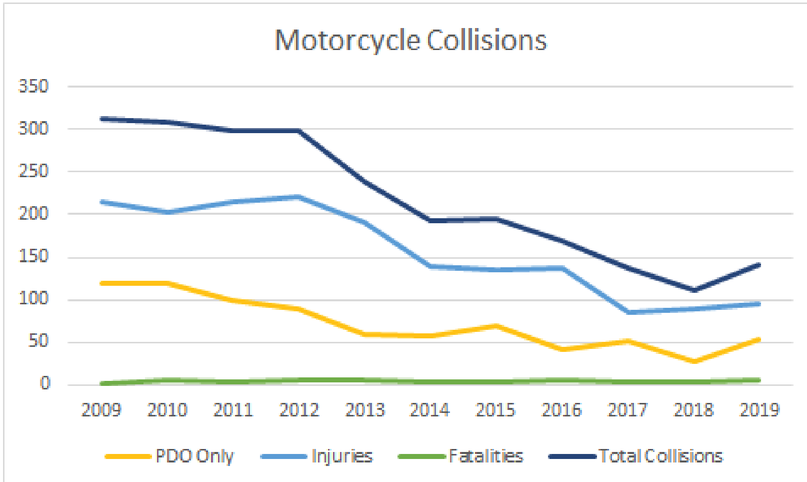
- 5% for all motorcycles 100cc and less;
- 20% for all motorcycles 101cc-400cc; and
- 30% for all motorcycles 401cc and more.

SAF also made changes to its Motorcycle Graduated Driver Licensing (MGDL) program in 2016. The MGDL program ensures that all new motorcycle riders have the necessary skills and knowledge to protect themselves and other drivers on the road. It has three stages (Learner, Novice 1 and Novice 2) and is subject to a $500 fee for each level. The entrance fee is waived upon successful completion of an SGI-approved motorcycle safety training course. Riders who complete the training course and graduate from the program without any incidents receive a $450 rebate on their insurance premium.

[36] SAF Responses 1-4

SAF undertook an analysis in 2019-20 to understand the outcomes from the changes made as a result of the motorcycle review. The resulting report indicated that the motorcycle collision trend in Saskatchewan had decreased by 54% over the last ten years ended in 2019 and that motorcycle collisions have decreased substantially (27%) since the motorcycle review was completed in 2014.

Motorcycle Collisions 2009 to 2019[37]



The number of people injured in motorcycle collisions also decreased by 56% in the past decade, and by 30% since the motorcycle review and the 2014 rate application. SAF measured the motorcycle at fault trends, when a motorcycle is involved in a collision, who is responsible for the accident, the motorcycle rider or the driver of the other vehicle. SAF found that motorcycle riders are deemed responsible for motorcycle collisions roughly half the time and noted slightly fewer collisions were deemed to be motorcycle driver at fault since the review.

SAF compiled statistics of motorcycle collisions involving other vehicles and a single motorcycle for 2010-19 with the fault determination as follows:

Motorcycle Collisions 2010-2019[38]					
Multi Vehicle			**Single Vehicle**		
Collision Responsibility	**Claims**		**Collision Responsibility**	**Claims**	
Rider Not at Fault	1,842	54%	Rider Not at Fault	508	19%
Rider 50% or More at Fault	1,517	45%	Rider 50% or More at Fault	2,140	80%
Rider Less than 50% at Fault	34	1%	Rider Less than 50% at Fault	18	1%
Total	3,393	100%	Total	2,666	100%

SAF uses ten years of historical accident loss data to determine its proposed rate program. SAF noted that while motorcycle collision trends in Saskatchewan have declined, it may be partly attributed to changes in motorcycle driving patterns. Fewer motorcycles are being registered and their owners have tended to insure, and presumably ride, them for shorter periods of time through permit options. SAF noted there was a marked increase in the number of motorcycles registered under permits, noting that there has been a 600% increase in the last decade. This suggests

[37] Consultant's Report, P. 55
[38] Ibid

that the reduction in the number of motorcycle collisions is due, in part, to fewer riders being on the road under the traditional motorcycle class. Other motorcycle drivers may also be opting for more occasional use of their vehicles through permits.

In response to feedback received from the motorcycle community on the report, SAF committed to looking into options to address the shortfall between motorcycle insurance premiums and motorcycle claims cost. SAF initially considered four options for motorcycle insurance. The first two listed below are addressed in the current application:

- A refinement to the motorcycle engine size classifications for rating purposes (included in the current rate proposal).
- Changes in how permits are priced to match the cost of claims for permitted vehicles (included in the current rate proposal). An option for future development such as motorcycle-only permits or limitations to permit uses was discussed.
- Seasonal rating of motorcycles, whereby premiums collected would be weighted across the motorcycle riding season when there is a risk of collision, significantly lowering the cost of a full year of motorcycle insurance.
- Daily rating, whereby vehicle owners would be able to tailor the time period their insurance policy covers to the exact requirements, anywhere from 1 to 365 days.

