CATHCART ADVISORS

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Review of
Saskatchewan Government Insurance
Saskatchewan Auto Fund
2021 Proposal for Rate Adjustment
Effective January 21, 2022

Prepared by

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For the

Saskatchewan Rate Review Panel

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EXECUTIVE SUMMARY

The Saskatchewan Auto Fund (SAF) filed a Rate Application on June 1, 2021.

The Minister's Order and Terms of Reference dated June 1, 2021, state that the Saskatchewan Rate Review Panel (the Panel or SRRP) is to conduct a review of the SAF Application for a rebalancing of vehicle insurance rates targeted for implementation on January 21, 2022. The Panel shall provide an opinion on the fairness and reasonableness of the proposed Auto Fund rate change subject to the Minister's criteria. The Panel engaged Cathcart Advisors Inc and Oliver, Wyman Limited to review the Application and submit this Report.

The SAF provides Basic universal insurance coverage to Saskatchewan residents.

SAF operates on a self-sustaining basis and does not receive money from nor pay dividends to the Government of Saskatchewan. SAF's ability to maintain stable rates is linked to maintaining an adequate balance in the Rate Stabilization Reserve (RSR) to pay future claims and protect customers against rate shock for years in which claim costs are higher than average.

In its Application, SAF requests that the SRRP recommend an overall 0.0% rate change effective January 21, 2022. The rate increase request is comprised of:

- an overall average 1.7% indicated rate increase; offset by
- a 1.6% decrease to the Capital Margin provision for all vehicles.

The primary factors impacting the +1.7% indicated rate change are increasing damage claims cost and administrative and other expenses, offset by improvements in the injury claims experience.

The purpose of the Capital Margin provision is to maintain an adequate balance in the RSR. To ensure an adequate balance in the RSR, SAF uses a standard industry measure called the Minimum Capital Test (MCT). SAF management has approved a target for the RSR: a 12-month rolling average MCT of 140%. The current embedded Capital Margin provision of 2.23% is being reduced by 1.6 ppt. to 0.56%.

The Application forecasts the total vehicle population to be 1,164,997 vehicles, of which 830,267 are CLEAR rated vehicles representing over 71% of the total vehicle population (or 88% excluding trailer vehicles).

SAF proposes rate capping to reduce (the shock of) significant percentage change and dollar amount increase to policyholders. The SAF rebalancing program is (uniquely) designed to shift the reduction in premium revenue due to the cap as an increase to the Canadian Loss Experience Rating (CLEAR) class of vehicles to achieve a revenue-neutral impact overall. This results in the CLEAR class of vehicles with a higher average premium than indicated from the actuarial analysis. SAF proposes a scaled cap of up to $150 for premiums up to $1,000 and a 15% cap for $1,001 or higher premiums.

Notable large indicated increases that benefit from the capping program are:

- motorcycles at +34.2% before capping, +11.9% after capping
- motorhomes at +134.6% before capping, +21.9% after capping
- Taxis at +37.9% before capping, +15.0% after capping

The CLEAR category average rate indication is -0.7% before capping, which increases to +0.8% (a 1.5 ppt increase) after the rebalancing.

The Panel can consider the SAF management's proposed capping and rebalancing scheme in the context of alternative capping options:

- No capping would result in very large increases for some classes but ensure adequate rates and no cross-subsidization between classes of vehicles.
- A lower cap limit; which would increase the cross-subsidization.
- A higher cap limit; which would reduce the cross-subsidization.
- A cap that varies by the indicated rate change level; the higher the indication, the higher the percentage cap. This would reduce the cross-subsidization.

The Panel should consider the fairness of the capping and rebalancing as a public policy issue and assesses if the proposed cap level and rebalancing, resulting in premium increases for CLEAR vehicles, is just and reasonable.

SAF includes an expense provision for each class in the indicated rates. SAF includes a total net expense provision of $136.67 per vehicle, an increase from the prior 2014 filing at $97.79 per vehicle. Most of the increase is attributed to administrative expenses (from $55.73 to $92.70). The increase in the administrative expenses is primarily attributed to the corporate transformation (CT) project costs, whereby a significant portion are treated as an expense rather than excluded from the rate indication calculations and separately treated as a capital cost.

A critical question for the Panel relates to fairness to current policyholders. The SAF proposal to include significant CT project costs in the proposed premiums raises intergenerational equity issues from a rating standpoint. Today's policyholders may not be the same policyholders who will benefit from the CT system changes in the future. The Panel may wish to consider the *fairness* to the current policyholder incurring these additional (administrative expense) fixed costs in the proposed premiums as an expense when the benefit of the corporate transformation would be longer term.

We recommend the Panel recommend SAF treat any longer-term project costs, such as the CT project, as capital costs and not expenses, for the purposes of the calculating the rate level change need; with a reduction in the overall rate level change by -0.9 ppt.

Following the March 11, 2020, World Health Organization (WHO) declaration of a global pandemic, a state of emergency was declared in Saskatchewan. COVID-19 "stay-at-home" orders and other directives led to a decline in economic activity and vehicle traffic, resulting in a decline in claim frequency. As the historical loss experience data used for this rate Application is through to March 31, 2020, there is an immaterial impact on the historical loss data.

However, the reduction in traffic and collisions since mid-March 2020 has resulted in lower loss amounts than originally assumed in the current premium levels, and the excess has increased both the RSR and MCT. However, the break-even margin and the Capital Margin provision in the Application did not use the updated forecast of the RSR/MCT. SAF estimates that substituting the more current MCT forecast would reduce the overall rate level indication by (a material amount of) 1.8 ppt (i.e., from +0.0% to -1.8%). We recommend the Panel request SAF to update the calculation of the overall rate change proposal so as to reflect the updated MCT for 2021/22.

We also recommend the Panel request SAF to update the application of the trends so as to reflect the actual effective date. This change would increase the overall rate level indication by 0.5 ppt.

The COVID-19 pandemic has created an excessive capital buildup and arguably should be considered a once-in-a-lifetime event. SAF filed RSR/MCT results for its first quarter ended June 30, 2021. As of June 30, 2021, the total RSR was $1,244 million, and the MCT was 184%, materially higher than the 140% SAF target. The capital management plan did not envision the massive excess capital buildup due to COVID-19. In addition to using the actual effective date in the rate indication calculations and MCT value in the calculations described above, the Panel may also wish to consider a return of this excess (pandemic driven) capital through a rebate that would provide a fair and timely return to policyholders.

SAF introduced a ridesharing rate effective December 14, 2018. Any shift in usage to TNCs away from taxis may reduce the usage of taxi vehicles by the public. Taxi industry representatives have indicated a sharp drop in the usage of taxis with the introduction of rideshare services. The SAF rate indication model has not incorporated this change in dynamics for the taxi industry. We recommend the Panel urge SAF to consider adjustments to the historical loss data to reflect this change in usage.

We recommend SAF file an updated rate indication and financial forecast that reflect the combination of Panel adopted recommendations presented in this Report.

As this Application represents the first full review for the Panel since 2013, the significant effort to review foundational data by the Panel challenged the process. We commend the effort of SAF staff to provide a vast amount of information in its Application and clarification of matters promptly. We understand the filing process is also new to some SAF personnel due to staff changes and lapse time. Despite these challenges, SAF staff and the Panel have adapted well to bridging the previous Application's information gap.

We believe the best way to build upon this review process and leverage future regulatory efficiencies is for SAF to submit annual rate applications. An annual process would:

- align rates with costs on a regular and timelier basis;
- minimize the degree of rate rebalancing compared to this Application;
- allow the Panel to understand and appreciate the need for operational changes that impact rates, including the CT project; and
- assist in ensuring Panel recommendations are addressed in a timely fashion.

An annual review is vitally important during SAF's CT project undertaking to achieve the operations transformation in an efficient and effective manner for both the customer and the corporation.

1.0 BACKGROUND AND APPLICATION OVERVIEW

In 1944, the province of Saskatchewan passed The Automobile Accident Insurance Act that provided Saskatchewan motorists with compulsory government-controlled automobile insurance. The legislation addressed an extreme shortage of private insurers willing to provide adequate automobile insurance coverage for Saskatchewan motorists. It began offering Basic compulsory automobile insurance coverage in 1946. The Saskatchewan Auto Fund (SAF) was established in 1984. Saskatchewan Government Insurance (SGI) was given the responsibility for administering this program on behalf of the province of Saskatchewan.

The SAF provides Basic, universal insurance coverage to Saskatchewan residents. Provides vehicle registrations, driver's licenses, basic minimum liability insurance required to operate a vehicle and coverage for damage to or loss of an insured's vehicle, subject to a deductible. Liability insurance provides for a specific amount to cover property damage and/or injuries caused to another person. The compulsory insurance package also includes injury coverage that provides an option to choose between No-Fault Coverage and Tort Coverage.

The SAF's business operation is restricted to the Province of Saskatchewan and is operated from SGI's head office located in Regina, Saskatchewan. The SAF operates 20 claims centers and six salvage centers in 13 communities across the province.

SAF also provides services to ensure that drivers and vehicles are properly licensed. These services include licensing for around 800,000 drivers, registration services for more than 1.2 million vehicles and trailers, driver examinations, driver and vehicle safety fitness programs, and safety and audit programs for carriers who transport goods or passengers. Services are provided through nearly 375 independent motor license issuer offices throughout Saskatchewan. The SAF also invests in traffic safety initiatives to reduce the human, social and economic costs of vehicle collisions.

SAF operates on a self-sustaining basis and does not receive money from nor pay dividends to the Government of Saskatchewan. SAF's ability to maintain stable rates is linked to maintaining an adequate balance in the Rate Stabilization Reserve (RSR) to pay future claims and to protect customers against rate shock for years in which claim costs are higher than average.

SAF's current corporate focus is on the corporate transformation (CT) project, which includes transforming technology, operations, and culture. In launching its CT initiative, SAF is focused on:

- Maintaining low, stable auto insurance rates;
- Maintaining a positive customer experience;
- Preventing deaths, injuries and property damage caused by traffic collisions;
- Improving long-term efficiency; and,
- Improving change management and leadership effectiveness.

The CT project and its impact on this rate application are discussed in detail in section 11.3 of this Report.

1.1 *SAF Coverages*

Compulsory coverage provided by SAF is legislated in The Automobile Accident Insurance Act by the Province of Saskatchewan and is divided into 3 components:

- Personal Injury coverage provides Saskatchewan residents with benefits if they are injured or killed in an automobile accident. Residents have a choice between No-Fault Coverage and Tort Coverage.

- Third Party Liability coverage provides vehicle owners with up to $200,000 to pay for damages that their vehicles may cause to other people or their property.

- Physical Damage coverage includes both collision and comprehensive coverage and pays for damages due to an accident or other occurrences such as hail, fire, theft, or vandalism. Such claims are subject to a deductible, which is currently $700 for most vehicles.

1.2 *SAF Rate Determination Principles*

In determining adequate premium rates, SAF embodies major operating philosophies of providing: Basic insurance coverage that is universal and fair; fairly rating insurance premiums for vehicle classes based on their claim loss experience and cost of repair; and keeping rates as low as possible.

The three required components comprising adequate premium rates are to ensure:

- Premium rates are sufficient to enable SAF to operate on a break-even basis over the long-term. SAF neither receives funds from nor pays dividends to the Province. Premium revenue along with investment income must cover all claim obligations and operating expenses.

- Fairness in rating by rebalancing rates to account for accident frequency and severity, including damage, injury, and liability costs for each class of vehicle. This involves assessment of the actual risk each vehicle represents for being involved in a claim and the actual costs of paying that claim. Customer rate shock is also considered by capping rates at a reasonable level; and

- Adequate capital is maintained by keeping the RSR at appropriate levels as determined by the MCT, and SAF Capital Management Policy (CMP). This will involve building into rates a capital maintenance provision combined with either a capital build or a capital release provision. The CMP and MCT is discussed in section 8.0 of the Report.

1.3 *2021 Application and Rate Impacts*

1.3.1 Application Summary

SAF requests the SRRP recommend an overall 0.0% rate change for SAF to be effective January 21, 2022. The rate increase request is comprised of:

- an overall average 1.7% rate increase; offset by
- a 1.6% decrease to the Capital Margin for all vehicles.

The rate request is to generate sufficient premium revenue to cover all forecast claim obligations and operating expenses, offset by investment income, for the proposed rating year (January 21, 2022, to January 20, 2023.)

The primary factors impacting the rate change are increasing damage claims cost and recent administrative and other expenses increases offset by improvements in the injury claims experience. These changes have resulted in an overall 1.7% increase in revenue requirement offset by the requested capital release for the Capital margin.

The Capital Margin is needed to maintain the balance in the RSR. The current embedded Capital Margin of 2.23% is being reduced by 1.6% to 0.56%. The combined impact of the 1.7% increase in the revenue requirement and the offsetting capital release results in this application's overall 0.0% rate.

1.3.2 Indicated and Proposed Rates by Vehicle Type

The following table presents the 2021 average indicated and proposed rate changes, including the Capital Margin adjustment, for each vehicle class:

2021 Average Rate Change (Indicated and Proposed with Capital Margin)

	Indicate	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%**

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.

As a result of capping of rate changes in other classes, CLEAR-rated vehicle rates are adjusted to offset any shortfall or excess. After accounting for this capping, SAF is recommending a decrease to CLEAR-rated vehicle rates of 0.9%.

Private passenger rates will be increasing by 0.7% (1.0% decrease with the Capital Margin). The current and proposed discounts and surcharges on private passenger vehicle rates for the remaining CLEAR-rated vehicle classes are as follows:

Vehicle Class	Current Discount/ Surcharge	Proposed Discount/ Surcharge	Overall Rate Change	Rate Change with Capital Margin
Class A – Commercial Light Trucks	70%	80%	19.1%	17.1%
Farm Light Trucks (1994-2003)	-25%	-39%	-17.8%	-19.2%
Farm Light Trucks (2004 & newer)	-25%	-27%	4.0%	2.3%
Farm Cars, SUVs and Vans	-20%	-15%	7.1%	5.3%
Police Cars	80%	53%	-10.8%	-12.2%
Police Trucks, SUVs and Vans	-19%	-7%	22.5%	20.5%
U-Drive (rental) vehicles	25%	25%	5.6%	3.9%
Rural Taxis	50%	50%	0.9%	-0.7%

Summing the damage, injury, liability, and flat fee premiums on a per vehicle basis produces the total premium for that vehicle. The adequate premium is then compared to the vehicle's current premium to determine the extent of dislocation. Capping then takes place to minimize rate shock on individual vehicle premiums. As SAF continues to adjust premiums each rate program, all vehicles will be moved closer to their adequate premiums, which results in fewer vehicles hitting the caps.

The issue of Capping and the impact on CLEAR vehicles is discussed in section 5.5 of the Report.

The minimum adequate premium that any CLEAR Private Passenger Vehicle (PPV) should pay prior to the capital margin and prior to any recognition program discount, is $520 comprised of the following components:

Component	Minimum Premium
Damage	$32
Injury	88
Liability	223
Flat Fees	178
Total Adequate Premium	$520

The changes proposed in this Application will 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 decreased for about 457,000 vehicles, or 54% will have an average decrease of $104 with a maximum reduction in rates $501 per year; and
- No premium change for 900 vehicles (or less than 1%) will experience no rate change with this Application.

The distribution of CLEAR-rated vehicles that are within +/-10% of adequate rates before and after the proposed 2022 rate program changes are shown in the following table:

CLEAR-Rated Vehicles within +/-10% of Adequate Rates

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%

1.4 *2022 Rate Capping and Rebalancing*

The table below illustrates the rate ranges and capping limits proposed in the Application, prior to the capital margin surcharge:

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

A more fulsome discussion of rate capping and rebalancing the impact of capping so as to achieve a revenue neutral impact is discussed in section 5.1.

1.5 *Rate Stabilization Reserve*

The financial excess or deficiencies of the SAF are recorded in its RSR. The RSR is like a savings account to cover emergencies. It ensures sufficient funds are available to pay claims in the event of higher-than-expected claim costs or lower-than expected investment income in any one year.

To ensure there is an adequate balance in the RSR, SAF uses a common industry measure called the Minimum Capital Test[1](MCT). The approved target for the RSR is to have a 12-month rolling average (based on average of last 12 months) MCT of 140%. As of March 31, 2020, the RSR was $806.7 million and the MCT was 145% while the twelve-month rolling average MCT was 156%.

The onset of the global pandemic for COVID-19, which the World Health Organization (WHO) declared on March 11, 2020, followed closely by a state of emergency declaration in Saskatchewan, resulted in a decrease in economic activity in 2020/21. The reduction in economic activity resulted in fewer vehicles on the road. It led to fewer accident claims throughout the year. Also, there was a recovery in investment markets from pandemic-related shock in 2019/20[2],which resulted in SAF recording investment income of $508.5 million in 2020/21. Investment income is discussed in section 13.3 of the Report.

In 2020/21, SAF recorded a $568.4 million increase in the RSR to $1,375 million and an MCT exceeding 190% before SAF declared a $285 million rebate. The rebate reduced the RSR to $1,090 million at March 31, 2021, and the actual MCT was 168%; the 12-month rolling average MCT was 179%.

SAF's analysis indicates that a Capital Margin of 0.56%, applied to all vehicles, was required. SAF proposed reducing the Capital Margin by 1.6% from the 2.23% reflected in current rates. After the change, SAF forecasts the RSR to be $1,129 million and the MCT to be 164% at March 31, 2022.

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[1] The MCT is discussed more fully in section 8.0 of this report. The MCT is a measurement of the level of capital held by the entity to the required capital for that entity. SAF's capital is held in a Rate Stabilization Reserve Fund (RSR).

[2] On March 11, 2020, COVID-19 was declared a pandemic by the WHO, the global equity markets contracted on the news hitting a market low on March 23, 2020, the last week of SAF's 2019/20 fiscal year. SAF experienced losses in investment portfolio. Investment income is discussed in section 13.3.

2.0 SASKATCHEWAN RATE REVIEW PANEL MANDATE

In the Minister's Order executed June 1, 2021, pursuant to Section 15 of The Executive Government Administration Act, the Minister of Crown Investments Corporation of Saskatchewan appointed a Ministerial Advisory Committee known as the Saskatchewan Rate Review Panel.

In accordance with Appendix A to the above noted Minister's Order (Schedule A: Saskatchewan Auto Fund Rate Increase and Rebalancing Proposal Terms of Reference), the Panel is tasked with conducting a review of SAF's request for an overall average rate increase and rate rebalancing for vehicle insurance rates effective January 21, 2022. The Panel is to review the fairness and reasonableness of SAF's proposed rate changes while considering the interests of the customers, the Crown Corporation, and the public.

In conducting its review, the Panel can engage suitably qualified technical consultants to assist and advise in the review of SAF's Application. The Panel's final report is not to include any information that could be refused disclosure by a government institution pursuant to Section 18 or 19 of The Freedom of Information and Protection of Privacy Act.

2.1 *Minister's Order and Terms of Reference*

The Minister's Order and Terms of Reference dated June 1, 2021, state that the Panel is to conduct a review of the SAF Application for a rebalancing of vehicle insurance rates targeted for implementation on January 21, 2022. The Panel shall provide an opinion on the fairness and reasonableness of the proposed Auto Fund rate change considering the following:

- The interests of the Crown Corporation, its customers and the public;
- Consistency with the Crown Corporation's mandate, objectives and methodologies;
- Relevant industry practices and principles; and
- The effect of the proposed rate change of vehicle insurance rates on the competitiveness of the Crown Corporation related to other jurisdictions.

In conducting its review, the Panel will consider the reasonableness of the proposed rate changes in the context of:

- a revenue neutral rate rebalancing;
- the Auto Fund's mandate to operate on a self-sustaining basis over time;
- the total forecasted premium revenue requirement by vehicle risk group including the assumptions, estimates and methodology used in forecasting premiums, investment income, claims and expenses for the basic (non-capital portion) rate indication being considered; and
- the objective of ensuring stability and fairness in vehicle insurance rating such that each vehicle class pays sufficient premiums to cover its anticipated claim costs to minimize cross

subsidization subject to capping of annual base premium changes to a maximum $150 if the base premium is $1,000 or less, or 15% for base premiums greater than $1,000.

As well, the Panel shall consider the following parameters as given:

- 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, Safe Driver 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.

In addition to providing its Application package, SAF is also to provide the Panel with any supplementary information that the Panel may require to fulfill its mandate and Terms of Reference.

The Panel shall determine a public consultation process for this rate rebalancing application that is appropriate and cost effective under the circumstances and within the timeline for the review as established by the Minister of Crown Investments Corporation.

The Panel shall provide members of the public with the opportunity to review and comment on the Auto Fund's rate rebalancing submission outside any public meeting, to the extent reasonable and within the timeline for the review as established by the Minister of Crown Investments Corporation.

The Panel shall provide an opportunity to the Auto Fund to make a presentation to it and to the public as the Panel considers appropriate to discuss noteworthy rate rebalancing issues.

The Panel shall, in a timely and efficient manner, forward to the Auto Fund for response, questions that the Panel receives from the public, individual Panel members and its technical consultant.

The Panel shall provide the Auto Fund with the opportunity and reasonable time to review the Panel's technical consultant's preliminary report prior to its finalization to ensure there is no error in data or in the interpretation of data. The preliminary report shall include the consultant's observations (e.g., outstanding issues and questions), but will not include the consultant's recommendations to the Panel.

The Panel must include in its report an explanation of how, in its opinion, implementation of the Panel's recommendations will allow the Auto Fund to achieve the performance inherent in the

parameters outlined in section (A), where the Panel's recommendations are different from the Auto Fund's proposed rate rebalancing.

Consistent with the "Confidentiality Guidelines" for the Panel, the Panel will not publicly release or require the Auto Fund to publicly release Confidential Information it has supplied to the Panel during the rate rebalancing application review.