The current computer system does not have the functionality to process seasonal rates. When the seasonal rating option was explored following the review in 2013, time-line estimates were provided to update the current system and add the ability to store or calculate monthly premiums that varied. These estimates ranged from two to four years. Given that the system transformation is occurring, no updates are being made to the current system since it is slated to be replaced.[39]

After further input from the motorcycle community, SAF considered two additional options, including changes to the Safe Driver Recognition program and changes to injury coverage. SAF indicated that it will take time to explore the feasibility of potential changes. If any options are feasible, it would likely require significant computer system changes, and it would also need to go through the formal approval process due to the financial impact. It is likely to be several years before any viable solution could be put in place. SAF does not see options that can be implemented quickly enough to address the current motorcycle rate need.

Due to the input that the Panel has received from the motorcycle community in this application, the Panel urges SAF to re-engage the motorcycle review committee to review all the issues noted above together with the issues of affordability, risk profiles and economic outcomes. The Panel's technical consultant has suggested some actuarial creditability loss development improvement factors including accident year weighting factors that may be considered in developing loss trend rates going forward. SAF should also make sure that its system architecture is sufficiently flexible to accommodate changes in motorcycle rates including seasonal rating, potential Safe Driver Recognition changes, more broadly shifting wildlife claims costs and other potential injury benefit changes. The Panel would also appreciate if SAF undertook a meaningful examination of comparative analysis on motorcycle rates and benefits across Canada, especially of Crown-owned insurers, and requests that SAF report back at the next application on data collected and efforts related to the progress on the re-engagement initiative.

[39] IR [2-4 (b)]

Corporate Transformation Project

The Corporate Transformation (CT) project is designed to transform SAF into a digital insurer as it addresses an information technology (IT) deficit and replaces its core legacy IT systems that are at the end of their lifespan. These systems need to be modernized to ensure the corporation has the capacities to manage day-to-day business operations and maintain service levels. Once the project has been completed, SAF will be able to support new programs and service offerings such as mandatory, entry-level training for commercial drivers, Class 5 driver education review, and safe and quality auto repair.

SAF is forecasting to spend $101.2 million in capital expenditures over the next five years on IT with the majority of that spending on the CT project. This estimate has a material financial impact on the corporation and has increased the revenue requirement of SAF in this application. The forecast is as follows:

IT Capital Expenditure Forecast 2022 to 2026 ($,000)[40]

Expenditure Type (C$000s)	2021/22	2022/23	2023/24	2024/25	2025/26	Total 2022 to 2026
Infrastructure	2,985	1,635	1,785	3,865	1,895	12,165
Hardware	1,080	1,700	1,500	2,000	2,300	8,580
Software	765	800	800	300	300	2,965
Transformation	20,000	20,000	37,500	-	-	77,500
Total	**24,830**	**24,135**	**41,585**	**6,165**	**4,495**	**101,210**

SAF indicated that when it was developing this budget, the nature of the CT project was uncertain. The estimate was made to capitalize only a portion of the costs and tried to include several different directions that the transformation could take including developing the applications internally, which could result in very minimal costs being capitalized. The Panel`s technical consultant has noted that “to determine what costs are expensed versus capitalized from the CT project, SAF will have to navigate complex accounting rules related to cloud computing arrangements.”[41]

In reviewing these costs, the Panel noted that the decision to expense a significant portion of this project over the next several years may not be entirely fair to policy holders. The policy holders who are paying for this project may not be the same ones who will benefit from the system changes, which are not expected until 2024-25. SAF should consider excluding these project costs from the determination of the rate in order to ensure the costs of the new systems are recovered from the policy holders who will actually benefit from the new service offerings. As SAF considers this recommendation, it will have to determine whether the upfront configuration and high customization costs will result in an intangible asset that it controls. It will need to determine whether it retains the intellectual property rights to the customized software or if the vendor can make this new functionality available to other customers. It will also need to asses whether the vendor has the contractual right to possess this software during the hosting period and whether it is feasible to run the software on its own systems or contract it to a third party.

For these reasons, the Panel recommends that SAF engage professional advice on capitalizing and amortizing the CT project within the IFRS framework and report back to the Panel during its next application.

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[40] Consultant’s Report, P. 76

[41] The International Financial Reporting Standards Interpretations Committee (FRIC) addressed questions on Configuration and Customization in a Cloud Computing Arrangement in its March 2021 meeting.

COVID-19 Pandemic

The COVID-19 pandemic has affected everyone's lives and SAF is no exception. Vehicle traffic declined after the provincial government issued public health measures in mid-March 2020 to contain the spread of the virus. As this traffic declined, there was a corresponding decline in claims frequency. However, since the historical loss experience data used in this application was through to March 31, 2020, the impact of the pandemic is not reflected in this application. Much of the impact occurred after this date as lock downs began to be implemented.