The Panel is to release, as part of its final report, the results of the review of the SAF rate change request as conducted by an independent third party. By doing so the Panel shall ensure there has been no indirect release of any of SGI’s Confidential Information. The Panel is to present its report to the Minister of Crown Investments no later than October 20, 2021.

SGI CANADA and SGI CANADA Insurance Services Ltd. are separate entities from the SAF and are therefore not to be considered part of the SAF Application review.

Cabinet may implement any rate change adjustment on an interim basis pending receipt of the Panel's recommendation(s).

3.0 REVIEW PROCESS

The Panel retained the services of Cathcart Advisors Inc (CAI), and Oliver Wyman Limited (Oliver Wyman) (jointly referred to as the Consultants) to advise the Panel on the SAF 2022 Application. The Consultants received all documents related to the Application on June 2, 2021, and immediately commenced a detailed review. During the review process, substantial information was examined and tested. This included SAF's responses to 92 first round Consultant Information Requests (IRs) and 64 second round Consultant IRs. Various other information from SAF, the Panel, organizations and individuals were also taken into consideration in the preparation of this report. The main activities undertaken by the Consultants as part of their independent review are shown in the following table:

Dates	Activity
June 1/21	Application, including MFRs, received and review commenced.
June 10/21	Conference call with SAF and Panel to review Application.
June 11/21	Consultants Conference Call to discuss review process for Application.
June 21/21	Consultants submit First Round IRs to Panel.
June 24/21	Consultants submit First Round IRs to SAF.
July 9/21	SAF responds to First Round IRs and review commenced.
July 15/21	SAF & Consultants meet to review round First Round IR responses.
July 20/21	Teams meeting with Panel to discuss First Round IR responses.
Aug 3/21	Teams meeting with SAF and Panel to discuss First Round IR responses and Second Round IRs.
Aug 4/21	Consultants submit Second Round IRs to Panel.
Aug 18/21	SAF responds to Second Round IRs Consultant review of responses commenced.
Aug 23/21	Teams meeting with Panel to review Second Round IRs.
Aug 25/21	Teams meeting with SAF to clarify any outstanding issues.
Aug 31/21	Teams meeting with Panel to discuss final position.
Sept 9/21	Consultants submit draft report to Panel and abridged report to SAF.
Sept 14/21	SAF provides comments on abridged report.
Sept 14 /21	Teams Meeting with Panel to review draft report.
Sept 16/21	SAF provides additional comments on abridged report.
Sept 21/21	Teams Meeting with SAF to review comments in abridged report.
Sept 22/21	Teams Meeting with Panel to review and finalize draft report.
Sept 24/21	SAF provides final comments and edits on abridged report.
Sept 28/21	Consultants submit final report to Panel.

3.1 *Study Objectives*

The Consultants study objectives included:

- Reviewed SAF's Application and clarifications, to allow the Panel to fulfill its mandate;
- Identifying and evaluating feasible and appropriate alternatives to SAF's rate proposal;
- Assessing the reasonableness of the proposed overall rate increase given the nature of the industry, the insurance environment, the economic environment, and the interests of SAF's customers, the Crown Corporation, and the general public;
- Assessing the reasonableness and fairness of the proposed rate rebalancing across the various rating classes of vehicles, and within those classes, across the underlying rating classifications;
- Assessing the consistency of the Application with SAF's mandate, objectives, and methodologies as well as with general insurance industry practices; and
- Assessing the reasonableness of SAF's cross-Canada rate comparison.

4.0 PROGRAM CHANGES

4.1 *Safe Driving Recognition & Business Reward Program Changes*

Safe Driving Recognition Program Changes

The Safe Driver Recognition (SDR) program is an incentive program to promote safe driving. The SDR program provides discounts to SAF customers (excluding businesses) with safe driving records. The program also assesses penalties on drivers with a history of unsafe driving (at-fault collisions, traffic tickets, license suspensions), assessing financial penalties for drivers in the penalty zone on the SDR scale.

Since the last rate application in 2014, the SDR program has undergone extensive review based on an analysis and customer feedback. Changes to the program came into effect October 12, 2016, to both movements on the scale, penalties assessed, and discounts granted as follows:

- Under the changes, drivers with at-fault collisions where the cost of the claim is less than $700 result in a loss of four points on the SDR scale. At-fault collisions where the cost to SAF is $700 or more will result in a loss of six points. Previously no points were lost if the claim paid out was less than $305, while six points were assessed if the claim paid out was $305 or more.

- Minor speeding infractions would incur a penalty of two demerit points on the scale. Prior to this change, demerit points were assessed only if the driver's speed exceeded 35 km an hour over the posted speed limit or the driver was charged with speeding in a high-risk zone such as construction or school zones. SAF supported this change as past speeding infractions are predictive of future claims, so assessing points for speeding violations makes the driving record more accurate.

- Financial penalties in the penalty zone of the scale were doubled from $25 to $50 per point in the penalty zone, up to a maximum penalty of $1,000, except for specific Criminal Code conviction penalties.

- The reward zone of the safety rating scale was expanded where the maximum discount was increased from 20% to 25% for the safest drivers. They can now advance one point per year to a maximum of 25% discount on vehicle premiums.

The Safe Driving Recognition Program is discussed in the section 9.1 of this Report.

Business Recognition Program Changes

The Business Recognition (BR) program assesses businesses for adjustments to the Basic vehicle insurance rates based on the company claim history. The business will either be eligible for a discount, be subject to a surcharge or pay the base insurance premium with no discount or surcharge on its Basic vehicle insurance.

An analysis of the BR program was completed in 2014. Effective May 1, 2016, SAF made changes to the BR scale of discounts and surcharges and the loss ratio calculation.

The following changes were made:

- A reduction in the Maximum surcharge from 200% to 25% to address the disparity between the maximum surcharge and the 10% maximum discount;
- All customers can receive the maximum discount since there is no longer a claims-free requirement (0% loss ratio);
- The cap on claims included in the loss ratio calculation was increased from a cap of two times the annual premiums to the lower of three times the business' premium for the year or $50,000 (inflation-indexed); and
- Introduced pro-rated discounts/surcharges for businesses with less than five years of experience.

Effective May 1, 2017, SGI implemented additional changes to the BR scale.

- First, the neutral zone, the loss ratio range, where a business neither received a discount nor a surcharge, was moved from a loss ratio between 71%-80% to a loss ratio between 61%-70%. This change resulted in a shift in the discounts/surcharges for adjacent loss ratio ranges as well. This change was needed as the actual break-even level for a business customer on this scale is significantly lower than the previous 71%-80% loss ratio range;
- Losses included in this loss ratio calculation are capped, exclude non-collision claims and exclude not-at-fault claims; and
- The maximum eligible discount was increased from 10% to 15%.

With the changes to the program, participants' bonuses increased as a result. SAF paid out Business recognition bonuses of $11.6 million in 2016/17 before it made changes to the program. Business recognition bonuses were $18.8 million in 2020/21 based on the revised program.

The business reward program is discussed in the section 9.12 of this Report.

4.2 *Injury Coverage Changes*

The Province of Saskatchewan introduced legislation in 2016 for several recommendations put forward by SGI for changes to its auto injury coverage programs. Following consultation with and input from a variety of stakeholders and groups in 2014 and early 2015, including current and former auto injury customers, representatives from the medical, legal and insurance communities, an Injury Review Committee and Motorcycle Review Committee both representing a cross-section of stakeholders, SGI employees who work with the program, and close to 900 public survey respondents.

The changes made included improvements to both the Tort and No-Fault programs to better meet customers' needs by providing improved benefits for those most seriously injured, closing gaps in coverage for everyone involved in an auto collision, making changes to help keep coverage affordable, and addressing inconsistencies in coverage.

A full report of the approved recommendations can be found on the SGI website. Auto Injury Insurance Review SGI's Report and Recommendations dated October 2015.

Some of the notable recommendations implemented effective Jan. 1, 2017, include:

- When an impaired driver causes a collision and is killed, allowing an innocent party or the family impacted to sue for pain and suffering or bereavement damages (No-Fault and Tort Coverage).
- Expanding the list of offences that trigger the ability for an innocent party to sue for pain and suffering or bereavement damages to include criminal negligence causing death or bodily harm, criminal negligence causing bodily injury, flight from a peace officer and dangerous operation while street racing (No Fault and Tort Coverage).
- Ensuring Tort income benefits maintain pace with minimum wage (Tort Coverage).
- Paying pre-judgment interest or interim payments on permanent impairment benefits (No Fault Coverage).
- Additional funding for more than one specialized vehicle for the catastrophically injured (No-Fault Coverage).
- Providing a recreation allowance for the catastrophically injured (No-Fault Coverage).

The following two recommendations were put into effect on May 1, 2021:

- Updating amounts paid for living expenses to reflect current market rates, increasing the overall amount available for assistance to those with cognitive impairment and implementing a process to regularly review the amounts for alignment with market rates (No-Fault Coverage); and
- Ending the practice of reducing income benefits by the amount a customer receives through Canada Pension Plan (CPP) disability (No-Fault Coverage).

The overall indicated rate change is increased by 1.3%, a $13 million impact due to all the injury coverage changes above.

4.3 *Motorcycle Changes*

Motorcycle Reduced No-Fault Coverage

As a result of a Motorcycle review held in 2013, SAF has proposed changes in the motorcycle rating scheme. SAF introduced in April 2016, a new No-Fault Coverage option for injury coverage for motorcycle owners. The Reduced No-Fault Injury Coverage is a Basic package of injury benefits available to motorcycle owners. It provides fewer injury benefits in the event of a collision. The new offering provides the same benefits as the current 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.

The Reduced No-Fault Coverage receives the following premium discount, depending on the engine size of their motorcycle:

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

Motorcycle Graduated Driver Licensing program

SAF made changes to its Motorcycle Graduated Driver Licensing (MGDL) program effective June 15, 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. The MGDL program has three stages (Learner, Novice 1 and Novice 2) and riders are subject to a $500 fee for each level for a total of $1,500. The entrance fee is waived upon successful completion of an SGI-approved motorcycle safety training course. In addition, riders who complete the training course and graduate from the program without any incidents receive a $450 training rebate.

4.4 *Transportation Network Company (TNC)*

Regulations allowing ridesharing in Saskatchewan took effect December 14, 2018. Rideshare drivers can use private passenger vehicles to transport passengers for compensation. The transportation network company (TNC) must purchase insurance covering its affiliated drivers and vehicles while ridesharing. Rideshare drivers are not required to purchase additional insurance.

The TNC's insurance premium is calculated based on the number of kilometres (km) travelled while drivers are engaged in ridesharing using the TNC's mobile application. The per kilometres rate starts when a driver is matched with a customer and is on the way to pick the customer up and continues until the customer exits the vehicle. The current rate of 11 ¢/km has been established based on the insurance costs and kilometres driven of passenger-for-hire vehicles in Saskatchewan and Alberta.

There are no changes proposed in this rate program. However, the TNC rate will be reviewed by SAF and included in future rate programs as data is gathering on the experience of rideshare vehicles.

4.5 *Proposed Program Changes*

4.5.1 Refined Motorcycle Engine Size & Model Year Categories

SAF also proposes expanding the number of engine size groups and adjust the model year groupings in this Application. This refinement of the engine size ensures that the rate charged is more closely tied to specific engine size. The change will avoid significant transitions in rates found under the current scheme. For example, a motorcycle with a 400CC engine displacement would attract a rate that would increase by about $1,000 in premium for a similar size 410 CC engine motorcycle under the existing scheme. The refinement to the engine size and model year groupings will result in an incremental increase in insurance costs now closer to $200, which will correspond better with the actual level of risk.

4.5.2 Permit Indication Changes

SAF offers permits for light passenger vehicles and motorcycles that allow individuals to drive an unregistered qualifying vehicle for short periods. The types of permits available are 24-hour, 8-day, 7-day in-transit permits and 7-day Temporary Insurance Cards (TIC).

Permit fees have not changed in more than 20 years. SAF proposed changes to the permit rates in this rate application. The rate adequacy of these permits was measured for the first time.

Permit Type	Current Rate ($)	Proposed Rate ($)	Change ($)	% Proposed Rate Change
24-Hour	5	11	6	120.0%
8-Day	24	49	25	104.2%
In-transit	17	30	13	76.5%
TIC	11	27	16	145.5%

Permit indication changes are discussed in section 5.7 of this Report.

4.6 *SAF Administrative Fees*

Many of the administration fees charged for services delivered by the SAF had not changed in more than ten years. As part of the 2014 rate program consultant's report, it was suggested the Auto Fund review these fees. The fees were reviewed in 2016 and updated so that the associated costs are primarily covered by the customer using the service. Fee changes were capped at $75 to limit potential financial hardship to customers.

Most of the fee changes became effective January 1, 2017, with certain changes becoming effective later that year. A full listing of fee changes is provided in Appendix A to this report.

4.7 *Historical Rate Changes*

From 2001 to 2019, SAF had a compounded rate adjustment change of 5.03%, while the Saskatchewan Consumer Price Index (CPI) cumulative percent change for the same period was 48.65%. The following is a summary table of rate and CPI adjustments over the last 19 years along with notable points through this period:

Summary of Rate Adjustments vs. CPI

Year	Annual Rate Adjustment	CPI Year-Over-Year Change	Comments
2001	0%	3.00%	Introduction of SDR program rewarding safe drivers. In 2013, discounts totaled $93 million, equal to an 11% rate reduction.
2002	0%	2.90%	
2003	0%	2.30%	
2004	0%	2.20%	Introduction of BR program rewarding businesses with discounts. In 2013, discounts totaled $7 million.
2005	0%	2.20%	
2006	0%	2.10%	Refunded $44 million in excess RSR funds to 520,000 customers, an average $84 rebate.
2007	(7.10) %	2.80%	Refunded $100 million in excess RSR funds to 540,000 customers, an average $185 rebate. Rate decrease included rate rebalancing.
2008	0%	3.30%	
2009	4.20%	1.00%	Rate increase included rate rebalancing.
2010	0%	1.40%	
2011	0%	2.80%	
2012	1.60%	1.60%	Rate increase included rate rebalancing.
2013	2.27%	1.80%	Rate change included 1.03% rate increase with rate rebalancing and a 1.23% RSR surcharge.
2014	4.42%	2.40%	
2015	0%	1.60%	
2016	0%	1.10%	
2017	0%	1.70%	
2018	0%	2.30%	
2019	0%	1.90%	
Compound Change	5.03%	48.65%	

4.8 *Cross-Canada Rate Comparison*

SAF provides a cross-Canada rate comparison. The comparison is to determine how much a driver would pay for auto insurance in each Canadian jurisdiction, given their current vehicle, driving record and claim history. The comparison obtains rates for 34 vehicle and driver profiles in 18 cities across Canada to represent a cross-section of major centers, rural communities, and northern communities to get a geographic representation within each province. Most cities were selected in 2005 by the utility Crowns and Crown Investments Corporation (CIC).

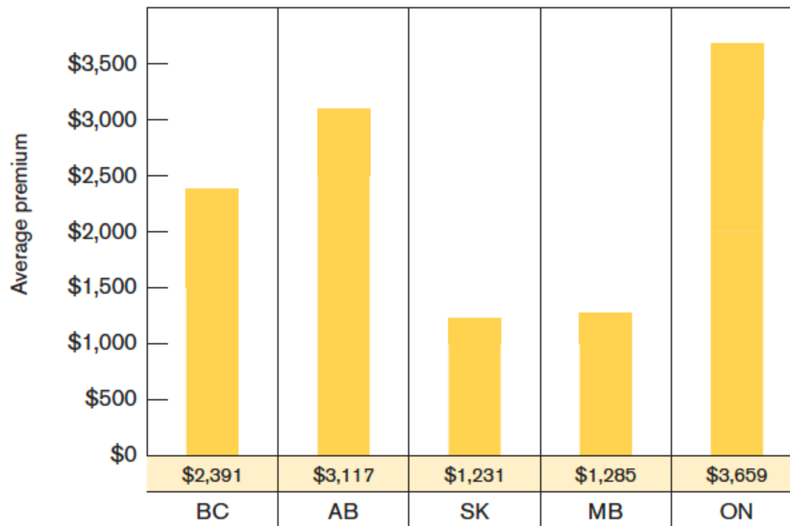
For the 2020 comparison, SAF selected the vehicle makes and models based on the highest number of registrations in Saskatchewan for 2019. The comparison provided has changed from the 2014 Rate Application due to the loss of access to comparison data from New Brunswick, Prince Edward Island, Nova Scotia, Newfoundland & Labrador and Quebec.

Comparing auto insurance rates across different jurisdictions is always a challenge due to differing population and traffic density, road infrastructure, vehicle mix, insurance coverage and weather. SAF has attempted to minimize these variables by standardizing the vehicles, profiles and coverage levels

used for liability and physical damage coverage. 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. They offer similar Basic, compulsory insurance programs supplemented by competitive optional coverage, similar to Saskatchewan's program.

Based on the survey, 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 demonstrated in the following graph:



4.8.1 Observations on Cross-Canada Rate Comparison

Comparing premiums between the Crown Corporation provinces and non-Crown Corporations provinces is challenging for a multitude of reasons – key of which are differences in the level of benefits included in the coverages, driving environment (weather, road conditions and traffic density), and operational expense/profit structure. Most notably, the Crown Corporations operate under a not-for-profit basis with a lower operating expense structure. Comparison to the average premium for private passenger vehicle risks may be more meaningful amongst the Crown Corporation with similar coverage benefit levels and expense/profit structures. On this basis, as provided by the SAF comparison, the SAF 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 be more comparable in the future to SAF.

However, the degree to which either MPI or ICBC include a build-up or draw down of their MCT level will influence their average rate level. Specifically, if MPI and ICBC have materially higher or lower MCT levels than SAF – this affects both the current rates and potentially future rate level changes.

A large driver of the premium cost are the expenses. Metrics on the operational costs and efficiency amongst the Crown Corporations would be meaningful: average expense costs per vehicle – with and without traffic safety and government medical fees, the number of employees per $100,000 of premium, etc.

SAF's rate comparison to non-Crown Corporation provinces includes Alberta and Ontario; and presents notably higher average premiums in those provinces than the Crown Corporations. In Alberta and Ontario, operating under a competitive environment with several insurers, there is a wide range of rates between insurers; however, the comparison does not reflect this. As Ontario and Alberta include a margin for profit and higher operating expenses (e.g., broker commissions at 12.5%, plus contingent commissions), this adds to the average premium cost in those provinces. While the profile comparison approach used by SAF can be meaningful, it does not give a fulsome picture.

In SRRP (SAF) 2-8, SAF was asked to provide a comparison that encompasses all private passenger vehicles, not just the 34 selected profiles, as the average written premium reported in Ontario by the General Insurance Statistical Agency (GISA) is $1,634, markedly less than the average in the SAF profile comparison of $3,659. In response, SAF referenced a rate comparison summary provided by GISA (www.gisa.ca/keymeasures) with SAF's comparable private passenger vehicle average premium at $1,071, while the 2019 average earned premium in Alberta is $1,360, NB is $904, NL is $1,204, NS is $939, PEI is $839, and the combined Yukon, NWT and Nunavut is $906.

The average premium for private passenger vehicles differs between the provinces for many reasons, some of which includes:

- Benefit and coverage levels differences
- No-fault versus tort product
- 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

Readers of rate comparisons between provinces should consider that there are many reasons why the average premium varies amongst the provinces.

5.0 RATEMAKING OVERVIEW

5.1 *Governance*

SGI's Governance and Policy statement is, "The Saskatchewan Auto Fund is the province's compulsory auto insurance program, operating the driver licensing and vehicle registration system. The Auto Fund is financially self-sustaining, operating on a break-even basis over time. It does not receive money from, nor pay dividends to, the government."

The actuary is tasked with determining the rate level need for the Auto Fund that is consistent with both the SGI Governance and Policy statement, as well as the Canadian Institute of Actuaries (CIA) Standards of Practice (SOP) for ratemaking. Section 2610.06 of the CIA SOP specifically states the SOP for ratemaking applies to quasi-insurers, such as Crown Corporations: "Federal or provincial crown corporations or agencies acting in a capacity similar to a property and casualty insurer."

In Section 2620.01 and 2620.02 of the CIA SOP the Method for the actuary is outlined:

> "The best estimate present value of cash flows relating to the revenue at the indicated rate should equal the best estimate present value of cash flows relating to the corresponding claim costs and expense costs, plus the present value of a provision for profit, over a specified period of time."
>
> "The actuary should select appropriate methods, techniques, and assumptions recognizing that such elements depend on the circumstances affecting the work and that a variety of actuarial methods may be appropriate to derive an indicated rate."

The CIA SOP is not prescriptive as to methods or assumptions for the actuary to determine the "best estimate."

In preparing work for external users, the actuary is required to provide a signed and dated report that states the work is consistent with accepted actuarial practice (AAP), or if not, explain any exceptions.

5.2 *Attestation and Opinion of the Actuary*

SAF's pricing actuary provides a certification with the Application and attests that the ratemaking process is consistent with AAP. Specifically, the certification states:

> "This filing is in respect of all classes/categories of automobile insurance, to be effective as of **January 21, 2022,** for both new and renewal business. {Emphasis added}
>
> I have reviewed the data underlying this rate application for reasonableness and consistency, and I believe the data is reliable and sufficient for the determination of the **indicated rate** changes. {Emphasis added}
>
> I have derived the indicated rate(s) in accordance with Accepted Actuarial Practice in Canada.
>
> In my opinion, the **indicated risk** classification system is just and reasonable, reasonably predictive of risk and distinguishes fairly between the classes." {Emphasis added}

We observe that the attestation is based on an effective date of January 21, 2022. As we discuss later in this report, the indicated rates are calculated assuming an earlier effective date of August 17, 2021.

The actuary's opinion applies to the "indicated" rates, not the proposed rates. If the management team apply other rules, such as capping or rebalancing, that results in the proposed rates being different than the indicated rates, the actuary's opinion of the rates being "just and reasonable" does not apply to those proposed rates.