With the effective date of this application being January 21, 2022, SAF has assumed the pandemic will have a minimal impact on the corporation, other than a reduction of 5% to a segment of commercial vehicle risks.[42] Since its Safe Driver Recognition (SDR) program assigns drivers to levels according to their experience, the reduction in vehicle usage during the pandemic will likely influence the assignment of drivers to a lower premium level than typical. SAF has not considered this potential usage reduction in either the current or proposed average premium in calculating its rate level indication. There continues to be great uncertainty as to what the "new normal" of driving will be into 2022 and beyond, as options of remote work, less use of public transit and increased use of personal vehicles have yet to stabilize.

Operating Expenses/Claims Costs

SAF's operating expenses includes administrative expenses, internal loss adjusting expenses (ILAE), program, and traffic safety expenses. Total allocated operating expense were $142.9 million in 2017-18 and have grown to $164.8 million in 2020-21. SAF operating expenses is forecast to increase to $200.6 million -- an increase of $44.9 million or 27%.[43] The total operating expenses allocated to SAF are as follows:

SAF Operating Expenses 2017-18 to 2021-22 (in $000's) [44]

Allocated Operating Expenses	2017/18	2018/19	2019/20	2020/21	2021/22F	2022-2021 Variance	
Administrative	$50,502	$58,244	$71,068	$69,190	$90,886	$21,696	31%
ILAE	$61,848	61,172	67,147	64,047	69,196	5,149	8%
Traffic Safety	30,636	29,468	34,047	31,554	40,479	8,925	28%
Total	**$142,986**	**$148,884**	**$172,262**	**$164,791**	**$200,561**	**$35,770**	**27%**

Administrative expenses are required to manage the company and provide support staff for its operations including salaries, infrastructure, and system support costs. They include all operating costs not related directly to the settlement of claims. Administrative expenses were $71.1 million in 2019-20 and decreased to $69.2 million in 2020-21, due in part to the pandemic. SAF is forecasting administrative expenses to increase to $90.9 million in 2021-22 an increase of $21.7 million or 31% over the prior year. Administrative expenses are forecast to be 8.5 % of total budgeted operating costs.

ILAE costs directly relate to the evaluation, processing and settlement of claims. Internal LAE includes the wages and benefits of internal legal and claims staff and operating cost of claims centres and other costs to support

[42] Consultant's Report, P. 29
[43] Consultant's Report, P. 70
[44] Ibid

administering claims. Internal LAE costs were $67.1 million in 2019-20 and $64.0 million in 2020-21 and are forecast to increase to $69.2 million in 2021-22 – an increase of $5.1 million or 8% over the prior year.[45]

Traffic safety program costs consist of programs, sponsorship and advertising associated with promoting traffic safety. The cost of the traffic safety programs was $34.0 million in 2019-20 reflecting about 3.1% of total operating costs. SAF spent $31.5 million in 2020-21, spending less on programs due to the pandemic. The 2021-22 year has planned expenditures of $40.5 million, an increase of $8.9 million or 28% from the prior year. Traffic safety expense represent about 3.7% of overall budgeted operating expenses. The CT project spending is also included in the SAF operating expenses and a discussion on that project is contained elsewhere in this report. The SAF operating costs and the impact on SAF on a per insured vehicle are provided in the following table:

Operating Expense and Impact of the CT Project [46]

($,000)	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22F**	**2022-2021 Change**	
Operating Expenses	$142,986	$148,884	$172,262	$164,791	$200,561	$35,770	27%
Digital Transformation Expenses (CT)	-	($470)	($7,597)	($2,529)	($22,260)	($20,001)	
Total Expenses excluding Digital Transformation (CT)	$142,986	$148,414	$164,665	$162,262	$178,301	$15,769	9.7%
Number of Vehicles	937,399	936,573	940,761	938,283	945,570	7,287	0.8%
Total Cost per Ins Vehicle	$153	$159	$183	176	$212	$36	20.5%
Total Cost per Ins Vehicle excluding Digital Transformation (CT)	**$153**	**$158**	**$175**	**$173**	**$189**	**$16**	**9.3%**

The CT project costs are a key reason for the increase in forecasted expense costs (see section on Corporate Transformation Project). Administration costs are forecast to increase by $35.7 million or 27%. The CT project represents $20 million or 56% of the cost increase. If not for these one-time CT project costs, the cost increase in 2021-22 would be $15.8 million or 9.7%.

Administration expenses in terms of insured vehicle has increased from $153 per vehicle in 2017-18 to a forecast of $212 per insured vehicle in 2021-22. Excluding the CT project expenditures, the administration expense per insured vehicle drops to $189 per insured vehicle in 2021-22. This represents a 9.3% increase per insured vehicle from 2020-21 levels. The Panel is concerned with this trend as costs are significantly exceeding the Consumer Price Index in Saskatchewan.