5.3 *Ratemaking Process*

Ratemaking can be described as the process of determining the required average rate level for a portfolio of risks in aggregate, as well as the rate level need for the individual classes within that portfolio of risks.

Typically, to calculate the rate level for an insurance company, the actuary estimates (i) expected claims costs and associated claims handling expenses for the proposed period of time the rate program will be in effect, (ii) non-claim related expected expenses, (iii) expected investment income on the cash flows associated with the timing between when premiums are collected, and claims are paid, and (iv) a provision for profit.

As the Auto Fund operates on a break-even basis and is not intended to set rates to make a profit, there is no provision for profit included in the rates. Instead, the Auto Fund includes two other components: a capital management plan provision and a break-even provision.

The Auto Fund's capital management plan provision includes two parts that are associated with the MCT[3] : (i) maintenance of the MCT level as the number of risks insured with SAF is expected to change over time and (ii) an adjustment to either build or release capital to achieve the target MCT level that has been set by the Auto Fund's management team. In this Application, SAF calculates the capital management plan provision to be 0.56% of premiums. This is a decrease of 1.63 ppt from the current provision (in the current rates) of +2.23%.

The break-even provision accounts for the investment income on the RSR (that is integral to the MCT), as well as other revenues such as surplus premiums from retained amounts for cancellations. In this Application, SAF calculates the break-even provision at -5.1%.

The indicated rate level change, before the capital management plan provision, is calculated as the percentage difference between the indicated average premiums compared to the average premiums at the current rate level. SAF calculates this to be an average of +1.7% on an overall basis.

In this Application, SAF estimates its overall rate level change need is a +0.0% change. This is based on the indicated overall rate level increase of +1.7% combined with the capital management plan provision, a decrease of -1.6%.

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[3] The MCT is discussed more fully in section 8.0 of this report. The MCT is a measurement of the level of capital held by the entity to the required capital for that entity. SAF's capital is held in a Rate Stabilization Reserve Fund (RSR).

In section 6 we discuss the ratemaking analysis (data, assumptions, and methods) of SAF to calculate the rate indication.

5.4 *Classes of Risks and Coverages*

SAF has four major classes of risks:

1. **CLEAR** 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** is self-explanatory, with separate subcategories aligned to other vehicle classes.

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

SAF's ratemaking methodology:

- Is based on the objective that the indicated rate level for each vehicle class is just sufficient to meet its expected claims, expenses, capital management plan provision, offset by investment income and the break-even provision.

- Determines rate indications for each class of automobile, such as private passenger vehicles, ambulances, etc.

- Analyzes the expected claims costs for each coverage for each class separately.

- Includes both a variable and fixed expense costs for each class; with some differences in the fixed provision amongst the classes.

- Includes a break-even provision of -5.1% of premiums.

- Includes a capital management plan provision adjustment of -1.6% of premiums that is applied after the separate rate capping and rebalancing step described in section 5.5 below.

A complete list of vehicle classes within each of the four major categories, along with the rate indication metrics, before and after capping, is presented in Appendix A of the Application.

For each class of vehicle, the same coverages and benefits[4] are included in the annual premium that is determined for each vehicle. There are 21 sub-coverages analyzed by SAF that can be

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[4] Exceptions apply to some classes such as snowmobiles and trailers.

categorized into three groups: (i) damage to the vehicle or other property, (ii) injury, care, medical, permanent impairment, and death benefits and (iii) income replacement. Less than 0.5% of policyholders opt for the tort-based policy, with the majority of policyholders choosing no-fault coverage.

5.5 *Rate Capping and Rebalancing*

The purpose of rate capping is to reduce (the shock of) large percentage change and/or dollar amount increases to policyholders. The SAF rebalancing program is (uniquely) designed to shift the reduction in premium revenue as a result of the cap as an increase to the CLEAR class of vehicles. This results in a revenue neutral impact on an overall basis, while the CLEAR class has a higher average premium than indicated from the actuarial analysis.

Rate capping is applied after the indicated rate level change is calculated. The proposed cap level, manner of capping, and rebalancing program is a decision made by SAF's management team.

SAF proposes a capping program of up to $150 for premiums up to $1,000 and 15% for premiums of $1,001 or higher. This tempers the impact of large percentage rate changes.

SAF proposes dollar cap be scaled as follows for premiums less than $1,001:

- cap of $25 for annual premium between $1 and $50
- cap of $50 for annual premium between $51 and $100
- cap of $75 for annual premium between $101 and $250
- cap of $100 for annual premium between $251 and $500
- cap of $125 for annual premium between $501 and $750
- cap of $150 for annual premium between $751 and $1,000

For those risks with lower premium levels, the dollar cap implies higher percentage increases than the +15% for premiums greater than $1,000. For example, a risk with a current premium of $251 could see an increase of up to $100, or +40%.

Notable large indicated increases that benefit from the capping program are:

- motorcycles at +34.2% before capping, +11.9% after capping[5]
- motorhomes at +134.6% before capping, +21.9% after capping
- Taxis at +37.9% before capping, +15.0% after capping

[5] In these examples, the capped change is further adjusted by the capital management plan margin of -1.6%.

Any calculated reduction in the overall revenue due to capping is rebalanced with an offset to the CLEAR vehicles. In this application, before capping, the CLEAR category rate indication is -0.7% which is then increased to +0.8% (a 1.5 ppt increase) after the rebalancing.

The Minister's Order directs the Panel to consider the reasonableness of the proposed rate rebalancing in the context of:

(i) A revenue neutral rate rebalancing;

(ii) The Auto Fund's mandate to operate on a self-sustaining basis over time;

(iii) The total forecasted premium revenue requirement by vehicle risk group including the assumptions, estimates and methodology used in forecasting premiums, investment income, claims and expenses for the basic (non-capital portion) rate indication being considered; and

(iv) The objective of ensuring stability and fairness in vehicle insurance rating such that each vehicle class pays sufficient premiums to cover its anticipated claim costs to minimize cross subsidization subject to capping of annual base premiums changes to a maximum of $150 if the base premium is $1,000 or less, or 15% for base premiums greater than $1,000.

The Panel can consider the SAF management's proposed capping and rebalancing scheme in the context of alternative capping options:

- No capping; which would result in very large increases for some classes, but ensure adequate rates and no cross-subsidization between classes of vehicles.
- A lower cap limit; which would increase the cross-subsidization.
- A higher cap limit; which would reduce the cross-subsidization.
- A cap that varies by the indicated rate change level; the higher the indication, the higher the percentage cap. This would reduce the cross-subsidization. In response to SRRP (SAF) 2-34, SAF states it could facilitate a cap that varies.

In response to interrogatories, SRRP (SAF) 1-37(b), SAF estimates how many risks would be outside of the indicated rate with alternative capping levels. Under the proposed cap scheme, 93% of the risks are within +/-5% of their adequate rate. At a +10% cap, SAF estimates that 83% of the risks would be within +/-5% of their adequate rate.

In addition to the percentage and dollar amount cap, the Panel is directed to consider the reasonableness of the rebalancing due to capping proposed by SAF. In response to SRRP (SAF) 1-37(d), SAF calcuates the indicated overall rate level change of +1.7% (for all vehicle types and before the capital management provision) would reduce to +0.8%[6], if there was no rebalancing. The proposed rebalancing (that results in an 1.5 ppt increase to the CLEAR category vehicles, from

[6] After consideration of the capital management provision, -1.6%, the overall rate level change of +0.0% would reduce to -0.8%.

-0.7% to +0.8%) could be rejected in entirety or tempered (e.g., only 50% shift in the reduction in revenue to CLEAR) by the Panel.

The lapse in time since the prior 2014 Application has resulted in large indicated percentage changes for many classes. Instituting annual reviews in the future would minimize application of caps to a large percentage of vehicles.

The Panel must consider the fairness to the CLEAR vehicle drivers of a 1.5 ppt increase due to reduced revenues as a result of the caps applied to other vehicle categories.

5.6 *International Registration, Safe Driver and Business Recognition Programs*

The Minister's Order, dated June 1, 2021, includes Appendix A, Terms of Reference. The Terms of Reference for this review instruct the Panel to take as given the existing parameters of the International Registration Plan, the Safe Driver Recognition (SDR) and Business Recognition (BR) programs. Accordingly, these programs are outside of the scope of review of the Panel's Consultants. As these programs provide a *relative* adjustment (i.e., surcharge or discount) to the rates, unlike the overall rate level indication, an annual review is not necessary to be within AAP. The SAF's actuary describes its recent review and changes to the Safe Driver program effective October 2016 and Business Recognition in May 2016 and May 2017 in the Application; and the estimated revenue impact from the surcharges and discounts from these (updated) programs are included in the rate indication model.

We expect the average discount for these programs to increase due to COVID (due to the reduction in driving and accidents). While this would have an immaterial impact of on the overall rate level indication, as the shift would affect both the current and proposed rate programs, SAF does not discuss this dynamic in the Application.

5.7 *Significant Changes*

In addition to the changes to the SDR and BR programs, the following are a list of significant changes since the prior 2014 filing that affect the calculated rate indication.

Injury Coverages:

In 2016, legislation was introduced for changes to the auto injury coverages to both the fault and no-fault programs. Most of the changes were effective on January 1, 2017, with 2 changes recently introduced effective May 1, 2021. These two new changes are:

- Updating amounts paid for living expenses to reflect current market rates, increasing the overall amount available for assistance to those with cognitive impairment and implementing a process to regularly review the amounts for alignment with market rates (No Fault Coverage).
- Ending the practice of reducing income benefits by the amount a customer receives through CPP disability (No Fault Coverage).

SAF estimates all these changes add $13 million in costs and contribute +1.3 ppt to the overall rate level indication.

Motorcycle Reduced No Fault Coverages:

In April 2016 the option of a reduced no-fault injury coverage – when the motorcyclist is responsible for a collision or is involved in a single vehicle accident was introduced. The motorcycle rates are reduced with a discount of 5% for motorcycles 100cc and less, 20% for motorcycles 101cc – 400cc, and 30% for motorcycles 401cc and higher. SAF states the true cost will be known once there is enough loss experience and finds the current discounts to be supported. Under the circumstances of limited data for a new change, we find this approach to be reasonable.

Insurance Bureau of Canada (IBC) CLEAR Tables:

The IBC produces vehicle rate group tables which assigns each vehicle a score value regarding the repairability and damageability of the vehicle; these tables are referred to as CLEAR tables. Each score value is assigned a numeric factor that differentiates the premium level amongst different vehicle types.

SAF updated from a 16-year to a 21-year CLEAR table in 2017, with continued updates in 2018 and 2019. No update was done in 2020 due to COVID-19. SAF modifies the factors for older model years, with a revenue neutral result. Dislocation for any individual is tempered by SAF's proposed +15% capping limit. We find SAF's approach for CLEAR tables to be reasonable.

Motorcycle Graduated Driver License Program (MGDL):

The MGDL program has three stages: Learner, Novice 1, and Novice 2. Effective June 15, 2016, motorcyclists are charged a $500 fee at each stage, for a total of $1,500. The fee is waived with successful completion of an SGI-approved training course by the motorcyclist; and those without suspensions, traffic convictions or at-fault collisions are provided a $450 rebate. The impact of these fees and rebates are applied to all vehicle classes through a variable expenses provision. We discuss the expense provisions more fully in section 6.

Permit Indication:

SAF offers 4 types of permits: 24-hour, eight-day, seven-day in-transit permits and seven-day TIC. It is only in the case of the eight-day permits where the usage has increased exponentially in the last ten years. (Coincident with this increase in the 8-day permit is a decline in the number of motorcycle policies.) The permit fees include a registration fee and an insurance fee. With few exceptions, there is no limit to the number of permits that can be purchased for vehicles that do not require an inspection. As a result, the usage of the vehicle during the activation of the permit may be higher than typical usage for a vehicle registered and insured on an annual basis.

Permit fees have not been adjusted in more than 20 years; with the current insurance portion for each of the 4 types of permits less than $25. As such, large percentage changes are indicated for permits in this Application:

- 24-Hour indicated change is +123.7%, and proposed change is +120.0%
- 8-Day indicated change is +180.0%, and proposed change is +104.2%

- In-Transit indicated change is +76.6%, and proposed change is +76.5%
- TIC indicated change is +149.7%, and proposed change is +145.5%

Ridesharing/Taxis:

Effective December 14, 2018, ridesharing regulations allowed drivers to use their private passenger vehicles to transport passengers for compensation without requiring additional insurance beyond their basic plate coverage within the light vehicle class. The rideshare company must purchase insurance that covers its affiliated drivers and vehicles *while* ridesharing; with the premium based on the kilometers driven. The insurance rate was initially set at 11 ¢/km, and given the limited data at this stage, the ridesharing insurance rate will be reviewed and included in future rate programs as data is gathered on the actual experience.

In addition to the Basic insurance coverage, TNCs must also purchase a minimum of $1 million in additional third-party liability insurance to cover all its affiliated drivers and vehicles.

Any shift in usage to TNCs away from taxis may reduce the usage of taxi vehicles by the public. Taxi industry representatives have indicated a sharp drop in the usage of taxis with the introduction of rideshare services. This change in dynamics for the taxi industry has not been incorporated by the SAF rate indication model.

Large Losses:

New to this application is an adjustment to smooth the impact of large losses that vary in degree from year to year. SAF identifies a threshold for loss amounts for injury coverages by class of business, then loss amounts over that threshold are excluded from the specific accident year[7] loss amounts – subsequently referred to as the capped loss amount. Various averages of the historical percentage of the uncapped to capped losses are considered by SAF; then a selected percentage is applied to the capped loss amounts. The selected percentage is referred to as the large loss adjustment factor.

Based on the distribution of large loss amounts, SAF chooses three class groupings: CLEAR, motorcycles, and all-other. Giving consideration to the stability of the loss experience, SAF selects different large loss thresholds for each of the three class groupings for the injury coverage.

In response to SRRP (SAF) 1-27(e), SAF calculates the overall rate level indication remains effectively unchanged (+/-0.1ppt) if the large loss adjustment procedure was removed; however, the impact would vary by class of business.

The use of the capped accident year loss data smooths out anomalies when determining the loss trend rates, which we discuss in section 6.

We find SAF's smoothing *technique* for large losses to be appropriate. However, we do have a concern that the historical data exhibits an unusual pattern of large losses only from the older accident years. For example, for the care benefit for CLEAR vehicles, in the fifteen-year period from 2006 to 2020 there were no large losses in the most recent 7 years. SAF explains that it is due to the

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[7] Accident year loss amounts refers to the cost of claims for events that *occurred* in that year.

nature of the claims that fall into the category of “large losses” that the emergence of relevant information is often several years into the claim settlement process.

As presented in the table below, as prepared by SAF, the CLEAR vehicle care benefit large losses are in the older accident years, from 2006 to 2013, and there are no large losses from 2014 to 2020. As well, there is notably lower ultimate loss amount for years 2014 to 2020 – with or without large losses- compared with 2006 to 2013.

We do find the difference in the estimate of the ultimate loss amounts and number of large losses between the older accident years and more recent accident years unusual. Any mis-estimation by SAF of the ultimate loss amounts would affect the rate level indications.

		CLEAR		
Fiscal Year	**Cover Code**	**Ultimates**	**Excess**	**Net Excess Ratio**
2006	CareBen	48,739,526	14,592,729	42.74%
2007	CareBen	43,974,933	3,048,952	7.45%
2008	CareBen	55,901,005	10,015,927	21.83%
2009	CareBen	63,221,090	2,020,045	3.30%
2010	CareBen	51,988,409	6,340,695	13.89%
2011	CareBen	47,912,650	524,884	1.11%
2012	CareBen	35,070,822	-	0.00%
2013	CareBen	29,957,921	1,299,370	4.53%
2014	CareBen	28,901,086	-	0.00%
2015	CareBen	21,004,750	-	0.00%
2016	CareBen	15,714,104	-	0.00%
2017	CareBen	19,935,997	-	0.00%
2018	CareBen	19,201,487	-	0.00%
2019	CareBen	14,877,254	-	0.00%
2020	CareBen	16,142,292	-	0.00%

COVID-19 Pandemic:

“Stay-at-home” orders and other directives beginning mid-March 2020 led to a decline in vehicle traffic, and a resulting decline in claim frequency. However, as the historical loss experience data used for this rate Application is through to March 31, 2020, there is an immaterial impacted by COVID-19 on the historical loss data.

And, as the effective date for this rate application is January 21, 2022[8], SAF has assumed there will be minimal impact, other than a reduction of 5% to a segment of commercial vehicle risks.

As the SDR program assigns drivers to levels according to their driving experience, the reduction in vehicle usage during the pandemic will likely influence the assignment of drivers to levels; with more

[8] If the original proposed effective date of August 2021 had been realized, then a consideration of COVID-19’s impact on claim amounts during the initial months of the policy effective period would have been appropriate.

drivers assigned 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 what the “new normal” of driving will be into 2022 and beyond, as options of remote work, less usage of public transit and increased use of personal vehicles have yet to stabilize.

As noted, since mid-March 2020, the COVID-19 pandemic has resulted in a reduction in traffic and collisions. As a result, the loss amounts are less than originally assumed within the premium levels, and the excess has flowed to the RSR. With the increase in the RSR, the MCT increased as well. However, in the calculation of the provision for the break-even margin and the capital management plan provision, the updated forecast of the RSR/MCT was not used.

In response to SRRP (SAF) 1-25, SAF estimates that substituting the more recent MCT estimate would reduce the overall rate level indication by (a material amount of) 1.8 ppt (i.e., from +0.0% to -1.8%). We see this as a calculation issue regarding use of timely data/statistics for application of the approved capital management plan build/release provision in this proposed rate indication calculation model.

Separately, and in addition, we recommend the Panel consider the updated estimate of COVID-19’s impact on the MCT/RSR a “once-in-a-life-time” material issue that should be addressed. The capital management plan did not envision the massive excess capital buildup due to COVID. In the spirit of fairness to policyholders, the excess RSR should be returned to the policyholders in a timely fashion as a rebate (or more expeditiously as part of this rate indication model).

6.0 ACTUARIAL ANALYSIS

In this section we discuss SAF's methods and assumptions to determine the loss amounts, expenses, investment income, break-even provision and capital management plan provisions that are the basis for the average premium for each class of risk for the proposed rate program effective January 21, 2022.

The steps by SAF to determine the *proposed* average rate change for each class is as follows:

1. For each class an indicated average premium is calculated based on the projected historical loss amounts, an expense provision, investment income provision, and a break-even provision.

2. SAF determines the credibility of the historical loss data for the class – and assigns this as the weight to the indicated average premium from step 1 above. To the extent the historical data is not fully credible, SAF uses the prior 2014 average premium as the basis for the complement. For example, if the indicated average premium was $1,000 and had 80% credibility, then the 2014 prior average premium[9] (say $750) would be assigned 20% (100-80%) weight. A weighted average is calculated with the credibility used as the weights – referred to as a credibility weighted average premium.

3. The credibility weighted indicated average premium from step 2 above is compared to the current average premium to determine the indicated percentage change for that class.

4. A rate capping and rebalancing procedure is applied; with any reduction from capped premiums offset by an increase to the CLEAR category of vehicles.

5. A capital management plan provision adjustment (-1.6%) is combined with the capped rate change from step 4, which represents the proposed rate change for each class.

We discuss these steps more fully in the sections that follow.

6.1 *Loss Amounts including Claims Handling Expenses*

The historical claim costs are grouped by class and coverage, by accident year, all as of March 31st, 2020. These historical claim costs include the amounts paid on each individual claim and the claim adjuster's estimate of the amounts yet to be paid to close and settle the file, along with any claim specific claim processing and handling costs. This amount is referred to as the reported incurred loss amount. SAF presents ten consecutive accident years of historical data for each class and coverage; with the last accident year the period April 1, 2019 to March 31, 2020. Coincidentally, as the pandemic began in the second half of March 2020, the ten-year historical data period ending March 31, 2020 is, essentially, unaffected by COVID-19.

Each historical accident year reported incurred loss amount must be adjusted to the cost level when all the claims are closed and settled; referred to as the ultimate incurred loss amount. Typically, it takes several years to settle and close claim files; and the initial estimate can change over time as

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[9] The prior 2014 current average premium in steps 2 and 3 above exclude the capital management plan provision.

new information emerges. The actuary determines factors, referred to as loss development factors, that adjust the reported incurred loss amount to the ultimate incurred loss amount.

In addition to adjusting the reported incurred loss amount to an ultimate level, these ultimate incurred loss amounts for each accident year must be projected to the claim cost level into the future for when the proposed rate program will be in effect. For example, the cost to repair a car fender in 2015 would not be the same as the cost to repair the fender in 2022, when the new rates will be in effect. Hence, the ultimate incurred loss amounts from each of the historical accident years must be individually adjusted by a loss trend factor to project the costs to the correct future cost level.

In addition to adjustments to the reported incurred loss amounts for loss development and loss trend, the historical accident year data must be adjusted for any changes to the product benefit level that has occurred – so that all historical accident year loss amounts reflect the current benefit levels expected to be in-force in Saskatchewan for when the proposed rate program will be in-effect.[10]

6.2 *Loss Development Factors*

The Pricing Actuary is responsible for certifying this Application, and the Pricing Actuary is also SAF's Appointed Actuary (AA).

Amongst other duties and requirements, the AA is responsible for opining that the claim liability amount reported in the financial statements for the entity is an appropriate provision based on the best estimate selected by the AA. To perform the analysis, the AA may aggregate data based on their assessment of the most appropriate grouping of data for the purpose of the work – the valuation of the liabilities for financial reporting on the entity.

In contrast, the Pricing Actuary typically uses data at a more granular data than the AA, as the purpose of the Pricing Actuary work is to determine a premium that is representative of the rate level need for a specific class and coverage.