Claims incurred represent the costs paid or expected to be paid to claimants for the various benefits provided under SAF's insurance program. The financial forecast of claims incurred and the expenses to adjust claims represent the most significant expense for SAF (about 80-85% of the total cost).[47]

[45] Consultant's Report, P. 69
[46] Consultant's Report, P. 71
[47] Consultant's Report, P. 59

SAF's claims costs from 2016-17 through 2021-22 are as follows:

Claims Costs 2016-17 to 2021-22 [48]

Fiscal Year	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22F	2022 – 2021	
(C$000s)							$	%
Damage Claims & Liability	501,240	554,860	534,092	536,983	447,904	600,414	152,510	34%
Bodily Injury & Liability	225,969	157,416	231,312	202,813	160,904	166,591	5,687	3%
Total Claims Incurred	727,209	712,276	765,404	739,796	608,807	767,005	158,198	25%
Loss Adjusting Expenses	70,795	75,591	129,478	149,505	176,647	163,057	(13,590)	(7%)
Total Claims Costs	798,005	787,866	894,882	889,301	785,454	930,062	144,608	18%

As indicated in the above, SAF is forecasting that claims costs will increase in 2021-22, but the Panel notes that vehicle traffic remains reduced due to the continuing impact of the pandemic.

Integrated Cost Allocation Methodology (ICAM)

SGI consists of SAF, SGI CANADA, SGI CANADA Insurance Services Ltd. (SCISL), and Coachman Insurance Company (Coachman). These companies incur approximately $300 million of administrative, internal loss adjusting and traffic safety expenses each year. Most of the expenses are initially incurred within SGI CANADA and then allocated among the four companies. Many costs incurred by SGI CANADA relate to shared common services for the companies, which takes advantage of economies of scale to minimize duplication.

SAF Cost Allocation Detail 2019-20 to 2021-22[49]

(C$000s)	2019/20		2020/21		2021/22	
Expense	**$**	**%**	**$**	**%**	**$**	**%**
Admin Expense	71,068	41%	69,190	42%	90,886	45%
LAE	67,147	39%	64,047	39%	69,144	35%
Traffic Safety	34,047	20%	31,554	19%	40,479	20%
Total	**172,262**	**100%**	**164,791**	**100%**	**200,509**	**100%**

SGI allocates administrative and loss adjustment expenses, which each have different cost drivers. Administrative expenses are required to manage the company and provide staffing support for its operations. These expenses include all operating costs not related directly to the settlement of claims. Administrative expenses are assigned to the product lines within the company. Certain administrative expenses can be traced directly to a specific product line, while indirect administrative costs must be allocated. SGI allocates costs using a 3-step cost allocation methodology:

[48] Consultant's Report, P. 60
[49] Ibid, P. 90

- Direct Costs: certain operating and support department costs are allocated directly to companies and products. Approximately 90% of expenses are directly allocated cost to a specific company/product. The remaining 10% represent indirect costs and are allocated based on the next steps of the cost allocation methodology:
    - Step-Down Allocation: indirect costs from five support departments (human resources, facilities management, corporate purchasing, security and certain system departments) that provide services to all departments are allocated using the step-down method.
    - Indirect Costs: The remaining department costs are allocated based on an appropriate cost driver or allocation basis.

In 2017-18, the cost allocation process changed from spreadsheets to an accounting application called People Soft. This change allowed costs to be allocated based on cost drivers that could be updated monthly using actual expenses and cost drivers. Before this change, the costs were assigned based on a less precise estimate based on cost driver calculations once a year and often based on prior years' historical actual amounts.

SAF undertook its first formal annual review of the cost allocation methodology in advance of the 2020-21 fiscal year. During this process, representatives from SGI's finance department met with department management to review each department's allocations and cost drivers. Most changes to the ICAM resulted from this formal review process; however, there are instances where changes are made outside of the normal process due to circumstances such as:

- Organizational restructuring;
- Changes to allocations related to corporate projects;
- Introduction of new companies, provinces, products; and
- Executive leadership team or board decisions;

In 2014, SAF was allocated 64.6% of the total costs, which has trended downward in this application. Total costs allocated to SAF have declined from 57% in 2019-20 to a forecast of 54% in 2021-22. Although the share of corporate expenses has declined, the overall magnitude of the spend has increased in the 2021-22 forecast year. SAF has seen a marked increase in costs allocated, mainly due to the CT project, as shown in the chart on page 16 of this report.[50]

Traffic safety costs are 100% directly assigned to SAF. The budget for traffic safety is increasing materially in 2021-22 and the relative share of costs allocated have increased from 19% in 2020-21 to almost 23%.

The Panel believes it is important that the ICAM appropriately allocate costs to SAF to ensure that there has been no cross-subsidization. SAF has completed one internal review of its ICAM in 2020-21, but it has not had an independent external review of the ICAM.

The Panel recommends that an external review of the ICAM be conducted in order to assess whether the methodology is fair and reasonable. This review could also determine whether the method is flexible and adaptable given the proposed changes in the CT project. The methodology used should remain in place for an extended period and assess whether the allocators are consistent with industry practices.

[50] Consultant's Report, P. 91

Future Applications

Since this has been the first application in seven years, the Panel noted several recommendations from its technical consultants on reporting requirements that SAF should consider for its application in the future. SAF should review these recommendations and report back to the Panel in its next application if there are any reasons why these recommendations cannot be implemented.

Expense Provision: SAF treat any longer-term project costs, such as the CT project, as capital costs and not expenses, for the purposes of calculating the rate level change need. This rate treatment would ensure the costs of the new systems are recovered from the policy holders benefiting from the new service offerings. SAF should consider the fairness and reasonableness of the approach on current, and future customers who will benefit from this investment.

Complement of Credibility: SAF should use a more robust approach to reflect change in claims costs, expenses and the break-even provision since the prior filing pure premium estimate.

Loss Development: SAF should consider the use of more granular data, when credibility and complexity are not an issue.

Loss Trend: SAF should consider the following factors:

- Introduce a more sophisticated in-depth review of model design including parameters to incorporate reform or other shifts in the data, as well as distinct changes in the trend rate.
- Consider the statistical significance of the model parameters, including time, by determining the *p*-value for each parameter; and include additional metrics such as residuals and Adjusted R-squared.
- Engage loss trend committee members to contribute their insight as to the causality of the data patterns and potential impact of future external influences; but not participate in the selected trend rate unless the member has experience in regression modeling.

Accident Year Weights: SAF should consider being more responsive to the recent experience by assigning more weight to the recent years (than 20% to each of the last five years) for the physical damage coverages that are fully credibility.

Discount Rate Forecasting: SAF should implement a practice to use the most current available information in preparing its rate application as practical (such as no earlier than 3 months prior to the submission date). If the information is greater than three months, SAF should consider implementing a process in future applications to update its application through the Panel review process if there are material changes in its economic assumptions such as interest rates.

Autobody Repair: SAF should report on the status of the Safe and Quality Auto Repair Project (SQARP) implementation, and the health of the autobody industry, in particular access to rural-based repair shops in its next application.

Cost Allocation: SAF should undertake an external review of the integrated cost allocation methodology for an assessment of whether the methodology is fair and reasonable and report back at the next rate application.

The Competitiveness of the Proposed Rates

Comparing Rates

Comparing auto insurance rates across different jurisdictions is difficult due to differing population, traffic density, road infrastructure, vehicle mix, insurance coverage and weather. The average premium for private passenger vehicles differs between the provinces for many reasons, such as:

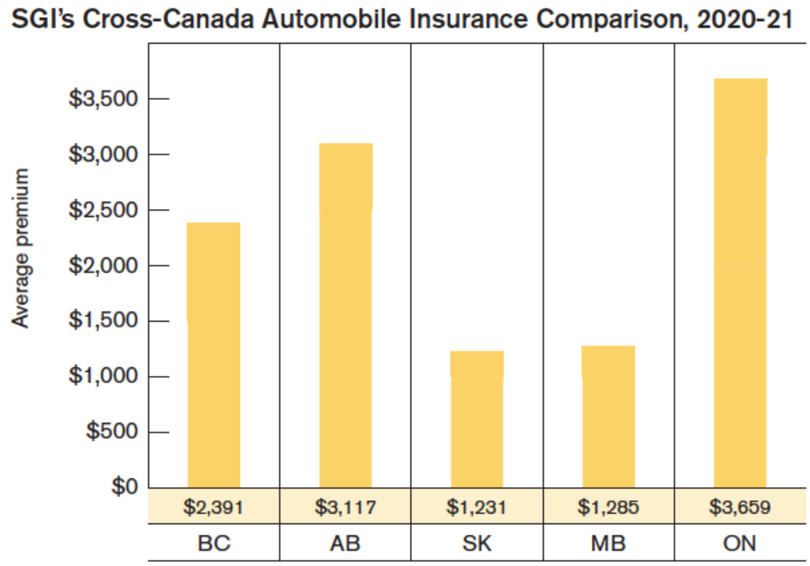
- Differences in benefit and coverage levels
- No-fault versus tort
- Allowable level of profit provision, if any
- Inclusion or exclusion of investment income on capital
- Capital build vs release impact
- Operating expenses, including acquisition costs and premium tax level
- Driving environment – traffic density, weather, road conditions
- Driver characteristics – age, experience, vehicle type and usage

Comparing premiums between the Crown corporation provinces and competitive provinces is especially challenging for numerous reasons including the differences in benefit levels, driving environment (weather, road conditions and traffic density), and operational expense/profit structure. Crown corporations typically operate under a not-for-profit basis with a lower operating expense structure. It is more meaningful to compare the average premium for private passenger vehicle risks between Crown corporations with similar coverage benefit levels and expense/profit structures.

In order to review of the competitiveness of the proposed rates, SAF has minimized these variables by standardizing the vehicles, profiles and coverage levels used for liability and physical damage coverage in its submission. However, the jurisdictions are still fundamentally different in some ways making meaningful comparisons difficult. For example, companies in provinces with competitive insurance are not required to insure all drivers or may not have limitations on the rates that can be quoted. Competitive insurers provide insurance in all provinces except Manitoba and British Columbia. Both Manitoba Public Insurance (MPI) and the Insurance Corporation of British Columbia (ICBC) are Crown-owned insurers like SGI, and they offer similar basic, compulsory insurance programs supplemented by competitive optional coverage.