In SAF's case, the loss development factors (LDFs) used in the report supporting the AA's valuation analysis are also used in the pricing analysis.[11] As a result, the loss development factors are not at the granular level that could finesse the rate indications at the class and coverage level. In response to this issue, in SRRP (SAF) 1-20, SAF states, "Implied loss development factors from valuation work are used in the rate application analysis for three major reasons: the complexity of no-fault development, time limitations, and data limitations."

With respect to the complexity issue, SAF states:

> "Additionally, the valuation work incorporates significant investigations into trends/changes in development patterns on individual lines, incorporating insights from a history of redundancies & deficiencies into the selections. This depth would not be possible in a more superficial

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[10] These adjustments include injury coverage changes, provincial sales tax changes and vehicle diagnostic scanning changes.

[11] We note that the implied development factors are based on a ratio of gross ultimate loss amounts to net reported incurred loss amounts, rather than net to net. However, given the relatively limited impact of the reinsurance program for catastrophes, we do not consider this issue to be material.

> development selection by class of vehicle. Attempting to select development factors at the class of vehicle level will also quickly run into credibility issues. Not only are many vehicle classes too small to have a credible history of loss development, the high-severity nature of the Auto Fund's no-fault coverage claims exacerbates this issue."

We agree that there would be cases where the use of granular data at the class and coverage level would create credibility issues. This is amplified by SAF's comment on the second reason, time limitations:

> "An attempt to measure and select development factors for the 21 coverage groups for the 50+ vehicle groups in the Auto Fund, while attempting to consider the complexities described above would add a significant amount of time to the rate indication process."

With respect to the final reason, data limitations, SAF states:

> "Vehicle class definitions used for pricing exist only in the information technology system at a summarized/reporting level in a data warehouse that does not have the full history of claims experience required for loss development factor selection. Selection of development factors requires a full history of claim experience for the reasons detailed above. Creating a new data warehouse to suit these needs is possible; however, the corporate transformation process is in the process of modernizing these same information technology systems."

We suggest that in future rate applications once the corporate transformation is completed, some consideration to the use of more granular data, when credibility and complexity are not an issue, be considered by SAF's Pricing Actuary.

Based upon our review of the loss development methods, assumptions and selections made by the AA, we find the selected loss developments applied in the Application to be reasonable in the circumstances.

6.3 *Loss Trend Rates*

Unlike the loss development factors, the loss trend rates are selected by SAF on a more granular level aligned with the class and coverage. In those cases where the actuary finds the data too limited to determine a loss trend rate, the trend rate for another similar class/coverage is selected.

The total amount of claim costs is a combination of the number of claims and the average cost of each claim. The number of claims as a ratio to the number of insured vehicles is referred to as the claim frequency. The total claim amount divided by the number of claims is referred to as the claim severity. The total claim amount divided by the number of insured vehicles is referred to as the loss cost or pure premium. In order to deepen the understanding of how claims costs have changed over time and may be expected to change in the future, the actuary may consider the loss trend rates for each of frequency and severity, as well as the loss trend rate from the loss cost data.

SAF performs a simple linear regression analysis using annual data over various consecutive time periods (e.g., 10 years, from 4/2010 to 3/2020, and 9 years, from 4/2011 to 3/2020) to measure the annual rate of change in the frequency, severity and loss cost.

Before performing the regression analysis, the data used by SAF is adjusted to remove any large loss amounts (so as to minimize any undue influence large losses may have in measuring the average year to year change in the loss cost over time). In addition, the historical data is adjusted for (i) changes in reforms, (ii) PST rates, and (iii) changes in labour rates that have occurred over the trend period. Hence, with these adjustments SAF has modified the data used in the regression model all to the same current labour cost. PST rate, and/or benefit level.[12]

For future reviews, rather than applying these estimated adjustments by an *a priori* factor to the data before the regression analysis is performed, we recommend the regression model design consider the inclusion of a parameter to directly measure the impact of a change to the benefit level when sufficient data has emerged.

SAF has a Loss Trend Committee (LTC) that considers the findings of the loss trend analysis. The Pricing Actuary makes the final decision on the selected trend rate value. Members with operational, underwriting and claims experience can make significant contributions to assist the actuary in interpreting and understanding nuances of the historical data. However, we suggest that unless the LTC members are statisticians who can contribute to the regression model design and interpretation of the regression model statistics, the committee should only contribute insight into causality of the data patterns (e.g., upward or downward spikes or a change in direction of a trend rate) and insights as to external influences that might affect future frequency and severity levels– not the model design, interpretation of regression statistics, or selection of the trend rate.

There is little, if any, discussion on the model design in the LTC notes; and it appears that the same model design was used across all coverages and classes. Further, standard regression statistics such as the Adjusted R-squared, *p*-value[13] and analysis of residuals are not part of the regression model review.

We uploaded the same SAF historical data into our own regression models to assess the statistics associated with the loss trend rates selected by SAF for each of the coverages and classes. In several cases we found that trend rate selections were made even though the regression model used by SAF did not support the selection when the *p*-value was considered. A standard threshold for the *p*-value is 5%; i.e., *p*-values greater than 5% imply the regression model could not discern a trend rate different than zero.

In SRRP (SAF) 2-15 we listed those cases where the *p*-value was in the excess of 5% and asked SAF to provide the rate indication if a 0% trend rate was substituted. SAF estimates the overall rate level indication would increase by +0.4 ppt.

Actuaries must make judgments in the selections of the loss trend rates; and different actuaries can make different judgments. Through the interrogatory process, we explored the rationale for various loss trend rates selected by SAF. We find SAF has supported its selections with the rationale provided in response to the interrogatories. However, we suggest SAF give some consideration to the *p*-value statistics in future reviews when selecting trend rates.

Once 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

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[12] See discussion in section 5.7 on Significant Changes. These adjustments are estimates.
[13] The common standard *p*-value threshold is 5%; a value in excess of 5% indicates the parameter is not significant and should be excluded from the model.

proposed rate program.[14] Originally SAF assumed an effective date of August 17, 2021 for the proposed rate program. However, due to unforeseen delays in the Application process, the effective date was postponed to January 21, 2022. 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 SRRP (SAF) 2-22, we asked SAF to provide the updated rate indications based on the January 21, 2022 effective date. SAF estimates the overall rate level indication of +0.0% would increase by 0.5 ppt., to +0.5%.

For future reviews we recommend:

- SAF consider the model design and include model parameters to incorporate (i) reform type changes that cause a measurable shift up or down to the frequency and/or severity level, and (ii) a distinct change in the trend rate beginning at a particular point over the historical data period.

- SAF consider the statistical significance of the model parameters by determining the *p*-value for each parameter. If a parameter is not statistically significant, it should be excluded from the model or sufficient rationale provided for inclusion.

- SAF incorporate a more in-depth review of model design options and regression statistics, such as the residuals and Adjusted R-squared, when selecting the loss trend rate.

- SAF engage LTC 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.

For this current review we recommend:

- Consistent with the findings in SRRP (SAF) 2-22, the Panel direct SAF to amend its rate indication to reflect the (accurate) effective date of January 21, 2022.

6.4 *Accident Year Weights*

Once each of the ten historical accident years of loss data has been adjusted and projected to the cost level of the proposed rate program (with loss development factors, loss trend rates, reform factors, and other adjustments) the SAF actuary must decide on the weight to assign to each of the ten accident years – for each class and coverage. These weights are based on the actuary's judgment.

SAF's actuary considers the volatility and volume of the class/coverage experience in selecting the weights assigned. In the case of CLEAR vehicles, weights of 10% for each of the last ten years are selected for Injury, Income Replacement, Death Benefit, Permanent Impairment; weights of 14.3% to each of the last seven years for Care Benefits, Catastrophe, and Medical; whereas weights of 20% to

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[14] 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.

each of the last five years are selected for the remaining coverages, most of which are damage coverages.

For those damage coverages that SAF found fully credible, we ask SAF (in SRRP (SAF) 1-32) to estimate the rate indication if the weight was only assigned to the two most recent years, instead of the five most recent years at 20% each. SAF estimates the overall rate level indication of 0.0% would reduce by approximately 1 ppt. In a follow-up question, SRRP (SAF) 2-32, SAF responds that as the two most recent years are low cost years, this would overweight low-cost years, resulting in an overly optimistic indication. We find SAF's rationale for its selected accident year weights to be reasonable.

However, given the large volume of data in the two most recent years for these (credible) coverages, we suggest the Panel give more consideration to these findings – as it is more responsive to the current experience.

6.5 *Expense Provision*

SAF calculates an expense provision for each class – split between a fixed and variable provision. The fixed expense per vehicle cost includes:

- administrative expenses at $92.70,
- internal loss adjustment expenses at $57.23,
- offsetting salvage and subrogation income at -$22.90, and
- reinsurance costs at $9.65.

The total net cost is $136.67 per vehicle, with a smaller amount for classes with low average premiums such as snowmobiles and trailers. This is an increase from the prior 2014 filing at $97.79 per vehicle, with most of the increase attributed to administrative expenses (from $55.73 to $92.70).

A large part of this increase in the administrative expenses is attributed to the corporate transformation project costs – part of which are treated as a current expense rather than being assigned as a capital cost. In response to SRRP (SAF) 2-59(c), SAF estimates that the overall rate level indication would reduce by 0.9 ppt. if all forecasted corporate transformation costs were treated as a capital cost and not part of the current expenses. SAF states, "This is a deviation from accounting standards, may improperly misalign costs and benefits, and is not SGI's recommended approach for handling these costs."

In addition, in response to SRRP (SAF) 2-6(a), SAF states, "The treatment of the transformation costs for financial reporting purposes is the same as their treatment in the rate indication model. Using a different basis would **no longer support the break-even mandate** of the Auto Fund, which is a fundamental component of its rate indication work." However, the mandate states: "The Auto Fund is financially self-sustaining, **operating on a break-even basis over time**." {Emphasis added} The mandate does not state to "break-even each year." Eventually, the costs for the corporate transformation system will be borne by policyholders – either directly through the expense provision in the premiums, or indirectly by a reduction to the RSR (i.e., capital). The issue is the spread of the transformation costs over a "fair" period of time for all policyholders.

The CIA SOP in the Property and Casualty Ratemaking Section 2620.11 speaks to the issue of amortizing the cost of a major expense such as the transformation costs in ratemaking:

> "In selecting a provision for expense costs, the actuary would consider
>
> - The various categories of expense costs that are incurred including, as may be applicable, residual market assessments, statutory assessments, policyholder dividends, and reinsurance costs;
> - That expense costs may not be directly proportional to premium; and
> - That **one-time expense costs may need to be amortized."** {Emphasis added}

The level of the costs associated with the corporate transformation project included in this year's pricing model is an issue for the Panel's consideration.

Specifically, the Panel may wish to consider the *fairness* to the current policyholder's incurring these additional (administrative expense) fixed costs in the proposed premiums as an expense when the benefit of the corporate transformation would be longer term.

The remaining expenses, which vary as a percentage of premium, are:

- Premium Taxes at 5.0%
- Traffic Safety Program at 4.04%
- Issuer Commissions at 4.95%
- Short Term Registrations at -1.55%
- Auto Pay at -1.97%

The total of the variable expenses is 10.47% of premium. In the prior filing, the total of the variable expenses was similar at 10.94%.

6.6 *Investment Income Provision*

SAF considers the investment income from the timing of its cash flow. SAF can earn investment income on the premiums it holds until those funds are used to pay claims. SAF estimates the claims payment pattern for each coverage; and based on its selected pre-tax return on investment (ROI) rate(s) estimates the investment income.[15] We find this approach to be reasonable.

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[15] This is presented as the discount factor in the rate Application.

Changes to the investment rate will impact the rate level change need; a higher ROI rate will reduce the rate level change need and a lower ROI rate will increase the rate level change need. SAF notes that its determined ROI was based on September 2020 Conference Board of Canada yield rates.

In response to SRRP (SAF) 2-23, SAF states that a more current ROI estimate based on June 2021 forecasts has an immaterial impact on the rate indication. Further, SAF indicates that neither the more current June 2021 forecasts nor the updated effective date of January 2022 materially impact the overall rate level indication.

The Panel may wish to consider the timing of the selected ROI rate for the SAF rate level indication calculations for future reviews.

6.7 *Break-Even Provision*

As SAF operates on a not-for-profit basis, any investment income attributed to the RSR are included as an offset to the rate level need as part of the break-even provision. Included in the break-even provision is an allowance for other fees collected such as the cancellation retention fee.

SAF estimates the RSR will earn investment income based on a forecasted yield of 4.37%.[16] This investment income plus the additional allowance for other fees collected result in a break-even provision of -5.073%. We find this provision to be reasonable.

6.8 *Credibility*

As described earlier, the indicated premiums are calculated by combining the loss amounts with a provision for expenses, consideration of investment income on cash flow, and a break-even provision. (The capital management plan provision is applied as a separate step, after the credibility calculations and rate capping/rebalancing process.)

Once these indicated premiums are calculated, SAF then assesses the credibility by using standard claim count criteria to measure the credibility of the historical accident year loss data used in the calculations.

To the extent that SAF finds the data is not fully credible, it applies the balance of credibility weight to the SAF current average premium (from the 2014 Application adjusted to an on-level basis).

Specifically, the credibility weight is applied to the calculated average premium (derived using the loss experience data, expenses, investment income, and break-even provisions discussed above) and the balance of credibility weight to the 2014 average premium.[17]

We are not in agreement with SAF's use of the 2014 average premium in this complement of credibility calculation, as it does not reflect the change in costs since 2014 (as measured by the loss

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[16] Investment income rates are discussed in section 13.3.
[17] The capital management provision is excluded for this calculation step.

trend rate), new reform benefit level changes, nor the current expense provision, investment income, and break-even assumptions.

In SRRP (SAF) 2-33(a), as a follow-up question to SRRP (SAF) 1-36, we asked SAF to provide additional details regarding an example using ambulances[18] with the suggested alternative approach to the complement of credibility - whereby the adjustments for loss trend, reforms, expenses etc. are considered. In its response SAF states, "Upon review, SAF has decided to alter the methodology to be more in line with the original IR (SRRP (SAF) 1-36) and apply the adjustments to the current on-level premium instead of the required premium." In this example, SAF estimates the rate indication for ambulances would change by approximately +4 ppt; from +18.3% to +22.2%.

We would expect if this more robust methodology were applied to the other classes that are not fully credible, there would be higher indicated rate changes as is the case for ambulances. This is because, generally, the loss trend rates are positive, the reforms since 2014 added costs, and the current Application expense assumptions are higher than the prior 2014 filing.

We recommend the Panel direct SAF to use a more robust complement of credibility estimate than the (unadjusted) 2014 average on-level premium.

6.9 *Comparison to Current Premiums*

To calculate the indicated percentage change for each class, SAF compares the credibility weighted indicated premium (before capping, and without the capital management plan provision) to the current on-level average premium (excluding the prior capital management plan provision) to calculate the (pre-capital management plan provision) indicated percentage increase or decrease for each class.

To calculate the current on-level average premiums, SAF first reviews the historical upward drift in the average premiums, all adjusted to the current rate level, over the last ten years. In part, this upward drift is associated with the replacement of older vehicles with newer vehicles over time as well as the change in driver characteristics over time. Based on this review performed for each class, SAF selects an annual premium trend rate and calculates the projected current on-level average premium for the proposed rate program effective period.

As discussed in section 5.6, SAF does not recognize the potential for a lower current average on-level premium due to drivers having fewer incidents during the pandemic and therefore a larger SDR discount. Under either set of rates (current or proposed) the average premium will be lower due to a larger SDR discount.

6.10 *Capital Management Plan Provision*

After the separate rate capping and rebalancing step described in section 5.5, the final step to determine the proposed percentage rate change for each class is to include a provision for the capital management plan to the capped and rebalanced percentage changes for each class.

[18] Ambulance data is not fully credible.

SAF's management team has established a capital management plan whereby a provision is included in the rates to (i) maintain the same level of capital per risk as the volume of risks grows over time and (ii) build or release capital to maintain a target capital level of 12-month rolling average MCT of 140%. The build-release timing operates over a five-year period. For example, if the MCT was 160, then the 20-point gap between the target of 140 and the actual of 160, would allow for a 4- point (20/5) release.[19]

The current rates include a capital management plan provision of 2.23% and the new updated provision is calculated to be 0.56%; therefore, a reduction of 1.63% (= 1.0056/1.0223 -1) is included in the indicated rates for the capital management plan. The same percentage provision, -1.63% is applied to every class. We find SAF's approach to be reasonable.

However, the capital management plan provision calculation prepared by SAF is based on an initial forecast MCT level of 157.6% that was calculated before the full impact of COVID-19 on the MCT was determined for 2021/2022. In response to SRRP (SAF) 1-25, SAF estimates that using a more current estimate of the MCT, instead of 157.6%, would reduce the overall rate level indication from 0.0% to -1.8%. SAF states in its response:

> "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."

The pandemic has created an excessive amount of capital build-up, and arguably should be considered a once-in-a-lifetime event. In addition to the use of a more current MCT value in the calculations as described above, the Panel may also wish to consider a return of this excess (pandemic driven) capital through a rebate which would provide a fair and timely return to policyholders.[20]

6.11 *Summary of Actuarial Analysis Recommendations*

Oliver Wyman finds the rate analysis performed by SAF to estimate the overall rate level indication of +1.7% is completed in accordance with accepted actuarial practice (AAP) as outlined by the CIA SOP and is therefore consistent with the general approach to ratemaking performed in other provinces, while adhering to the unique circumstances of the SAF.

The ratemaking process to calculate the overall rate level indication involves the actuary making many assumptions and judgments to forecast future costs. Two actuaries performing the same work consistent with AAP, can reach conclusions or findings that may not necessarily be the same. This is because the SOP is not a substitute for professional judgment or consideration for the needs of the user(s) when performing specific work. Small differences in judgments and assumptions may materially impact the rate level change indication. For example, as presented in SRRP (SAF) 2-16, a 1 percentage

[19] The actual calculations are more complex than inferred.
[20] Alternatively, this excess over the target MCT of 140% could be considered through this rate Application if deemed a more cost effective means to return the excess in a fair and timely manner to policyholders.

point decrease in the average trend rate (i.e., say from +4% to +3%) would reduce the overall rate level indication by 4.1 ppt.

For this *curren*t Application, we suggest the Panel consider the following issues regarding the calculations of the rate level change need:

Delay in Release of Application to the SRRP and Resulting Effective Date Change

- Update the application of the trends so as to reflect the actual effective date. (See SRRP (SAF) 2-22). This change would increase the overall rate level indication by 0.5 ppt.

- Update the calculation of the rate indication so as to reflect the updated MCT for 2021/22 (See SRRP (SAF) 1-25). This change would reduce the overall rate level indication by -1.8 ppt.

Expense Provision

- Treat any longer-term project costs, such as the corporate transformation, as capital costs and not expenses, for the purposes of the calculating the rate level change need. (See SRRP (SAF) 2-59(c); with a reduction in the overall rate level change by -0.9 ppt.)

Complement of Credibility

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

Rate Capping and Rebalancing

- The Panel consider the fairness of the capping and rebalancing as a public policy issue and assess if the proposed cap level and rebalancing, resulting in premium increases for CLEAR vehicles, is just and reasonable.

We provide a summary of suggestions to improve the rate making analysis performed by SAF for consideration in *future* rate applications:

Loss Development

- Consider the use of more granular data, when credibility and complexity are not an issue.

Loss Trend

- 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 LTC 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

- 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.

Special Adjustments -Taxi

- SAF consider an adjustment to the historical loss data to reflect a change in usage (e.g., reduced annual km/taxi) as the dynamics of the marketplace shift with the introduction of TNCs.

7.0 RETURN ON INVESTMENT (ROI)

7.1 *Discount Rate Forecasting*

SAF utilized a September 30, 2020 Conference Board of Canada (CBoC) interest rate forecast, to derive the discount rate, comprised of bond and long-term equity yields, is used calculate the present value expected claim payments for the proposed rate program. SAF filed the interest rate forecast as confidential information. The most recent CBoC interest rate forecast on June 30, 2021 indicates lower forecast interest rates in 2021/22 through 2025/26.

SAF groups its portfolio investments into different time frames matched to meet the timing of payment of claims liabilities. The yield associated with each grouping of years was estimated as part of this valuation as of March 31, 2020, using the actual asset portfolio at that time. Each bond's yield was calculated and associated with its future cash flows, and the equity yield is the expected equity yield for the 20+ cash flows.

The final 2021-2022 rating year discount rate used in the Application is a weighted average of the 2020/21 and 2021/22 projected discount rates based on the September 2020 yield curve. The yields for each group based on 2020/21 actual and the forecast for 2021/22 rating year in the Application and utilizing an updated June 30, 2021, interest rate forecast is as follows:

	2021/22 Rating Year		**2021/22**
Grouping	**Application Sept. 2020**	**Update June 2021**	**Change**
0 – 2 Years	1.20%	1.14%	(0.12%)
2 – 5 Years	1.63%	1.44%	(0.19%)
5 – 10 Years	2.05%	2.07%	0.02%
10 – 15 Years	2.26%	2.28%	0.02%
15 – 20 Years	2.44%	2.47%	0.03%
Greater Than 20 Years	6.23%	6.23%	-
Overall Average Discount Rate	3.01%	2.98%	(0.03%)

Each of these yields is net of an investment expense component of 0.34%.

The overall average discount rate was determined from an internal rate of return (IRR) calculation and the chart above is for illustration purposes only.[21] SAF has indicated that based on the updated interest rate forecast the overall discount rate of 3.01% changes to 2.98%; and the overall rate indication remains unchanged.

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[21] The overall discount rate is calculated as the IRR such that the total discounted cash flows for all coverage and vehicles classes combined (calculated using the bucket yields in each case) equals the discounted cash flows using the overall discount rate and payment patterns.