Based on this information, SAF has the lowest average personal auto insurance rates in Canada. MPI continues to be the closest competition for the lowest average personal auto insurance rates in Canada, as indicated in the following graph:[51]

[51] Consultant's Report, P. 19



SAF's average premium is marginally less than that for MPI. Effective May 1, 2021, ICBC moved from a tort-based product to a no-fault product, similar to that of MPI, and will become more comparable in the future to SAF. It should be noted that MPI's rate application is currently under review and is proposing a 1.2% rate decrease and a special rebate of $355 million of its excess capital from its basic line of business.

SAF's rate comparison to non-Crown corporation provinces includes Alberta and Ontario; and indicates higher average premiums in those provinces than the Crown corporations. In Alberta and Ontario, which operate in a competitive environment, there is a wide range of rates between insurers, although the comparison does not reflect this. Since Ontario and Alberta include a margin for profit and higher operating expenses (i.e.., broker commissions at 12.5%, plus contingent commissions), this adds to the average premium in those provinces.

While the profile comparison approach used by SAF can be meaningful, readers should be aware that it does not give a complete picture.

Performance Management Measures/Crown Benchmarking

SAF participated in a Crown corporation benchmarking study that compared various corporate and operational metrics results with the ICBC and MPI. This study was not available as part of this application process, but the Crown benchmarking comparison provided below was part of a public filing at the MPI 2022 General Rate Application.[52]

Crown benchmarking ensures a comparison of SAF to an appropriate peer group for benchmarking purposes. It was acknowledged by MPI, in undertaking the benchmarking, that there will remain instances where the size of operation or business model utilized by the Crowns differ. There were discrepancies in key performance indicators related to gross premiums written when comparing with ICBC, which is much larger in scale. A comparison of SAF, MPI, and ICBC using 2019-20 financial and cost structure illustrates the sizeable scale of operations of ICBC in contrast (see table next page).[53] However, this analysis does provide an understanding of how SAF compares with other Crown-owned insurance companies in Canada.

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[52] Manitoba Public Insurance 2022 General Rate Application Part III Benchmarking
[53] MPI 2022 GRA, response to PUB(MPI) 1-54

The Panel suggests that SAF provide a full comparative set of metrics when it comes to comparing itself to other insurance companies as the information would better assist the Panel as it makes its deliberations.

2019-20 Comparative Benchmark Report[54]

Performance Measurement	SAF	MPI Basic Compulsory	ICBC
Headcount Analysis			
1.FTEs per 100 Million of Gross Premiums Written	94.8	117.1	84.4
2. Mgmt. FTEs per $100 Million of Gross Premiums Written	10.5	7.7	9.4
3. Staff FTEs per $100 Million of Gross Premiums Written	84.2	109.5	75.0
Span of Control Analysis			
4. Ratio of Staff to Management	8.0	14.3	8.0
Premium Metrics			
5. Total Gross Expenses as a % of Gross Premiums Written	17.3%	13.0%	10.5%
6. Average Gross Premiums Written (000's)	962,705	1,143,935	3,578,822
7. Gross Premiums Written per FTE	1,055,028	853,767	1,184,844
8. Gross Premiums Written Growth	0.7%	6.9%	2.9%
9. Net Premiums Written as a % of Gross Premiums Written	90.0%	98.8%	100.0%
10. Total Net Expenses as a % of Net Premiums Written	17.5%	13.2%	10.5%
Policy Metrics			
11. Adjusted Policies In Force per FTE	1,031.0	857.5	1,274.1
12. Total Gross Expenses per Adjusted Policy In Force	177.2	129.9	97.8
Traffic Safety Measurements			
13. Total Traffic Safety Expenses (000's)	34,047	11,685	30,416
14. Total Traffic Safety Expenses as a % of Gross Premiums Written	3.5%	1.0%	0.8%
Other Performance Measurements			
15. Pure Loss Ratio	77.4%	73.6%	102.6%
16. Personal Lines Loss Ratio	77.4%	73.6%	102.6%
17. Loss Adjustment Expense Ratio	15.6%	12.1%	19.0%
18. Total Gross Expenses per FTE	183,000	111,364	124,547

[54] Consultant's Report, P. 105

The Impacts of the Proposed Rates

Impacts on the Customer

SAF's initial proposal was for a revenue-neutral rate rebalancing that would result in a net 0% change overall to the Auto Fund and that rates would be rebalanced to move each vehicle group closer to paying a sufficient amount to cover the cost of insurance claims for that group. Even with the commitment to a revenue-neutral rate rebalancing and rate capping, the Panel noted that some vehicle owners would receive significant increases including motorcycles, motorhomes and taxis.