7.2 *Observations Interest Rate Forecasting*

The interest rate forecast used by SAF in this rate Application for 2022 rates is based on a September 2020 CBoC forecast and due to the delay in the Application review process, is stale dated. A more recent June 2021 CBoC forecast indicates that interest rates are not forecast to increase to the same degree as assumed in the September 2020 forecast used in this Application.

The interest rate forecast and other economic variables are essential in the determination of the discount rate used to calculate the present value of its claims liabilities and estimate the investment income on its assets. The discount rate impacts the determination of the indicated rate.

Forecasting future interest rates is challenging and forecast can vary materially from the actual rate that is realized.

SAF should implement a practice to use the most current available information in preparing its rate application as practical to do so 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 economic assumptions such as interest rates.

8.0 CAPITAL MANAGEMENT POLICY AND MINIMUM CAPITAL TEST

SAF's CMP, which has been in effect since January 1, 2010, is designed to maintain an adequate level of SAF's capital in the RSR. The policy aims to ensure sufficient SAF capital to cushion the corporation from the volatility inherent in investment and underwriting operations without requiring excessive rate increases.

8.1 *Target MCT*

Although not subject to regulation by the Office of the Superintendent of Financial Institutions Canada (OSFI), SAF's Board-approved CMP is prepared using OSFI's January 2014 guidance. The policy measures capital adequacy using the MCT, a standard industry regulatory solvency measurement prescribed by OSFI and used by the Property and Casualty Insurance industry.

The MCT ratio is determined by dividing the capital available, primarily the excess of assets over liabilities, by the capital required, mostly comprised of various margins applied to unpaid claims, unearned premiums, and investments. OSFI requires federally regulated insurers to maintain a minimum MCT ratio above 100% and a minimum supervisory MCT ratio of 150%. The supervisory ratio is intended to provide a cushion above the minimum requirement for risk factors that are not easily quantifiable (e.g. Operational, strategic, economic risks).

SAF's operating target changed from 100% to 140% in the 2018/19 CMP. The revised policy target ratio of 140% MCT has been calculated under the policy of 125% MCT plus an additional buffer of 15% to reflect the risk tolerance of the shareholder. By adopting an MCT 140% target for its RSR below the minimum 150% MCT supervisory level, SAF recognizes its distinction as a monopoly and Crown corporation insurer.

The MPI and the ICBC target a 100% and 145% MCT for their Basic programs, respectively. However, the ICBC capital management plan is temporarily suspended.

March 31, 2021, the MCT was 168%, while the 12-month rolling average MCT was 179%. The RSR balance was $1,090 million after SAF declaring a rebate of $285 million to ratepayers. SAF monitors its MCT monthly. In response to the first round IR SRRP (SAF) 1-53**, SAF reported that on June 30, 2021, the MCT was 184%, and the 12-month rolling average MCT was also 184%, and the RSR had increased to $1,244 million**.

8.2 *Capital Management Policy*

The capital contribution included in rates to move capital toward the policy level set in the CMP comprises two components a capital build / (release) provision and a capital maintenance provision.

The first component, the capital build / (release) provision, adjusts capital through rates in a measured way, thereby reducing rate volatility. This provision is modified for each rate application to move the current MCT 1/5th of the way toward the 140% MCT target. This approach to the determination of the capital build / (release) exists to strike a balance between steadily pushing the capital available toward SAF's target while smoothing the effect on its customers.

The second component, the capital maintenance provision, accounts for the natural erosion of the MCT over time. Specifically, the denominator in the MCT calculation (capital required) is increased by higher claims costs and the growth in investments. Correspondingly the capital available must also grow to maintain the same level of relative capital adequacy.

In this Application, SAF has included a capital maintenance provision amount required of $32.0 million, offset by the 1/5th capital release provision requirement of $26.7 million. Combining these two provisions results in a total amount of premium needed of over $5.6 million[22] or .56% for the rating period for a capital margin provision.

SAF proposes lowering the current capital margin provision of 2.23% included in the rates by 1.6% to achieve the needed capital contribution of 0.56%.

8.3 *Financial Condition Testing*

OSFI mandates all federally regulated P&C insurers to maintain a minimum MCT ratio of 100%, with an industry-wide supervisory target ratio of 150%. OSFI requires the use of Financial Conditioning Testing (FCT) to establish capital targets. Although not subject to OSFI regulation, SAF prepares an FCT report annually to inform the Corporation of its capital requirements. The FCT analysis involves subjecting SAF's financial forecast to stress testing with various plausible adverse scenarios to assess the impact on the financial strength and solvency status.

SAF's 2020/21 FCT performed includes experience to March 31, 2020, and forecast for fiscal years 2020/21 through 2025/26. SAF selected plausible adverse scenarios that are at the 99th percentile level (or 1-in-100-year event). SAF identified four scenarios to pose the most significant risk, including:

1. investment market deterioration;
2. misestimation of policy liabilities;
3. a scenario including additional funding requests, additional premium rebates in conjunction with a market crash; and
4. general inflation risk.

SAF set an internal MCT target of 90% in undertaking its testing. SAF's FCT analysis supported an operating target of 125% MCT above the 90% MCT internal target. This 125% operating target MCT provides a cushion above the 90% internal target to absorb at least the impact of a relatively likely, 1-in-10- year occurrence. SAF noted that establishing an operating MCT 35 ppt above the internal target provides a reasonable operating buffer. At the direction of the CIC Board, an additional 15-percentage point buffer was added to the operating target to build in conservatism. Overall, SAF operates at a 140% MCT target.

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[22] The total capital needed is $5.252 million. SAF adds variable expenses, and a breakeven margin results in a needed premium increase of $5.552 million.

8.4 *Rate Stabilization Reserve*

In addition to collecting sufficient premiums to cover anticipated claim costs, SAF needs to maintain an adequate level of capital in the RSR. SAF operates on a self-sustaining basis viewed over a long-term time frame. Any annual financial excess or deficiencies are recorded in the RSR. It serves as a savings account to cover emergencies. The RSR 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. It acts as a buffer for customers to avoid significant rate shock.

In 2020/21, SAF's RSR grew to $1,375 million and an MCT of over 190% before declaring a rebate in the year. The buildup in the RSR was due to lower than forecast claims costs due to the COVID-19 pandemic and higher than forecast investment income in the year. To provide relief to ratepayers due to COVID-19, SAF declared and paid a rebate of $285 million to SAF policyholders. The rebate effectively reduced capital to $1,090 million 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:

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%**
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%**

The top table where the full 2.23% capital margin was removed, forecast the RSR to be $1,175.6 million and an MCT of 158%, remaining above the 140% MCT target.

The bottom table, including the proposed changes to the capital margin and a 1.6% capital release, although it does provide for a release in capital, does not trend down to the 140% target over the forecast period. The RSR is forecast at $1,275 million 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 the SAF moves toward 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.

RSR Update – June 30, 2021

SAF filed results for its first quarter ended June 30, 2021. SAF reported improved financial results in the first quarter of 2021/22 (April 1, 2021, to June 30, 2021) than was 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 COVID-19 influenced a 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 CT project expenditures and less spending on advertising, promotions, events, and employee travel with the continued COVID-19 economic slowdown.
- 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.

In addition to the lower forecast costs, SAF reported a net investment income of $114.6 million for the quarter versus a 42.0 million budget, $72.6 million greater than forecast. The improved net investment income is due to higher than forecast unrealized returns in bonds and foreign equities.

Overall, the RSR increased by $153.8 million, $113.2 million higher than the $40.6 million budget for the quarter. As of June 30, 2021, the total RSR was $1,244 million, and the 12-month rolling average MCT was 184%.

8.5 *Observations on Capital Management Policy*

The Ministers guidance expressly indicates that the Panel should take as given the terms of the approved Capital Management Policy and approved target capital levels. The comments made here are taken in acknowledgment of this scope requirement.

The onset and continued impacts of the COVID-19 pandemic have had a material impact on the operations of SAF and has resulted in a significant unanticipated runup in capital accumulated since

the last rate application. SAF's application does not currently reflect a capital release that acknowledges an improved financial condition in 2020/21 due to a once in a lifetime event. As of June 2021, the RSR is $1,244 million, and the 12-month rolling average MCT has grown to 184%, materially above the 140% MCT target.

SAF's first-quarter 2021/22 results present lower claims and other costs (due to the continued effects of COVID-19) a delay in CT project spending and higher investment income than forecast. These improved financial conditions could contribute to an accumulation of the RSR. However, the vagaries of financial markets and the uncertainty of claims estimates add uncertainty to any forecast. SAF is in the process of updating its forecast for 2021/22.

In response to SRRP (SAF) 1-25, SAF indicated the required capital margin using the actual 2020/21 operating results, which indicated the RSR balance of $1,090 million for 2020/21. The needed capital margin provision is -1.29% rather than the 0.56% proposed. This change results in a decrease of 3.4% from the current capital margin of 2.23%. SAF indicated the overall rate level indication would be a decrease of 1.8%.

We recommend that SAF revise its rate indication to reflect the capital margin of -1.29% rather than the 0.56% included in the application. The capital margin of -1.29% is consistent with SAF's capital management plan and is based on actual rather than forecast 2020/21 results.

In addition, we recommend the Panel urge SAF address the once in a lifetime buildup of the MCT outside the current capital management build and release scheme.

9.0 RECOGNITION PROGRAMS AND PROGRAM REVIEWS

9.1 *SDR and BR Program Reviews*

As discussed in section 4.1.1, reviews of the Safe Driver Recognition Program and Business Recognition program were completed in 2014 and 2016 which resulted in amendments to each program's scale and penalties. The objective of these programs is to promote safe driving behaviour, as opposed to pure actuarial soundness. Therefore, the discounts and surcharges have never been modified to be based on actuarial methodology since the inception of the programs (SDR in 2002 and BR in 2004). SAF proposed no changes to the structure of the SDR or BR programs in this Application.

9.2 *Safe Driver Recognition*

The SDR program provides discounts to SAF customers (excluding businesses) with safe driving records. The program also assesses penalties on drivers with a history of unsafe driving (at-fault collisions, traffic tickets, license suspensions), assessing financial penalties for drivers in the penalty zone on the SDR scale.

The driving record determines a customer's position on a sliding scale. Each customer starts in a neutral position on the scale and gains 1 point for each year of incident-free driving. Points are lost for driving incidents, such as collisions a driver is deemed responsible for causing (at-fault) or traffic convictions. Each point in the scale's positive Safety Zone earns the customer a 2% discount off their vehicle insurance premium, up to a 20% discount at 10 points. Above 20 points, a customer can earn an additional 1% discount per point up to a maximum of 25% at 25 points.

The following chart outlines the number of drivers, safety points and corresponding vehicle premiums discounts:

Zone	Drivers	Points	Discount
Neutral Zone	182,671	0	Base Insurance Premium
Good Driver	50,083	1	2%
	44,176	2	4%
	40,497	3	6%
	39,579	4	8%
	33,944	5	10%
	33,053	6	12%
	30,806	7	14%
	29,028	8	16%
	28,781	9	18%
	26,770	10	20%
Great Driver	273,856	11-20	20%
Safest Driver	110,286	21	21%
	19,111	22	22%
	14,708	23	23%
	5,881	24	24%
	105,684	25	25%
Total Merit	886,243		

Events that move a customer into the scale's negative Penalty Zone cause the driver to be assessed a financial penalty. Drivers with at-fault collisions where the cost of the claim is less than $700 result in a loss of four points on the SDR scale, while at-fault collisions where the cost to SAF of $700 or more will result in a loss of six points.

Minor speeding infractions incur a penalty of two demerit points on the scale. At the same time, major speeding or driving violations will result in an assessment of demerit points.

Financial penalties in the penalty zone of the scale are currently $50 per point in penalty zone, up to a maximum penalty of $1,000, except for specific Criminal Code conviction penalties. The criminal code convictions can result in penalties as high as $2,500. The penalties through the SDR program are on top of the fines issued by law enforcement for traffic convictions.

In 2020/21, of the 1,197,324 customers, 886,243 customers (74%) were eligible for SDR discounts, while 128,410, (11%) fell within the penalty zone and 182,671 (15%) were in the neutral zone.

As a result of changes in the SDR program made in 2016/17, both the discounts paid and penalty revenue collected increased. The discounts earned under SDR increased from $118.7 million in 2015/16 before changing to $138.1 million in 2020/21. SDR bonuses are forecast to be $142.5 million in 2021/22.

The SDR penalty revenue had increased from $13.4 million in 2015/16 before the 2016/17 program changes, increasing penalties. Penalty revenues were $28.6 million in 2019/20 and fell to $24.1 million in 2020/21. The decline was attributed in part to a reduction in driving activity due to the COVID-19 pandemic. SDR penalty revenue is forecast to be $32.2 million in 2021/22.

9.3 *Business Recognition*

SAF's Business Recognition Program is designed to reward businesses with good claims history (with insurance discounts of up to 15%). This program is for heavy vehicles in the Commercial and Farm classes and any vehicle registered to a company. The program assesses businesses for adjustments to the Basic vehicle insurance rates based on the company claim history based on a calculated loss ratio. The business will either be eligible for a discount, be subject to a surcharge or pay the base insurance premium with no discount or surcharge on its Basic vehicle insurance.

Losses are capped in determining the loss ratio to ensure that the impact of a single claim bears a reasonable and fair relationship to the size of the vehicle fleet. The claims cost included in the loss ratio determination is capped at the lower of three times the annual premium or $50,000.

The BR discount or surcharge is pro-rated based on how many years you had vehicles registered in the 5-year assessment period. Only businesses that have vehicles registered for the full 5-year assessment period are eligible to get the full BR discount or surcharge.

SAF has extended the program to TNC's. SAF will gather ridesharing premium and claims data to calculate a loss ratio for the determination of the discount rate or surcharge which will be applied to the per kilometre insurance rate the TNC pays for all its affiliated vehicles.

SAF has determined that the break-even level on the scale relates to a 61-70% loss ratio. Companies with a capped loss ratio of less than 60% are eligible for a premium discount ranging from 3% to as high as a 15% discount with a loss ratio of 15% or less.

Companies with capped loss ratio above 70% are subject to surcharges up to a maximum of 25% when the loss ratio exceeds 200%. International Registration Plan (IRP) customers are also eligible for the BR program. The IRP customers with 6 or more registered vehicles and a loss ratio greater than 70% and multiple collisions, are reviewed individually, and the surcharge can be increased at the discretion of SAF to a maximum of 200%.

The following table represents the current BR program discounts/surcharges used:

Loss Ratio	Discount / Surcharge
0% - 15%	-15%
16% - 30%	-12%
31% - 40%	-9%
41% - 50%	-6%
51% - 60%	-3%
61% - 70%	0%
71% - 80%	3%
81% - 90%	8%
91% - 100%	10%
101% - 125%	13%
126% - 175%	15%
176% - 200%	20%
201% +	25%

Business recognition bonuses were paid out $18.8 million in 2020/21 and are forecast to be $20.2 million in 2021/22. Both the SDR and BR Programs are factors which the Panel is to consider as given in this review, so no further comment will be made.

9.4 *Taxi and Transportation Network Companies (TNC) Rate*

SGI held two rounds of Ridesharing consultations in 2017 and 2018 to develop new legislation and regulations for Ridesharing in Saskatchewan. The Act was passed in May 2018 and regulations came into force in December 2018.

SGI held consultations with stakeholder groups to gather their ideas and feedback on how ridesharing should work in Saskatchewan. The groups consulted with include:

- The Saskatchewan Taxicab Association (which represents the taxi companies in Saskatoon);

- All Regina taxi companies;
- A number of taxi drivers from Regina and Saskatoon;
- Various ridesharing companies including Uber, Lyft, TappCar, Cowboy Taxi, Instaryde, & Uride;
- The cities of Regina & Saskatoon;
- Saskatchewan Urban Municipalities Association & Saskatchewan Association of Rural Municipalities;
- The Regina & Saskatoon Airport Authorities;
- The Saskatchewan Chamber of Commerce;
- Law enforcement; and
- Representatives from neighbouring jurisdictions that had ridesharing or were working on a framework such as Alberta & Manitoba.

The consultation dealt with several topics.

Registration/Insurance:

Stakeholders were aligned 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.

SAF indicates that stakeholders were supportive of the Basic insurance model that was recommended. A rideshare vehicle must be registered in Class LV but with a use code to indicate it is used for ridesharing. Under the program, 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 a 2018 internal analysis.

Taxicab industry expressed interested 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 initially was an initial starting point, set up based on the adequate taxi rate for operation 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 VFH loss experience data.

Vehicle Inspections:

Taxi representatives proposed annual inspections while some rideshare companies did not want vehicle inspections to create a barrier for people to become rideshare drivers. SGI requires an annual inspection for all vehicles for hire using an SGI approved inspection station to ensure safety.

In-car cameras:

Taxi representatives recommended rideshare vehicles to have in-car cameras as some city bylaws require in taxis. SGI did not make this a provincial requirement and left it with the municipalities if they so choose.

Driver's licence requirements:

Ridesharing in most jurisdictions allows the use of a Class 5 driver's licence. However, Saskatchewan's rules for taxis and limousines have always required at least a commercial Class 4 licence. Taxis strongly recommended that a Class 4 driver's licence be required.

SGI allows drivers the option to use a Class 4 licence or a Class 5 driver's licence if the driver meets additional requirements such as having a safe driving record, is not in the Graduated Driver's Licensing program and must have a few years of driving experience in Canada. These driver’s licence options are available to all vehicle for hire drivers.

Criminal Record Checks:

Taxi representatives advocated that both a criminal record check and a vulnerable sector check should be required and recommended they be provincially regulated. SGI did provincially regulate a requirement for annual criminal record checks submitted to SGI, however. SGI did not require a vulnerable sector check provincially. Criminal record check requirements apply to all rideshare, taxi & limousine drivers.

9.4.1 Observations Taxi and Transportation Network Companies (TNC) Rate

The TNC rate have been established based the adequate taxi rate for operation in Regina or Saskatoon due to a lack of data on ridesharing. SAF acknowledges that it does not have sufficient claims experience to evaluate the adequacy of the initial 11 ¢/km rate for the time that an individual is engaged in ridesharing activities. Initial rate does not make any differentiation between driving experience in the rural versus urban setting. SAF acknowledges that further analysis will 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. SAF should report at the next rate application on the claims experience and loss ratio for the TNC rate.

SAF should also consider, if technology allows for it, taxicab companies to gain access to a per kilometre rate scheme option. We understand that ICBC has recently introduced such optionality. We recommend the Panel request SAF consider whether a similar rating scheme could be appropriate in Saskatchewan.

9.5 *Motorcycle Review Committee*

In 2013, the government directed SGI to review three issues affecting motorcycle owners and riders:

- 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.

SGI 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.

The Motorcycle Review Committee considered proposals from SAF and committee members, input from the public, and statistical and program analysis. Based on public feedback and consideration of options the Committee recommended, and the government approved the following changes:

- Increased requirements for acquiring a motorcycle learners license;
- Change requirements for new riders; and
- Incentives for new riders to take training.

Detail of the above changes that were implemented in 2014 and 2015 were provided in response to SRRP (SAF) 1-4.

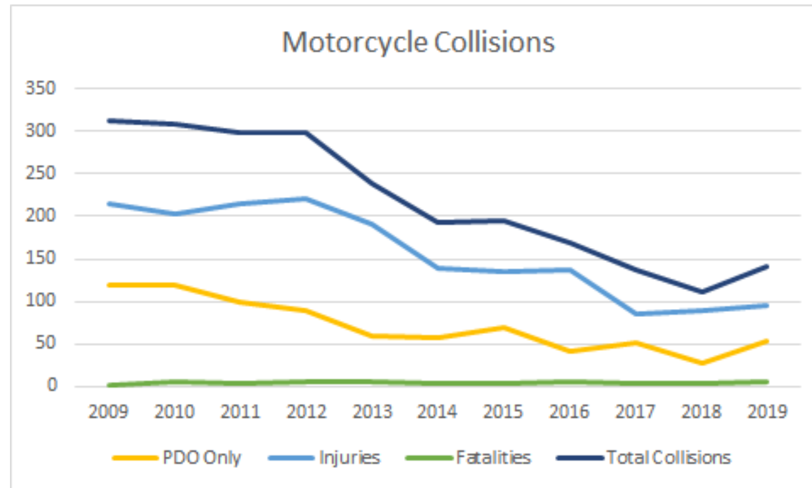
Most of the changes were targeted to improving safety among motorcycle riders lowering insurance rates.

9.6 *Motorcycle Stakeholder Consultations*

At the request of Riders Against Government Exploitation (RAGE) a motorcycle rate advocacy group, SAF in 2019 and 2020 undertook a review to understand outcomes from the changes made as a result of the Motorcycle Review. A report of the findings was prepared and shared with RAGE. A copy of the report was provided in response to SRRP (SAF) 1-4.

In that report, SAF noted 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 as reflected in the following:

Motorcycle Collisions 2009 to 2019



The number of people injured in motorcycle collisions also decrease dramatically by 56% in the past decade and by 30% since the Motorcycle Review.

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 Motorcycle review.

SAF compiled statistics of motorcycles collisions involving other vehicles and a single motorcycle, the fault determination for collisions occurring in the 2010 to 2019 period was:

Motorcycle Collisions 2010-2019					
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 also noted that Motorcycle collision trends in Saskatchewan have declined, however it may be attributed in part 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 number of permits issued in the last decade.) This suggests 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. And other motorcycle drivers opting for more occasional use of their vehicles through the permit option.

SAF provided statistics on wildlife claims from 2016/17 through 2020/21 and the comparative severity of those claims for private passenger and motorcycle classes in response to SRRP (SAF) 2-11. The total wildlife claims costs, claims and average severity for the last five years is as follows:

Wildlife Claims Average Severity by Category - 2016/17 to 2020/21

Vehicle Class	PPV Four Door	PPV Two Door	PPV All Body Styles	Taxis All Body Styles	Motorcycles Cruiser/Touring	Motorcycles Dual Purpose	Motorcycles Sport	Total
Claims Incurred (C$000s)	$68,796	9,437	359,062	722	688	32	55	$438,791
Claim Count	17,451	2,848	75,241	178	96	7	15	95,866
5 Year Average Severity	$3,942	$3,314	$4,772	$4,053	$7,163	$4,601	$3,670	

The following levels of severity of wildlife claims were experienced by vehicle category.