The Panel has recommended that the application be updated to reflect the current financial trends and an effective date of January 21, 2022 rather than August 17, 2021. This change increases the overall rate level indication by 0.5% and by factoring in the updated MCT for 2021-22, the overall rate level indication is decreased in the range of -1.3%.

The Panel has recommended that the proposed rate cap be reduced from 15% to 10% for base premiums greater than $1,000 and that a sliding scale be implemented for base premiums up to $1,000. The Panel has traditionally considered rate increases of more than 10% to constitute rate shock. This will reduce the more significant increases in certain rate classes. The Panel recognizes that rates need to be capped at reasonable levels in each class to prevent rate shock for policy holders.

Reducing the cap increases the amount of cross-subsidization within the fund. This would increase premiums in the CLEAR category to offset the reduced revenues due to the caps applied to other vehicle categories. By recommending that the revenue shortfall be addressed through excess funds from the RSR, the CLEAR class will be less impacted by the recommended capping.

The Panel recognizes that SAF targets all of its customer classes to be within +/-5% of their adequate rate and this recommendation will not enable them to reach that target in this application. Rate classes that are not within this range can expect rate increases in the future to close the gap.

The Panel also recognizes that there are still outstanding issues involving SAF and the motorcycle and taxi communities. These issues cannot all be addressed through this application. SAF must commit to a meaningful engagement process with these communities to develop a consensus on the best approaches and solutions. Progress on these issues can be reviewed by the Panel in future applications.

Impacts on the Saskatchewan Auto Fund

The proposed rates and application were designed to be revenue-neutral for SAF. The recommended rates are slightly less than what was proposed, mainly associated with the growth in the RSR as a result of enhanced investment returns and reduced claims experience. Should the revenue shortfall from the revised cap be implemented, and recovered through the RSR, the CLEAR rating group will receive a modest rate reduction. This recommendation is in keeping with the original mandate of the RSR to hold funds to serve emergencies. Since seven years have passed since SAF's last rate application, the length of time has caused some vehicle groups to require higher premiums adjustments and others premium reductions. The use of excess funds from the RSR to fund the revenue shortfall resulting from the capping recommendation will alleviate the cross subsidy issue for certain vehicle groups, while at the same time, not impact SAF's business operations.

The RSR has a higher than predicted balance due to the global pandemic which led to fewer vehicles on the road and fewer accident claims. There was also a corresponding recovery in investment markets from the pandemic which led to significant increases in the RSR. Although the 2021 rebate program reduced this reserve, the RSR has continued to grow since the rebates were issued in May. SAF reported the May 2021 month end MCT ratio to be 178% and June 2021 month-end MCT ratio was 184% and the RSR at $1.224 billion.[55] This indicates that the rate can be capped lower without a financial impact on SAF.

The Panel recommends that SAF increases its engagement activities with two key stakeholder groups – motorcycles and taxis. The Panel expects that these recommendations will have a positive impact on the corporation as it begins to resolve rates and other issues with these communities.

Impacts on the Public

All Saskatchewan citizens are shareholders and have an interest in how SAF operates regardless of whether they are policy holders. Since the mandate of SAF is to be self-sustaining – with revenues and costs breaking even over time – and does not earn profits or pay dividends, the recommended adjustments will not have any effect on the public as shareholders.

[55] Response to IR#1-53

Role of the Saskatchewan Rate Review Panel

Authority

Through Order-in-Council dated December 22, 2018, the Minister of Crown Investments Corporation (the Minister) appointed a Ministerial Advisory Committee known as the Saskatchewan Rate Review Panel (the Panel), with the mandate that it shall:

> *… conduct a review and provide an opinion of the fairness and reasonableness of proposed Crown corporation rate changes, referred to the Panel by the Minister of Crown Investments Corporation; and incorporate as part of its mandate specific terms of reference for particular Crown corporation rate change reviews that may be attached by further Minister's Order.*

Whether in the original Order-in-Council establishing the Panel (437/2000 dated July 27, 2000), or in the Terms of Reference for particular reviews, the Panel has always been instructed to consider: "*…the interests of the customer, the Crown corporation, and the public*."

The mandate of the Panel extends to three Crown corporations in Saskatchewan – SaskEnergy, SaskPower and SGI's Saskatchewan Auto Fund. Serving as an advisory body to the Minister Responsible for Crown Investments Corporation, the Panel provides independent advice on rate proposals from the above-noted corporations. The final decision about these proposals continues to rest with the Saskatchewan government.

Members of the Panel

The following members have been appointed to serve on the Saskatchewan Rate Review Panel:

Chair	Albert Johnston, Saskatoon
Vice-Chair	Delaine Barber, Weyburn
Members	Glenn Dutchak, Canora; Bonnie Guillou, Saskatoon; Kim Hartl, Lake Lenore; Duane Hayunga, Prince Albert; and Keith Moen, Saskatoon

Panel's Terms of Reference

The Minister issued an Order on June 1, 2021 establishing the Terms of Reference guiding the Panel's review of the Saskatchewan Auto Fund Rate Rebalancing Application. The Minister's Order and the Terms of Reference for this application identified several factors that the Panel is to consider in conducting its review, as well as various parameters that are outside the Panel's purview. These parameters include:

- The compulsory insurance coverage provided by the Auto Fund through its legislative mandate;
- The Auto Fund is a public fund for motorists with no profit component required in pricing of the product;
- SGI CANADA and SGI CANADA Insurance Services Ltd. are separate commercial entities from the Saskatchewan Auto Fund and shall not be considered part of the Auto Fund rebalancing review;
- The existing program parameters of the International Registration Plan, SafeDriver Recognition Program and the Business Recognition Program;
- The terms of the approved Capital Management Policy and approved target capital levels;
- The vehicle risk groups used by the Auto Fund; and
- The accounting and operating policies and procedures used by the Auto Fund.

The Minister's Order for this review called for the Panel to complete its work no later than October 20, 2021.

Review Process for the Application

Consultant

Cathcart Advisors Inc. and Oliver Wyman were engaged by the Panel as independent technical advisers to review the fairness and reasonableness of SAF's proposed rate application, and to provide an independent report including recommendations that would be consistent with the Terms of Reference for the Panel's review of the application. The lead for Cathcart Advisors was Roger Cathcart and for Oliver Wyman was Paula Elliott.

At the direction of the Panel, the consultant conducted a detailed analysis of the application, asked two rounds of information requests and supplementary questions (all posted on the Panel's website), and had individual discussions with SGI staff to clarify specific points. The consultants reviewed public comments to the Panel, and participated in several meetings and conference calls with the Panel during the review process before presenting its final report to the Panel on September 28, 2021.

Public Consultations

The Panel invited public input for the application including:

- Submissions received by mail;
- Online messages received through the Panel's website;
- Messages received directly through the Panel's email address;
- Messages received through the Panel's toll-free voice mailbox; and
- Messages posted to the Panel's Facebook and Twitter accounts.

Virtual meetings were held on July 28 and 29, 2021, and a public meeting was held in Regina on August 16, 2021. Members of the public were also invited to view the public meeting online and type their questions from their computer, tablet or smartphone during the live broadcast.

All methods for public input were advertised in the two major daily newspapers, and information was disseminated through Facebook and Twitter. The application received news coverage immediately after it was announced. Copies of the application were available to the public at SGI's offices and on the Panel's website.

There were a significant number of public comments on this application, especially from those in the motorcycle community who expressed concern about the affordability of the increased rates. Here is a sampling of the comments:

I am writing to voice my opposition towards the proposed auto fund rate increases for motorcycles. Training and learner requirements are now (rightfully so) very high, requiring a training course and 3 years of graduated learners. The riders of today are much more highly trained and responsible than those in the past. Additionally, the rates for licensing motorcycles is becoming very unaffordable with some bikes at more than $4000 per year. These rates are not competitive or even comparable to neighbouring provinces like Alberta where they pay less than $1000 for the entire year. I urge you to please consider the cost burden you are placing on motorcycle riders and the damage to the industry and jobs for dealers and shops around the province.

I'm writing this on behalf of SGI's proposed rate increase regarding motorcycle insurance. Being very passionate about riding motorbikes in this province like so many others who also enjoy the thrill of the open road, I cannot understand the reasoning behind the rising rates which are crippling the industry in this province so much, and discouraging new riders on getting their licence.

I am writing in the hopes that you will rethink your rates for motorcycles. I haven't owned a motorcycle in 2 decades, the last decade has been solely because of the cost to register. That exact bike from 20 years ago actually cost more to register than now. Please rethink your rates and move them to be more in line with the rest of the country.

This year the taxi industry was thinking we would get a decrease in insurance and instead we are getting a hefty increase. SGI is evaluating previous years but a lot has changed in our industry. Ridesharing came to Sask taking 1000s of trips from the taxi industry... Plus as you were aware COVID came and destroyed the [taxi] transportation industry. it will take some time for taxi industry to come back but it will never be the same.

All submissions and video recordings of the public meetings are available on the Panel's website at www.saskratereview.ca.

In Appreciation

The Panel thanks SGI for the timely and helpful assistance it provided throughout this application.

The Panel thanks Cathcart Advisors Inc. and Oliver Wyman for their thorough analysis of the application.

The Panel thanks Gerry Forrest, our general consultant, for his ongoing assistance in the work of the Panel.

The Panel thanks technical writer Pat Rediger for his assistance in preparing this report.

Finally, the Panel wishes to acknowledge the members of the public who participated in the review process. All contributions were received and evaluated by the Panel during its decision-making process.

For More Information

For more information on this review, please visit the Saskatchewan Rate Review's website at www.saskratereview.ca. The site contains the SAF Rebalancing Application, SAF's public presentation on the application, the Panel's terms of reference, information requests to SAF and the responses, videos of the public meetings, public submissions and comments, the technical consultant's report, and the Panel's media releases.

Appendix A:

Technical Consultant's Report