Wildlife Claims Average Severity 2016/17 to 2020/21

Fiscal Year (C$)	PPV Four Door	PPV Two Door	PPV All Body Styles	Taxis All Body Styles	Motorcycles Cruiser/Touring	Motorcycles Dual Purpose	Motorcycles Sport
2016/17	3,639	3,129	4,412	3,680	7,078	-	2,794
2017/18	3,863	3,290	4,606	4,408	6,617	-	2,100
2018/19	4,145	3,236	4,943	5,210	7,024	4,962	5,828
2019/20	4,123	3,492	5,157	3,651	9,082	3,895	4,090
2020/21	3,923	3,268	4,691	3,200	6,190	4,571	200

In response to feedback received by RAGE 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 SRRP 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 system does not have the functionality to process seasonal rates. When the seasonal rating option was explored following the Motorcycle 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 slated to be replaced.

After further input from the motorcycle community, SAF considered two additional options, including changes to the SDR program and changes to Injury coverage. SAF acknowledged that it will take time to explore the options to understand the feasibility of potential changes. If any options are feasible, it would likely require significant computer system changes. It would also need to go through the formal approval process due to the financial impact.

Any viable options would not be able to be implemented until systems transformation takes place. 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.

9.7 *Observations Motorcycles*

Motorcyclists have raised the issue of affordability with the 10% rate increase proposed in this Application.

Over 40% of the motorcycle accidents between 2010 and 2019 are single vehicle accidents whereby the vast majority found the rider to be at fault. This level of single vehicle motorcycle accidents includes accidents where a motorcyclist has a collision with wildlife. The costs of these claims are allocated to the motorcycle class.

A comparison of wildlife claim severity between 2016/17 and 2020/21 indicates that motorcycle categories have on average a higher claim severity than private passenger vehicles. This higher cost per claim is likely attributable to a higher level of bodily injury claims cost that would be inherent due to the lack of protection from physical injury afforded by motorcycles compared to automobiles. A very small portion of wildlife claims and the related claims costs are attributable to the motorcycle categories. (In the last five years, wildlife incurred losses have ranged from $75.5 million in 2016/17 to $99.9 million in 2019/20. Over the five years SAF reports there have been $438.8 million in wildlife claims incurred related to 95,866 wildlife claims for all insured vehicles.) Motorcycle claims were only 118 or less than 0.01% and related claims cost were $775,875 less than 0.02% of the total wildlife claims incurred.

There is a policy issue of affordability, the alternatives available include changes to rate capping or shifting of costs such as wildlife claims to other drivers.

SAF indicates that it is exploring options such as changes to the SDR and injury benefits and recognize that any changes may be dependent on computer system changes. SAF is undertaking a corporate transformation. In the process it should make sure that the new system architecture is sufficiently flexible to accommodate changes to motorcycle rates including seasonal rating, potential SDR changes and other potential injury benefit changes. We would recommend that SAF report back at the next rate application on its efforts related to the progress on these measures.

10.0 FINANCIAL FORECAST

In this section we provide more in-depth discussion of the financial forecast information[23] provided by SAF. In part, SAF's rate indication is based on the operating results forecast for 2020/21 and 2021/22. SAF finalized the 2020/21 financial results during the Application review process, which reflected an increase in the RSR of $70.4 million higher than forecast. SAF did not amend its Application based on this updated information. This Report references the 2020/21 actual results and the updated forecast. This information was provided in response to SRRP (SAF) 1-71(a) update.

10.1 *Fiscal Year Claims Incurred*

Claims Incurred represent the costs paid or expected to be paid to claimants for the various benefits provided under the SAF insurance program. The financial forecast of Claims Incurred and the expenses to adjust claims (Loss Adjustment Expenses discussed in section 10.5 of this report) represent the most significant expense for SAF; about 80 to 85% of the total cost.

The financial forecast of fiscal year claims costs is based on an actuarial analysis that considers many factors, including the historical pattern of claim payments, economic conditions, inflation, and the characteristics of the vehicle class. The actuary estimates the total ultimate cost for all claims that have occurred and were reported during the current accident year, along with those that have occurred but have not yet been reported to SAF, as well as prior accident year claim amounts to determine if the cost estimates are still appropriate. More specifically, if the estimates were too high, a redundancy exists, resulting in a decrease in claim costs. If the estimates were too low, then a deficiency exists, increasing claim costs. If an adjustment is required, the impact of that adjustment is recorded in the fiscal year results.

SAF separates its claims incurred into three categories:

- Physical damage coverage (collision and comprehensive) for damage to the vehicle due to collision or other incidents such as hail, fire or theft. Claims for damages to a vehicle are subject to a deductible ($700 for most vehicles);
- Personal injury coverage for both No-fault and Tort coverage; and
- Third-party liability coverage of up to $200,000 to pay the cost of damages that a driver's vehicle causes in a motor collision, including the damage to other cars, damage to any property and costs resulting from injuries caused to others. Liability costs are accumulated and allocated to damage or injury claims for reporting purposes.

[23] The financial forecast information is on a fiscal year basis, separate and distinct from the accident year data used in the rate indication calculations discussed in section 6.

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

Claims Costs 2016/17 to 2021/22

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%

Damage Claims & Liability

Damage claims, including damage liability represent approximately 60% to 70% of total claim costs in a loss year and are resolved and paid quickly. About 81% of damage claims are resolved within the year of the accident occurring. Within 12 months of the end of the loss year, nearly 99% of all damage claims are settled. SAF identifies these claims as short-tail claims because they are settled quickly. There is a very low risk that the estimate by the actuary of the unpaid claims will create a redundancy or deficiency that will materially impact the current year's financial results.

Damage claim costs for vehicles and property increase each year due to several factors, including:

- Insuring newer vehicles that incorporate technological advances, which costs more to repair and replace;
- an increase in both body shop labour rates; and
- costs of replacement parts.

SAF has indicated that damage loss year costs have increased by 5.7% per year over the last ten years. SAF develops its Damage loss cost estimates using historical trends. Damage costs were $501.2 million in 2016/17 and increased to $536.9 million in 2019/20. The damage costs declined in 2020/21 to $447.9 million with the onset of the COVID-19 pandemic, which saw a decline in driving activity and collisions. SAF noted the average cost per damage claim declined in 2020/21.

SAF forecasts a return to normal driving conditions in 2021/22, forecasting Damage claims to increase to $600.4 million or 34% from the 2020/21 level.

Bodily Injury & Liability

Injury and Liability claims (excluding damage liability) represent the remaining 30% to 35% of total claim costs and take much longer to resolve than damage claims. SAF estimates that only 14% of injury claims and 3% of liability claims are paid in the year the loss occurs. Due to the long-term nature of these claims, SAF identifies these as long-tail claims. The no-fault program provides lifetime coverage for traffic accident-related injuries. A claim file could remain dormant for many years with no payments and then be re-opened because the injured party required further medical treatment associated with the accident-related injuries. The time for ultimate settlement, combined with inflation,

medical innovations, and rehabilitation programs, leads to uncertainty in estimating ultimate total costs for settlement.

SAF has over 25 years of historical data and experience available for its injury programs. The claim durations and reoccurrence rates are challenging to estimate as far as 40 years into the future, making changes in estimates inevitable as the claims mature. Accident year costs can change significantly from year to year, and typically increase with the passage of time.

Injury claims generally increase annually because the benefits are inflation-indexed. Over the last ten years, injury costs have grown by 0.8% annually. SAF has noted significant variances compared to damage claims due to the lower volume of injury claims and the higher average cost per claim. An increase in the number of injury claims in any given year can significantly impact the total ultimate cost for a loss year.

The obligation for unpaid claims is carried on a discounted basis to reflect the time value of money. The changes in the value of unpaid claims due to changes in the discount rate are reflected in the claims incurred expense.

Bodily injury & liability claims costs were $225.9 million in 2016/17 and $208.5 million in 2019/20. Bodily injury & liability claims cost decline to $160.9 million in 2020/21 due in part to a reduction in the number of accidents claims attributable to COVID-19 reduced driving activity and a change in discounting of prior years' claims. The discount rate, comprised of bond and long-term equity yields, increased from the prior year from 3.8% last year to 3.9% in 2020/21, a ten-basis point change. The change in discount rate resulted in a **$195.7 million** decrease in claims incurred in 2020/21.

SAF forecast Bodily injury & liability cost to be $160.6 million in 2021/22 increasing by $5.7 million or 3% from the prior year.

Financial Claims Count

The number of accident events will dictate the amount of Claims Incurred that SAF will incur in any given year. In 2020/21 SAF experienced a marked decline in the number of accident events as there were fewer drivers on the road as result of the COVID-19 pandemic. The 2020/21 accident claims declined by over 13% from the prior year. SAF has forecast a return to normal levels in 2021/22 reflecting a 34% increase in claims over 2020/21. The claims counts are as follows:

Financial Claims Count 2016/17 to 2022/23

Claims Cover	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Damage	112,879	121,040	116,965	114,695	100,989	134,316	138,399
No Fault Injury Benefits	4,743	4,800	4,479	4,552	3,177	4,679	4,726
No Fault Liability	270	341	380	297	223	379	395
Tort Accident Benefits	94	84	73	87	57	84	85
Tort Liability	74	51	36	46	49	49	46
Total	**118,060**	**126,316**	**121,933**	**119,677**	**104,495**	**139,506**	**143,651**
Year over Year Change		**7%**	**-3%**	**-2%**	**-13%**	**34%**	**3%**

SAF 2021/22 forecast includes a 5% reduction in exposures for the CD and IRP commercial classes due to expected economic conditions following the pandemic. SAF noted that the number of vehicles insured in these fleets have historically been correlated to the health of the economy. Various economic indicators have been used to aid in predicting the potential drop and exposures in the rating year following the pandemic.

10.1.1 Observations on Fiscal Year Claims Incurred

Claims Incurred for 2016/17 was $727.2 million and increased in 2019/20 to $739.7 million. Claims Incurred declined to $608.8 million in 2020/21, a decrease of $130.9 million or 17.7% from 2019/20. The significant decrease was due to a reduction in the number of claims due to less driving activity during the COVID-19 pandemic slowdown.

SAF has reported a further reduction in Claims Incurred in the first quarter ended June 30, 2021, of 2021/22. Overall claims counts were lower than forecast for the three months than SAF’s budget. SAF reported a reduction in net claims incurred of $26 million than forecast for the period. SAF is forecasting a further reduction in the number of claims in the next quarter ended September 30, 2021, than included in the budget for 2021/22.

SAF forecasts a return to a normal level of claims activity in 2021/22. SAF has forecast the overall claims count to increase from 104,495 claims in 2020/21 to 139,506, increasing by 35,011 or 34% higher than 2020/21 levels. Overall, accident claims are forecast to increase 19,829 claims or 16% higher than the 119,677 claims experience in 2019/20 before the onset of the COVID-19 pandemic induced reduction in accidents. SAF forecasts Claims Incurred to increase to $767.0 million in 2021/22, increasing $158.2 million or 25% from the prior year.

The COVID-19 economic slowdown, which led to a material reduction in Claims Incurred in 2020/21, is still influencing lower claims costs in 2021/22. Given the continued reduction in claims related to the COVID-19 pandemic, it is unclear whether SAF’s forecast increase in Claims Incurred will be realized. SAF is currently updating its forecast for 2021/22. SAF should monitor the continued development of claims incurred and address any unexpected increase in capital at its next rate application.

10.2 *Collision Repair Costs*

The overall repair costs (excluding taxes) for parts, labor, paint & material from 2016/17 to 2021/22 are shown below:

Overall Autobody Repair Costs 2016/17 to 2021/22

Fiscal Year	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22F	2022-2021 Change	
Description (C$000s)							$	%
Parts	110,224	117,597	130,433	131,359	115,058	134,443	19,385	16%
Labour Expense	120,921	122,220	129,182	124,821	109,491	127,318	17,826	16%
Paint & Shop Materials	28,580	30,036	32,993	32,445	29,143	33,094	3,951	13%
Sublet Parts & Labour	21,549	29,811	22,916	20,835	16,667	21,252	4,585	27%
Total Repair Costs	281,274	299,664	315,524	309,461	270,359	316,106	45,747	16%

The total collision repair costs were $281.3 million in 2016/17 and increased to $309.5 million in 2019/20. Collision repair costs decreased to $270.4 in 2020/21, a decrease of $39.1 million or 12.6% from the prior year. As previously stated, SAF saw a significant reduction in both the severity and number of collision claims in 2020/21 due to the COVID-19 economic slowdown. SAF is forecasting total collision repair costs to increase to $316.1 million in 2021/22, an increase of 16% from the prior year.

10.2.1 Repair Parts Costs

SAF makes use of alternate parts on collision repairs for cost savings purposes. Alternate and remanufactured parts are commonly used by the collision repair industry and are subject to established SAF guidelines. Where no suitable alternative (used, remanufactured or aftermarket) replacement parts available, the vehicle is current model year (including replacement cost coverage) or has less than 20,000 km, then the use of new Original Equipment Manufacturer (OEM) parts is permitted. The following table shows the costs of parts used in auto repairs from 2016/17 to 2020/21 as well as projection for 2021/22, as provided in response to the second round IR SRRP (SAF) 2-77:

Repair Parts Costs 2016/17 to 2021/22

Part Type (C$000s)	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22F
New (OEM)	82,750	86,010	95,224	95,865	81,384	97,782
Aftermarket	22,737	26,874	29,920	29,620	27,520	30,213
Used	4,737	4,714	5,288	5,873	6,154	6,448
Total Costs	**110,224**	**117,597**	**130,433**	**131,359**	**115,058**	**134,443**

The relative mix of parts used in repairs has ranged from 75% new OEM parts, 21% aftermarket and 4% salvage parts in 2016/17 to a mix of 71% new, 24% aftermarket and 5% salvage parts in 2020/21. SAF forecast the mix to be 73% new, 22% aftermarket and 5% salvage in 2021/22. SAF states that use of alternative parts has remained relatively stable over the last five years and it's not projected to change in 2021/22.

SAF provides an estimate of savings from using remanufactured, recycled, and aftermarket parts instead of new (OEM) parts for repairs:

Savings from Using Aftermarket, Remanufactured and Recycled Parts

Fiscal Year	2016/17		2017/18		2018/19		2019/20		2020/21	
Part Type (C$000s)	Actuals	Est. Savings	Actuals	Est. Savings	Actuals	Est. Savings	Actuals	Est. Savings	Actuals	Est. Savings
New (OEM)	82,750	-	86,010	-	95,224	-	95,865	-	81,384	-
Aftermarket	22,737	7,989	26,874	9,442	29,920	10,513	29,620	10,407	27,520	9,669
Used	4,737	3,158	4,714	3,147	5,288	3,526	5,873	3,916	6,154	4,103
Total Savings	110,224	11,146	117,597	12,585	130,433	$14,038	131,359	14,323	115,058	13,772

10.2.2 Observations on Collision Repair Costs

SAF is forecasting a return to normal level of damage claims in forecasting the level of collision repair expenses in 2021/22. Total repair costs are forecast to increase from $270.4 million in 2020/21 to $316.1 million in 2021/22, an overall increase $45.7 million or 16%. The cost increase is in-line with what SAF experience in 2018/19 prior to the pandemic. The lingering impact of the pandemic will likely reduce the number of collisions claims and related repair costs from what is forecast in this Application.

At the last rate application, SAF forecast labour costs to represent over 48% of total costs in 2014. Labour costs share of repair costs have declined from 43% of repair costs in 2016/17 to just over 40% forecast for 2021/22. Labour rates are discussed below.

SAF makes extensive use of aftermarket and recycled parts and has establish guidelines with auto body shops on when those parts, if available, should be utilized. SAF has increased the use of aftermarket and used parts in the four years from 2016/17 through 2019/20. The use of aftermarket and used parts have grown by 29% while the use of new OEM parts has increased by almost 16%. Overall, the total cost of parts has increased from $110.2 million in 2016/17 to $131.4 million in 2019/20, an increase of 30% in the four years. The increases attributed to more sophisticated electronic and diagnostic accessories in newer vehicles.

SAF has estimated that the savings from using aftermarket, remanufactured and recycled parts of $11.1 million in 2016/17 and saw a growth in savings to $14.3 million in 2019/20 and expected to save $13.8 million in 2020/21. The reduction in savings is attributed to lower claims due to COVID-19 pandemic driven reduction in driving during the year.

10.2.3 Repair Labour Rates

SAF consults on labour rates annually with the Saskatchewan Automobile Dealers Association (SADA) and the Saskatchewan Association of Automobile Repairers (SAAR). From 2014 through 2016 labour rates were subject to a negotiated 10% year over year increase. In determining the rate increases, consideration was given to the joint study undertaken for SAF, SAAR and SADA and prepared by MNP in September 2012. This study looked at the health of the Saskatchewan Collision Repair Industry; pressures the auto body industry faced due to more advanced technology in vehicles; shops being required to acquire sophisticated equipment; and additional training costs for employees being incurred. Labour rates were established to support SAF having a broad network of repairers.

The following table shows the labour rates paid and forecast from 2013/14 to 2020/21:

Fiscal Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Hourly Rate	$76.59	84.25	92.68	92.68	92.68	92.68	92.68	94.53[24]
% Increase	10%	10%	10%	0.0%	0.0%	0.0%	0.0%	2.0%

SAF notes overall labour cost or expected to continue to increase because of advancements in vehicle safety technologies and construction, adding additional labour and parts to repair estimates, such as safety system calibrations and more repair/replace operations. SAF continues to have the highest blended auto body repair labour rate in Canada, by a significant margin (typically over 20% when compared to other carriers) SAF's labour rates are higher than those of comparable Crown Insurers. SAF's current blended rate of $92.68 while MPI 's blended rate is $76 per hour and ICBC is at $76.62 per hour. As modern vehicles make up a larger portion of repair claims in the coming years, SAF forecasts at least a 2% affective increase in labour costs. The projected labour cost increases forecast in this Application may not be accomplished solely through the labour rate increase, but instead through compensation for additional new labour operations associated with new vehicle technologies and construction.

Appraisal Transition Project (ATP)

A portion of this shop compensation strategy adopted by SAF was intended to assist shops staff and to "tool up" and acquire the appropriate software and hardware electronically with SAF, enabling them to communicate with SAF in preparation for the Appraisal Transition Project (ATP). The ATP launched in 2014 and was operationalized in 2017, provides for remote approval of shop generated supplements and settlements and has resulted in approximately 35% of estimates being done by shops and remotely approved by SAF. The primary goal of the project was to position the SGI Appraisal team to handle a projected increase in claims without increasing any internal appraisal staff that could otherwise serve as technicians to the industry. At the onset of the ATP, there were 283 accredited body shops operating throughout the province. When the project was completed in 2017, 255 shops successfully made the transition and 28 withdrew from the accreditation program.

Safe and Quality Auto Repair Project (SQARP)

SAF reports that following the implementation of the ATP, the collision repair industry has fundamentally changed due to an increased focus on fuel economy and automation. The adoption of more complex technologies in vehicles puts upward pressure on claims costs. SAF had identified that less than half of accredited body shops had the necessary training, tools and equipment to properly repair newer vehicles. SAF found that tooling and training requirements were most challenging for low-volume, primarily rural auto body shops.

In response, SAF has launched the Safe and Quality Auto Repair Project (SQARP), which has gone operational in July 2021. The SQARP includes a revamped accreditation program with added new

[24] The actual blended hourly rate remains at $92.68 per hour. SAF has assumed an increase in the labour rate for rate setting purposes.

minimum training and tooling requirements. The main goal of the SQARP was to ensure that customers continue to have access to collision repair services that are capable of safely and properly repairing their claims.

Under the SQARP, SAF provided repair shops up to $15,000 in incentives to make necessary investments in training, tools and equipment to meet the updated accreditation requirements. The incentives include a $6000 incentive to all shops meeting the minimum training and tooling requirements (I-CAR Gold Class certification and resistance spot welding and silicon-bronze MIG brazing capabilities). An additional $9,000 was offered to auto body shops that exceeded the minimum requirements and are accredited through an approved third-party industry certification program, such as those offered by vehicle manufacturers.

To ensure that rural repairers were not disproportionately affected by the new requirements, SAF also funded remote training opportunities at various locations throughout the province through partnership with Saskatchewan Polytechnic and I-CAR Canada (welding certification classes typically only available through their main campuses, were offered in Swift Current, Tisdale, Meadow Lake and Estevan regions). SAF also created north and south regional technical shop relation positions, tasked with working directly with accredited shop partners to provide technical assistance/advice and to support individual shops efforts to transition into the new program.

In 2021, instead of granting a labour increase favouring high volume shops, SAF assumed the accredited repair partners fixed monthly subscription cost for estimating and OEM procedure software. The change equates to a labour rate increase of 1.9%. This change supported smaller (mainly rural) lower volume repairers.

SAF has paid out almost $2.0 million in incentives to the autobody repair shops under the SQARP. As part of July 1, 2021, SQARP roll out, the SAF distributed a new Master Services (Accreditation) Agreement (MSA) outlining the roles and responsibilities of both SAF and autobody shops and includes minimum training, tools, and equipment requirements. The current Saskatchewan Auto Collision Repair Accreditation Agreement expires March 1, 2022. The MSA requires body shop partners to submit a self-declaration for annual review.

Autobody Repair Shop Monitoring

SAF monitors accredited repair partners performance through the terms of the MSA through the uses of Key Performance Indicators (KPIs) that track behaviors indicative of a healthy, sustainable collision repair network, including customer satisfaction/experience, repair versus replace decisions, cost-effective parts usage, efficiency/cycle-time and repair quality. Accredited shop partners are providing a monthly “balanced scorecard” indicating how they performed against the minimum acceptable performance target/threshold and their peers (provincial industry average). Each of the KPIs is weighted equally, and each shop must meet the minimum acceptable level of performance for each KPI to maintain their accredited status. Shops that fall below minimum performance targets in any of the key performance areas are subject to a formal performance improvement/management process designed to provide additional support and coaching to the shop. If shops fail to meet the goals/targets identified during the collaborative performance improvement planning process, they are subject to a system of progressive sanctions/loss of access to the programing provided under the MSA.

The program changes have resulted in some industry consolidation. As of July 2021, 204 auto body shops representing approximately 95% of repair volumes remain accredited under the new program.

The industry consolidation will result in a reallocation of repairs within the accredited network, increasing shop revenues and opportunities for economies of scale. The potential increase in revenue and emerging additional parts and labour revenue opportunities should allow accredited shops the funds to invest in training and tools to keep pace with vehicle automation, design, and construction changes.

10.2.4 Observations on Labour Rates

Labour costs for 2021/22 represent about 40% of total repair costs. The relative share has dropped from 48% of the total in 2014. This change is due to increased labour costs being outpaced by the increase in parts costs as newer vehicle repairs are using more parts and technology than previous models.

Labour rates were established to be sufficient to assist in sustaining the autobody industry in Saskatchewan. SAF has acknowledged that Autobody repair shop labour rates are higher than its peer Crown insurance companies ICBC and MPI. The blended labour rates paid by MPI to auto repair shops are $76 while ICBC blended rate is $76.62 for repairs.

SAF has successfully increased the number of appraisals by repair shops to 35% of all claims. This process has led to efficiencies and cost savings. SAF's efforts to continually monitor autobody shop performance are commendable. Continuous monitoring will ensure that repair standards and repair costs are maintained at normal levels. SAF should continue to monitor the autobody shop-generated cost estimates and report to the Panel on the program at the next rate application.

The transition to centralized electronic estimating reduced the number of autobody shops from 283 to 255 accredited repair shops in 2017. SAF's new SQARP accreditation program ensures that repair standards are maintained and that autobody shops are equipped and trained to repair newer, more complex vehicles.

The new SQARP accreditation program has led to further industry consolidation with 204 accredited repair shops as of July 2021. SAF has identified a primary goal to maintain access to a quality repair. Some focus is on supporting the viability of rural body shops in the repair network. We commend SAF for its efforts in this regard. However, we remain concerned that industry consolidation may reduce access to autobody shops in rural communities. We believe that the new program is likely to challenge the continued viability of smaller repair shops that cannot make the required investments even with the targeted efforts. This could lead to a reduction in the number of rural and smaller repair shops. SAF should report back on the status of the SQARP role out, and the health of the autobody industry, in particular access to rural-based repair shops in its next Rate Application.

10.3 *Personal Injury Medical Expenses*

The following table shows the reimbursements from SAF to the Ministry of Health and medical providers from 2017 to 2021:

Personal Injury Medical Expenses 2016/17 to 2020/21

Fiscal Year (C$000s)	2016/17	2017/18	2018/19	2019/20	2020/21
Ministry of Health	$18,721	18,581	28,168	28,697	$28,883
Medical Providers	17,215	16,998	17,697	16,748	13,942
Total	**$35,936**	**35,579**	**45,865**	**45,445**	**$42,825**

SAF negotiates rates with the health care provider associations for the various medical services that are provided to individuals injured in vehicle collisions and accidents. SAF provided a schedule of rates as confidential information in response to SRRP (SAF) 1-74(c).

10.3.1 Observations on Personal Injury Medical Service Rates

As shown in the above table, overall, 2020/21 medical service costs were $42.8 million, a decrease of 6% over 2019/20 total costs. The reduction in total expenses in 2020/21 results from lower payments to medical service providers. The fees paid to these service providers are dependent on the number of vehicle collision claims which were lower due to reductions in driving from the COVID-19 induced economic slowdown in the year.

10.4 *Loss Adjustment Expenses (LAE)*

Loss adjustment expenses (LAE) are the costs associated with settling claims, including internal legal fees, adjusters, and operating costs of claims centers. It also includes direct claims file expenses such as towing and appraising claims paid to external parties.

Before 2018/19, SAF separately accounted for internal LAE while external LAE was included in Claims Incurred. To improve transparency, SAF now reports both internal and external LAE.

The detail of LAE from 2016/17 through the 2021/22 forecast year is as follows:

Loss Adjustment Expenses from 2016/17 to 2021/22

Fiscal Year	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22F**	**2022-2021 Change**	
Cost Category (C$000s)							$	%
Internal LAE	62,228	61,813	61,138	$67,112	$64,010	69,158	5,148	8.0%
External LAE	-	-	71,066	76,654	71,796	86,914	15,118	21.0%
LAE Unpaid & Unreported	8,567	13,778	(2,726)	5,379	40,841	6,986	(33,855)	(82.9%)
Total LAE	**70,795**	**75,591**	**129,478**	**149,505**	**176,647**	**163,057**	**(13,590)**	**(7.7%)**

As indicated in the above table, LAE was $129.5 million in 2018/19 and increased to $149.5 million in 2019/20. SAF reported LAE of $176.6 million in 2020/21, increasing 27.1 million or 18.1% for the year. Both internal and external LAE declined in 2020/21 primarily due to pandemic influenced fewer claims. A $40.8 million actuarial valuation adjustment to claims reserves to reflect benefit is the cause of the increase.

SAF forecasts LAE to be $163.1 million in 2021/22. SAF forecasts an increase in internal LAE by $5.1 million or 8%. SAF also forecasts external LAE (amounts paid to third parties to process claims) for 2021/22 based on a return to normal for claims plus a compound annual growth of 6.5% from the 2019/20 level. This increase is $15.1 million or 21%. The loss adjustment expenses are forecast to be as follows:

Forecast of Loss Adjustment Expense 2021/22 to 2025/26

Cost Category (C$000s)	2021/22	2022/23	2023/24	2024/25	2025/26
Internal LAE	$69,158	70,710	72,321	77,474	75,462
External LAE	86,914	90,272	93,135	96,082	99,199
LAE Unpaid & Unreported	6,986	5,996	5,063	4,761	4,552
Total LAE	**$163,057**	**166,978**	**170,520**	**173,317**	**179,213**
Year over year growth	**(7.7%)**	**2.4%**	**2.1%**	**1.6%**	**3.4%**

10.4.1 Observations on Loss Adjustment Expenses

LAE is influenced by claims paid and reserve levels. We note that the 2020/21 actual LAE expenses increased by $40.8 million due to a valuation adjustment for benefit program change made in the year. SAF enhanced program benefits and cost of living adjustments and market rate adjustments for living expenses for those with cognitive impairment. SAF also ended the practice of reducing income benefits by the amount a customer receives through CPP disability. If not for this change in coverage, LAE would have declined in 2020/21 because of lower claims experience during the COVID-19 pandemic. Internal and external LAE for 2020/21 totalled $135.8 million before the adjustment compared with $143.9 million (before valuation adjustments) in 2019/20, a decrease of $8.1 million.

LAE expense forecast on an overall basis for 2021/22 is $163.1 million, a decrease of $13.6 million over 2020/21. However, this general reduction relates to the lower IBNR adjustments forecast for 2021/22. Excluding the claims adjustment, LAE is increasing materially in 2021/22.

When one looks at internal LAE, it is forecast to increase from $64.0 million in 2020/21 to $69.2 million, an increase of $5.1 million or 8%. This appears reasonable when considering the reduction in LAE in 2020/21 due to the COVID-19 pandemic. Comparing internal LAE to 2019/20 pre-pandemic levels, the increase forecast in 2021/22 is modest, increasing just over $2 million or 3%.

The external LAE paid to third parties is forecast to increase from $71.8 million in 2020/21 to $86.9 million in 2021/22, increasing $15.1 million or 21% over the prior year. When comparing to 2019/20, external LAE is forecast to increase by almost $10.3 million or 13.4%. External LAE costs will be dependent to some degree on the level of claims. We note that the claims counts are lower than what has been forecast due to continuing COVID-19 pandemic influences. Given that external loss adjustment expenses depend on the level of claims, the extent the claims are lower than forecast is likely to lead to an overall lower LAE than currently forecast for 2021/22.

11.0 SAF OPERATING EXPENSES

11.1 *SAF Allocated Operating Expenses*

SAF's allocated operating expenses include Administrative Expenses, internal Loss Adjusting Expenses (ILAE), and Traffic Safety programs expenses. A description of the cost allocation methodology is found in section 12.0. Total allocated operating expenses were $142.9 million in 2017/18 and grew to $164.8 million in 2020/21. SAF operating expenses are forecast to increase to $200.6 million, an increase of $44.9 million or 27%. The total operating expenses allocated to SAF are as follows:

SAF Operating Expenses 2017/18 to 2021/22

Allocated Expenses (C$000s)	**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 Programs	30,636	29,468	34,047	31,554	40,479	8,925	28%
Total	**142,986**	**148,884**	**172,262**	**164,791**	**200,561**[25]	**35,770**	**27%**

Administrative expenses are the expenses required to manage the company and provide staff support for its operations. Administrative Expenses consist of operating expenses such as 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, representing 7% of total operating expenses. The decrease is attributable in part to the COVID-19 pandemic. SAF is forecasting administrative expenses to increase to $90.9[26] 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. Administrative expenses are discussed in section 11.2.

ILAE are the internal costs directly related to the evaluation, processing and settlement of claims. ILAE includes the wages and benefits of internal legal and claims staff and operating cost of claims centers and other costs to support administering claims. ILAE costs were $67.1 million in 2019/20 and were $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. ILAE represents 6.4% of total claims and expenses. LAE is discussed in section 10.4.

Traffic Safety Programs consists of programs, sponsorship and advertising associated with promoting traffic safety. SAF is directly assigned these costs. 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 COVID-19 pandemic. The 2021/22 year has planned expenditures of $40.5[27] million, an increase of $8.9 million or 28.3% from the prior year. Traffic safety

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[25] Net of fee recoveries contra accounts which have been reclassified as other revenue in 2021/22.
[26] SAF forecasts Administrative expenses to be $99.3 million after reclassifying fee recoveries to other income in 2021/22. Before 2021/22 the fee recoveries were netted against Administrative expenses for financial reporting purposes.
[27] SAF forecasts Traffic Safety Programs to be $49.6 million after reclassifying fee recoveries to other income in 2021/22. Before 2021/22 the fee recoveries were netted against Traffic safety programs for financial reporting purposes.

expenses represent about 3.5% of overall budgeted operating expenses. Traffic Safety Programs are discussed in section 11.4.

The CT project spending is included in the SAF operating expenses. 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

Category ($,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%
CT Project Expenses	-	($470)	($7,597)	($2,529)	($22,260)	($20,001)	
Total Expenses excluding 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 CT Project	$153	$158	$175	$173	$189	$16	9.3%

11.1.1 Observations on Allocated Operating Expenses

The CT project costs are a key reason for the increase in forecasted expense costs. Administration costs are forecast in 2021/22 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 costs increase in 2021/22 would be $15.8 million or 9.7%.

The SAF Administration expenses in terms of insured vehicle have 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. Further discussion on the CT project and its impact on the rate application is found in section 11.5 of this Report.

11.2 *Administrative Expenses*

The following table provides SAF's Administrative expenses allocated to SAF:

Administrative Expenses 2017/18 to 2021/22

Cost Elements: (C$000s)	2017/18	2018/19	2019/20	2020/21	2021/22F
Wages & salaries	31,451	37,138	43,143	34,865	37,926
Benefits	6,051	7,413	11,626	7,750	7,986
Total salaries & benefits	37,502	44,551	54,769	42,615	45,912
Bank & credit card charges	4,666	6,332	6,013	7,226	8,709
Board of Directors	231	260	264	184	231
Contracted services	2,000	2,826	8,176	6,702	20,777
Data services & software licensing	2,562	2,255	2,377	7,316	8,728
Employee membership fees, training, recognition	217	337	519	217	629
Employee travel (including vehicles)	520	645	822	161	475
Customer & corporate relations	407	280	347	71	338
Office supplies	385	697	693	622	707
Office communications	499	449	372	1,118	1,036
Mail & courier	2,482	3,082	3,290	3,229	3,964
Licence plates	724	729	709	774	842
Insurance	359	485	391	409	532
Strategic initiatives & advertising	13	834	725	406	1,103
Property & equipment lease/rental	164	193	128	202	572
Building maintenance, repairs, and utilities	1,496	1,004	565	682	682
Depreciation	4,735	2,876	2,124	4,307	4,309
Other expenses	723	778	625	2,853	1,180
	59,685	68,613	82,909	79,094	100,726
Expense fee recoveries*	(9,183)	(10,369)	(11,841)	(9,904)	(9,840)
Total Administration Expenses	**50,502**	**58,244**	**71,068**	**69,190**	**90,886**

***Expense Fee Recoveries** have been reallocated from contra expense accounts in 2021/22 to other revenue. The fee recoveries historically have been netted against administrative expenses in prior years. The above table is consistent with the financial forecast (provided in SRRP (SAF) 1-71(a)) and does not reflect this reallocation of expense fee recoveries. SAF forecast administrative expense in 2021/22 to be $99.3 million after reclassifying fee recoveries.

11.2.1 Wages & Salaries, Benefits, and Pensions

The administrative salaries and benefits have grown from $37.5 million in 2017/18 to $54.8 million in 2019/20, increasing $17.3 million or 46%. The growth was partly attributed to an allocation of internal resources on CT projects in the year. Salaries and benefits declined in 2020/21 to $42.6 million due to less administrative activity on several projects due to the COVID-19 pandemic. The 2021/22 budgeted total compensation is $45.9 million, an increase of $3.3 million or 7.7%.

11.2.2 Observations on Wages & Salaries, Benefits and Pensions

The salaries and benefits are forecast to increase by 7.7% in 2021/22 which is more than inflation. The magnitude of the increase is in part due to the CT project initiative spending. SAF is allocating internal resources to the transformation project which is behind this increase. SAF should monitor and control the level of resources allocated to Administration related to the CT Project. A discussion on CT project spending is discussed in section 11.3 of this Report.

11.2.3 Contracted Services

Contracted services include consulting on special projects and other support services, which were $2.0 million in 2017/18 and have increased to $8.1 million in 2019/20 due to CT project spending. Contracted services declined to $6.7 million in 2020/21. The reduction is due to a delay in CT project initiatives because of a decision to undertake additional due diligence. SAF has forecast contracted services to increase to $20.8 million in 2021/22, increasing $14.1 million or 210% from the 2020/21 level. The increase is due to ramping up spending on CT projects. Included in the amount is an increase of $10 million in information technology (IT) development expenses that SAF previously forecast to be capitalized.

11.2.4 Observations on Contracted Services

SAF is forecasting a significant level of external consulting fees on the CT project. An elevated level of this expense is expected over the next four years as SAF completes a digital transformation. This increase is due to the expense of the CT project costs, due to the nature of the Software as a Service (SaaS)[28] IT solution that SAF plans to implement. The CT project is discussed in section 11.5 of this Report.

11.2.5 Data Services & Software Licencing

Data processing expenditures were $2.5 million in 2017/18 and increased to $8.2 million in 2019/20. The increase is due to a migration to cloud-based services for Microsoft and other services. The Data services and software licensing expenditures are forecast to increase to $8.7 million in 2021/22 due to anticipated increases in SaaS subscriptions for operations.

[28] A Software as a Service (SaaS) is a cloud-based arrangement is where a customer pays a fee in exchange for right to access application software from a service provider for a specific term. The cloud service provider in most arrangements retains control over the intellectual property.

11.2.6 Depreciation Expense

Depreciation expense has varied from $4.7 million in 2017/18 to $2.1 million in 2019/20. Depreciation expense doubled in 2020/21 to $4.3 million and is forecast at that level in 2021/22. The increase is in part due to the amortization of CT project costs incurred in 2018/19 and 2019/20.

11.3 *Capital Expenditures*

SAF incurs capital spending to maintain its Corporate facilities, IT infrastructure and systems hardware and software. SAF's capital plan also includes building renewals. SAF's building renewal strategy sets goals for renewal in the short-, medium- and long-term, as well as ongoing sustainability for each location. Planned spending is aligned with this strategy and is necessary to meet SAF's business needs, as well as to maintain its buildings.

The capital spending from 2017/18 to 2021/22 is forecast as follows:

Capital Expenditures 2017/18 to 2020/21

Expenditure (C$000s)	2017/18	2018/19	2019/20	2020/21[29]	2020/21B	2021 Variance
Building	$555	7,627	3,891	1,184	1,504	(320)
Information Technology	1,912	5,947	17,607	6,292	9,201	(2,909)
Other Equipment & Vehicles	1,680	3,014	5,365	1,412	2,084	(672)
Total	**$4,147**	**16,589**	**26,863**	**8,888**	**12,789**	**(3,901)**

SAF 2020/21 capital spending was budgeted to be $12.8 million in 2020/21, while actual spending for the year was $6.1 million as reflected in the following:

SAF Capital Expenditures 2020/21 Actual Vs. Forecast

	2020/21		
Expenditure (C$000s)	**Actual**	**Budget**	**Variance (Favourable) Unfavorable**
Buildings	1,184	1,504	(320)
Information Technology	6,292	9,201	(2,909)
Other Equipment & Vehicles	1,412	2,084	(672)
Total	**8,888**	**12,789**	**(3,901)**

The major reduction related to delays in the CT project due to the decision to undertake additional due diligence as well as COVID-19 influenced capital spending delays.

[29] Actual capital expenditures exclude reclassification of leasehold improvements from SAF to SGI totaling $2.8 million.

11.3.1 Capital Expenditure Forecast

Capital expenditures are forecast to increase by $40.5 million, for a total of $46.7 million in 2021/22. The increases in capital spending include over $19.5 million in building projects including a planned Saskatoon based satellite head office. Also, SAF is forecasting to spend $24.8 million on IT projects discussed below in section 11. The forecast capital spending over the next five years is as follows:

Forecast Capital Expenditures 2021/22 to 2025/26

Expenditure (C$000s)	**2021/22**	**2022/23**	**2023/24F**	**2024/25F**	**2025/26F**	**Total 2022 to 2026**
Buildings	19,520	12,205	18,475	13,225	-	63,425
Information Technology	24,830	24,135	41,585	6,165	4,495	101,210
Other Equipment & Vehicles	2,371	360	1,210	610	360	4,911
Total	**46,721**	**36,700**	**61,270**	**20,000**	**4,855**	**169,546**

11.3.2 Corporate Transformation (CT) Project

SGI has set its sights on becoming a digital insurer and has embarked on a multi-year corporate transformation (CT) project. The company is transforming its technology, operations, and culture to achieve this, placing corporate transformation at the heart of its strategy.

The CT project addresses an IT deficit and replaces core legacy IT systems at the end of life. SAF's current technology base consists of outdated, unsupported and, in some cases, critically weak technologies. SAF's low IT maturity compounds these technical issues regarding the operational capabilities to manage day-to-day business operations and maintain service levels. The systems transformation initiative will result in the modernization of the SGI's core systems along with the migration of other core corporate systems to SaaS platforms.

SAF indicates that the CT project will lead to improved efficiency. Following budgeted higher CT project spending over the next four years as SGI invests in transformation, SAF will be able to support new programs and service offerings (e.g., mandatory entry-level training for commercial drivers, Class 5 driver education review, safe and quality auto repair).

SAF is forecasting $101.2 million in IT capital expenditures in the next five years. The majority of the proposed spending is on the CT project. The forecast IT capital expenditures are as follows:

IT Capital Expenditure Forecast 2021/22 to 2025/26

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**

In establishing its transformation capital budget, SAF indicated the nature of the project at the time the budget was created was uncertain. An estimate was made to capitalize only a portion of the costs of the CT project. The estimate tried to encompass multiple different directions that transformation could take including developing applications internally, which would result in significant capitalization of cost to a SaaS implementation, which will result in very minimal amounts being capitalized. A SaaS solution is SAF's current budget does not consider the capitalization of any internal staff working on the CT project.

11.3.3 Observations on CT Project

The terms of reference for this study are to take the accounting and operating policies and procedures of SAF as given.

SAF indicated that a business case for the CT project was not yet approved. SAF filed a summary of project benefits in confidence, but had yet to complete a full cost benefit analysis. The project will lead to future benefits for SAF and its costs are forecast to be significant. We recommend that the Panel recommend that SAF provide the completed business case and project plan at the rate application so as to allow the Panel to understand the full implications of the CT project on future rates.

The capitalization of costs under cloud computing agreements such as the SaaS solution being contemplated by SAF is subject to professional judgement. 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.[30] At this stage, SAF does not appear to have complete clarity on what level of expenditures on this project can be capitalized. SAF has acknowledged that it is a grey area. It cannot determine the level of costs to capitalize until the nature of the solution, and the proposed implementation steps are determined. It is expected to follow International Financial Reporting Standards (IFRS) in guiding its accounting treatment.

The forecast expense of CT project cost has a material impact has increased the revenue requirement of SAF and, in turn, rate indication in this rate application. The current accounting

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

treatment is a significant factor behind the 1.7% increased revenue requirement reflected in the current rate indication.

A critical question that needs to be addressed relates to fairness to ratepayers. The decision to expense significant CT project costs over the next several years raises intergenerational equity issues from a rating standpoint. Today's ratepayers may not be the same ratepayers who will benefit from the system changes, which are not expected until 2024/25. SAF should consider excluding the CT project costs from the determination of the rate indication. This rate treatment would ensure the costs of the new systems are recovered from the ratepayers benefiting from the new service offerings. SAF should consider the fairness and reasonableness of the approach on todays, and future customers who will benefit from this investment.

See Section 6.5 for a more fulsome discussion on this issue.

SAF will have to determine whether the upfront configuration and high customization costs will result in an intangible asset it controls. SAF will have to determine whether it retains the intellectual property rights to the customized Software or the vendor can make this new functionality available to other customers. Given the significant amount of customization, it is unlikely that a SaaS provider would monetize it. SAF will have to determine whether it will have a contractual right to possess its Software during the hosting period. It will also have to consider whether it is feasible to run the Software on SAF-based hardware or contract with another party to host the Software. If either is possible, SAF may have a basis for capitalizing some costs.

Suppose SAF determines it does not have intellectual property. SAF will have to consider further whether the implementation and customization costs should be expensed or deferred and matched over the terms of the SaaS agreement. SAF will have to determine all this based on its SaaS contract arrangement structure, which our understanding has not yet been established.

SAF should engage professional advice on capitalizing CT project costs within the IFRS framework and report back at the next rate application on the impact on rates.

SAF plans to be expending a significant amount on this project on transformation over the next four years. SAF is dedicating significant internal staff and external resources to the CT project, indicating a high degree of customization. SAF is capitalizing a portion of external consulting costs only. Currently, SAF does not appear to capitalize internal IT salary costs on the CT project. The Corporation has established accounts for this purpose. However, it has not forecast the capitalization of any of these costs. To the extent that internal staff are engaged in similar transformation activities as external resources and the activities are capital in nature, SAF should review and consider whether it is consistent in its treatment of such costs.

11.4 *Traffic Safety Programs*

SAF is responsible for traffic safety in Saskatchewan, guided by the Auto Traffic Safety Act. Reducing injuries and fatalities on Saskatchewan roads continue to be a top priority for the organization. The goal of this investment is to provide social and economic benefits through the promotion of safe driving, which reduces collisions. The following table summarizes actual and projected Traffic Safety costs for 2016/17 to 2021/22:

Total Traffic Safety Programs Expense 2016/17 to 2021/22 Forecast

Fiscal Year (C$000s)	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022-2021 Variance	
Traffic Safety Programs	6,612	10,009	10,451	11,056	10,088	13,016	2,928	29%
Traffic Safety Program Evaluation	34	34	83	93	292	585	293	100%
Traffic Safety Advertising	3,006	2,344	4,645	4,079	2,856	5,738	2,882	101%
Driver Programs	1,097	1,147	763	1,286	1,257	1,320	63	5%
Driver Education	8,846	9,145	6,648	7,864	7,193	8,926	1,733	24%
Carrier Safety Services	5	3	5	9	0.2	9	9	4400%
Total Traffic Safety Initiatives	**19,597**	**22,682**	**22,594**	**24,387**	**21,686**	**29,594**	**7,908**	**36%**
Program Administration	7,164	5,263	4,214	5,841	7,076	8,040	964	12%
Corporate Overhead	4,369	2,690	2,660	3,819	2,792	3,936	1,144	41%
Total Traffic Safety Program Costs	**31,130**	**30,636**	**29,468**	**34,047**	**31,554**	**41,570**	**10,016**	**32%**
Year over year growth	10.3%	(1.6%)	(3.8%)	15.5%	(7.3%)	31.7%		
% of Premiums Earned	3.4%	3.3%	3.1%	3.5%	3.2%	4.3%		

Total Traffic Safety Program costs were $31.1 million in 2016/17. In that year the program spending had increased by 10.3% due to the introduction of targeted traffic safety program funding for enforcement discussed below. SAF’s traffic safety program costs increased to $34 million in 2019/20 and declined in 2020/21 to $31.5 million. SAF reported a reduction in advertising and traffic safety initiatives due to the COVID-19 pandemic offset by increased administrative expenses to meet COVID-19 protocols and address driver testing backlogs. SAF forecasts a 31.8% overall increase in the budgeted expenditures for the year from 2020/21.

SAF has reported that at the end of June 30, 2021, the first quarter of fiscal 2021/22, Traffic Safety Program expenditures are less than forecast by approximately $3.4 million or 24% lower than forecast. SAF attributed the reduction to continued COVID-19 measures during the quarter; there was less traffic safety-related advertising, events sponsorships, program delivery than initially budgeted.

Traffic Safety Program spending consists of external funding of traffic safety enforcement and other community outreach safety initiatives. In 2015, SAF implemented the Combined Traffic Safety Services Saskatchewan (CTSS) Pilot Project. The CTSS pilot involved deploying 60 additional traffic safety enforcement officers on central and southeast Saskatchewan roads. Half of the positions are funded by the SAF. This dedicated traffic safety unit focuses on high-risk behavior such as impaired driving, distracted driving, and aggressive driving.

SAF continues annual funding for this initiative. SAF’s traffic safety community outreach funding of police service delivers focused enforcement throughout Saskatchewan. Police services have targeted traffic safety enforcement programs throughout the year and provide SAF reporting on program enforcement activity. The CTSS and other enforcement initiatives were $5.3 million in 2016/17 and has increased by $8.8 million in 2020/21. SAF is forecasting increasing enforcement initiatives spending of $10.4 million in 2021/22, including expanded efforts in impaired driving and high visibility enforcement. SAF also forecasts increases in traffic safety community outreach. Overall traffic safety programs spending is forecast to increase by $2.9 million or 29% over 2020/21.

SAF funds studies and pilot projects to evaluate its traffic safety programs' efficacy and explore new ideas and new initiatives to improve road safety in Saskatchewan. Program evaluation has increased from $34 thousand in 2016/17 to $292 thousand in 2020/21. SAF is forecasting $585 thousand in 2021/22, a 100% increase to investigate and, if feasible, fund a $300 thousand pilot program in the year. SAF believes that it can leverage new technologies to enhance traffic safety. The proposed pilot project is to test a tool for new drivers that monitors driving behaviour and provides feedback and rewards to drivers who improve. SAF believes this has great potential to leverage technology to improve the safety of new drivers. SAF is also exploring enhancements in distracted driving surveillance to aid enforcement efforts, undertaking preliminary research using new technology.

Program evaluation is forecast to exceed $600 thousand annually over the next five years.

SAF invests in various traffic safety advertising campaigns to promote safe driving. SAF incurred $3 million on advertising programs in 2016/17 and increased to over $4 million in 2019/20. SAF curtailed advertising campaigns in 2020/21 due to the COVID-19 pandemic, spending $2.8 million in that year. SAF's forecast assumes a return to more normal operations in 2021/22 with advertising spend at $5.7 million, an increase of $2.9 million or just over 100% from the prior year. Forecast spending on advertising is set $1.7 million or 42% higher than 2019/20 pre-pandemic levels.

Driver programs is dedicated funding on impaired driving and driver improvement focused initiatives. Funding of this initiative is forecast to grow to $1.3 million or by 5% in 2021/22.

SAF administers driver education programs in Saskatchewan. SAF spent $8.9 million in 2016/17 which decreased to $7.2 million in 2020/21. SAF is forecasting driver education to be $8.9 million in 2021/22 a $1.7 million or 24% increase over the previous year. SAF attributed the increase to improving its budgeting process. Prior years estimates were based on historical data which was limited. With the gathering of more data, SAF believes its forecasting of driver education costs is improved. SAF notes that the average price per student increases annually and has forecasts an annual increase of 4% in 2022/23 and beyond.

Program administrative expenses are primarily wages and benefits and other support costs to support the delivery of traffic safety programs. Program administration costs were $7.1 million in 2016/17 to support the rollout of the CTSS pilot police enforcement project. Program administration was $5.8 million in 2019/20 and increased to $7.1 in 2020/21. The increase was due to additional resources required because of COVID-19, especially in the driver development area. With the suspension of road tests for three months, a backlog needed to be addressed, resulting in an increase in overtime expense for the year. The time required to undertake tests also increased due to the implementation of safety protocols and changes to the process, which increased supply costs.

SAF is forecasting administration expenses in 2021/22 to increase to $8 million, an increase of 12%. The Program Administrative expense budget for 2021/22 includes additional positions and accounts for pre-pandemic spending. SAF is forecasting that travel, training, conferences, and other expenses will resume normal or above normal levels.

The allocation of corporate overhead is determined by changes in corporate costs and changes in the allocation process. SAF indicated that in 2019/20 some facility costs were allocated to traffic safety that weren't in previous years. For 2020/21 allocated costs were lower than anticipated due to the COVID-19 pandemic. SAF is forecasting corporate overhead to return to normal pre-pandemic levels as pandemic restrictions and impacts are reduced.

The following table shows major Traffic Safety initiative budgets and actual results for 2020 and 2021 by category:

Traffic Safety Programs Expense Budget vs. Actual for 2019/20 and 2020/21

Fiscal Year **(C$000s)**	**2019/20**				**2020/21**		
	Budget	**Actual**	**Variance**		**Budget**	**Actual**	**Variance**
Traffic Safety Programs	13,007	11,056	(1,951)		13,294	10,088	(3,206)
Traffic Safety Program Evaluation	275	93	(182)		235	292	57
Traffic Safety Advertising	6,520	4,079	(2,441)		5,738	2,856	(2,882)
Driver Programs	1,566	1,286	(280)		1,301	1,257	(44)
Driver Education	9,550	7,864	(1,686)		10,828	7,193	(3,635)
Carrier Safety Services	9	9	-		9	0.2	(9)
Total Traffic Safety Initiatives	30,927	24,387	(6,540)		31,403	21,686	(9,717)
Program Administration	5,610	5,841	231		7,278	7,076	(203)
Corporate Overhead	2,423	3,819	1,396		3,257	2,792	(464)
Total Traffic Safety Program Costs	38,959	34,047	(4,912)		41,939	31,554	(10,385)

Overall, 2019/20's traffic safety expenditures were $4.9 million less than budgeted for the year, as reflected in the above table. SAF indicated that for 2019/20 less was spent on traffic safety community outreach on several initiatives than planned initially. The significant variance in driver development was due to budgeting errors after analyzing the historical cost for the program. Corporate overhead costs were $1.4 million over budget due to the allocation of facility costs that were previously not considered in the budget.

The 2020/21 traffic safety expenses were $10.4 million less than budget. The reduction was due to traffic program spending which was $3.2 million less than forecast. SAF attributed the decrease to the COVID-19 pandemic, which saw the curtailment of many programs and reduced the number of community events due to the pandemic. Driver Development spending was $3.6 million less than forecast due partly to budgeting errors and curtailment of high school driving education for a period.

SAF also reduced its spending on advertising programs in the year due to reducing driving due to the pandemic. SAF attributed the reduction in corporate overhead due to the COVID-19 pandemic and the delays in implementing the CT project.

11.4.1 Traffic Safety Programs Performance Monitoring

In June 2014, SAF introduced several new traffic safety initiatives in Saskatchewan. The initiatives focused on:

- alcohol and drug-impaired driving sanctions (i.e., increased license suspensions, vehicle impoundment, ignition interlock, zero drugs and alcohol tolerance for new drivers);
- excessive speed and photo speed enforcement; and
- booster seat restraints.

Measuring the campaign's effectiveness in changing driver behavior was a vital component of the plan; SAF reported a significant reduction in injuries and fatalities was achieved from the execution of its strategy.

Year	Collisions	Injuries	Fatalities
2009	30,615	6,886	153
2010	29,004	6,542	167
2011	29,675	6,882	150
2012	30,231	7,333	183
2013	31,755	7,036	139
Baseline Average (2008-2013)	**30,256**	**6,936**	**158**
2014	27,632	5,817	130
2015	27,876	5,574	121
2016	29,011	5,768	125
2017	29,035	4,616	100
2018	29,208	4,220	129
2019	28,886	4,231	71
2020	24,226	3,599	87
Average 2018-2020	**27,440**	**4,017**	**96**

SAF reported 87 fatalities in 2020, an increase of 16 from the 79 accident-related fatalities in 2019. Accident fatalities were well below the 100 level historically experienced in the Province. Of the 16 reported increases in Traffic accident-related deaths, 11 or 68% relate to impaired driving accidents.

SAF also reported a marked reduction in injuries per 100,000 drivers in 2020, with 301.4 versus 358.7 in 2019. This significant reduction relates to a decrease in driving activity associated with the COVID-19 pandemic.

In its recent measurement of performance for the period of 2017/18 through 2019/20 the following results relative to before the traffic safety initiatives were implemented.

Impact of SAF Traffic Safety Program Initiatives on Collision Outcomes

Collisions and Victims	Baseline Average (2009-2013)	Average Post Traffic Safety Program Implementation (2018-2020)	Change	Percent Change (%)
Total Collisions	30,256	27,440	(2,816)	-9.3%
Fatalities	158	96	(62)	-39.2%
Injuries	6,936	4,017	(2919)	-42.0%

Impaired Driving

SAF measured the effectiveness of its programs targeting alcohol – drug impaired driving by comparing a baseline of collisions occurrence in the last five years following the implementation of the initiatives and noted the results indicate reductions in total collisions resulting from alcohol – drug impaired driving with associate a reduction in fatalities in injuries. SAF evaluated an analysis of naïve before and after comparison of alcohol – drug impaired driving collisions and modelled the impact to determine observe collision outcomes to an expected outcomes if there were no alcohol – drug targeted safety programming. The results of the modelling were as follows:

Observed Collision Outcomes vs. Modeled Expected Outcomes without New Initiatives

Collisions and Victims	Expected Average (2009-2013)	Observed Average Following Implementation (2015-2019)	Change	Percent Change (%)
Total Collisions	1,421	879	(252)	-22%
Fatalities	60	41	(8)	-17%
Injuries	729	422	(226)	-35%

SAF noted that results of the modelling indicated, the 2014 impaired driving initiatives yielded meaningful reductions in collisions, injuries and fatalities.

Distracted Driving

SAF's program targeting cell phone usage/distracted driving is primarily comprised of a mixture of legislation, education and enforcement. As of February 2020, the consequences of distracted driving were changed as follows:

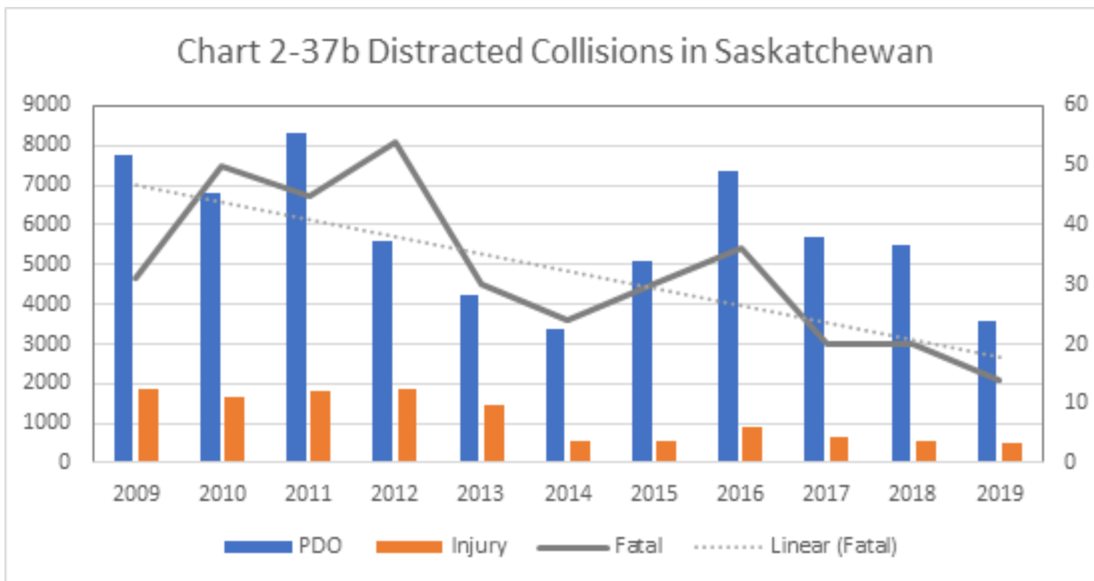
- First offence – ticket more than doubled to $580 plus four demerits.
- Second offence within a year of being convicted of the first – $1,400 ticket, plus an additional for the merits, plus an immediate, seven-day vehicle seizure. Vehicle owners are also responsible for the towing and impound fees.

- Third offence within a year of conviction of the first – $2,100 ticket, plus four additional demerits and another seven-day vehicle seizure.

SAF also actively advertises on social media and news releases and videos.

SAF collaborates with law-enforcement in enforcing the cell phone legislation with specific focus in the month of February and October. On average police issue about 700 tickets to distracted drivers each month.

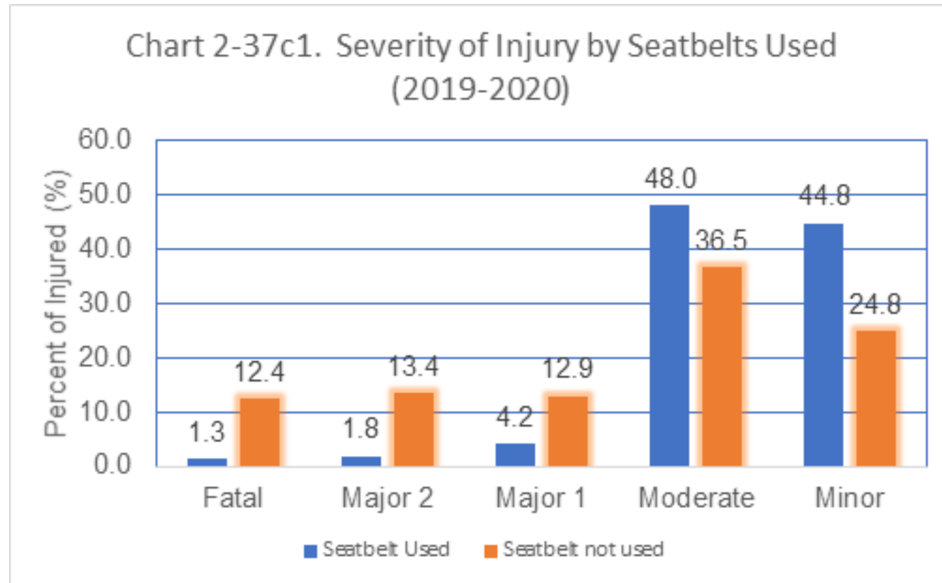
SAF has indicated that the programs have led to a steady decrease and distracted driving collisions and in all collision, severity types. The trend in distracted driving related collisions, injuries and fatalities is trending lower since 2009 as reflected in the following chart:



SAF continues to focus its traffic safety efforts to further reduce distracted driving as it represents the second-highest cause of fatalities behind impaired driving and is attributed to between 20% to 27% of injury crashes.

Seatbelt Usage

SAF analysis has shown that there is a relationship between the severity of injury to vehicle occupants and seatbelt usage. The severity of injury is much lower for individuals using seatbelts. SAF notes that proximately 92% of those using safety restraints sustained minor or moderate injuries. Occupants not using safety restraints were severely or fatal injury 39.7% of the time compared to 7.3% of the time for those using restraints.



The data in the above chart is used to develop the relative risk of sustaining an injury your seatbelt is not used versus when seatbelt is used for the period 2015 to 2019.

11.4.2 Traffic Safety Programs Strategy

Traffic safety budgets are prepared for initiatives based on recommendations from the Traffic Safety Review Committee. Budgets for near-term initiatives are for program maintenance and ongoing programming. Initiatives requiring legislative changes are considered mid-term, while initiatives requiring implementation over many months or years are considered long-term. Amounts budgeted for each of these initiatives are based on previous budget experience and cost estimates.

SAF's areas of focus on traffic safety for the next five years are on:

1. Impaired driving – alcohol/drugs
2. Distracted driving
3. Occupant restraints
4. Commercial vehicles
5. Speed
6. Wildlife
7. Intersections
8. Road conditions

Each of the areas of focus have specific programs. SAF conducts an annual review of its various programs monitoring the success of programs using long-term collision outcomes.

Traffic safety primary focus for the five years through 2025/26 is on impaired (alcohol and drug) driving, which results in between 30 to 35% of current fatalities. Distracted driving is another focus where it is the second-highest cause of fatalities behind impaired driving and figures into between 20% to 27% of injury crashes.

SAF has established a long-term target to reduce injuries to 350 per 100,000 population by 2025/26.

SAF has established a long-term target to reduce traffic fatalities to 5.0 per 100,000 population by 2025/26. This is a targeted reduction of 50% from the ten deaths per 100,000 experienced nationally.

11.4.3 Traffic Safety Programs Expense Forecast

SAF is forecasting Traffic Safety expenditures for the next five years as follows:

Traffic Safety Programs Forecast 2021/22 to 2025/26

Fiscal Year **(C$000s)**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2022-2026 Change**	
Total Traffic Safety Initiatives	29,593	30,777	32,008	33,288	34,619	5,026	16.9%
Program Administration and Overhead	11,977	12,456	12,954	13,472	14,011	2,034	16.9%
Total Traffic Safety Program Costs	41,570[31]	43,232	44,962	46,760	48,630	7,060	16.9%
Year over year growth	31.7%	4.0%	4.0%	4.0%	4.0%		

SAF has forecast a 31.7% increase in Traffic Safety Program cost in 2021/22 followed by annual growth of 4 % during the forecast period. SAF is forecasting total Traffic safety expenses to increase from $41.6 million in 2020/21 to $48.6 million in 2025/26, increasing $7.1 million or 16.9% over the next five years.

11.4.4 Observations on Traffic Safety Programs

SAF should be commended for the impact its programs have had on promoting a reduction in both collisions, injuries and fatalities. The results of measurements of its program spending have shown a marked reduction in the last five years. Safety program costs have ranged from $30.6 million to $34.1 million in the last five years representing about 3.1% to 3.5% of net premiums during the period. The variability is driven based on the mix of programs in each year. SAF has consistently forecast higher levels of traffic spending than actual levels. In the last two fiscal years, SAF traffic safety budget was $4.9 million or 12% lower in 2019/20 than forecast and $10.4 million or about 25% lower than forecast for 2020/21.

Traffic Safety expenses are growing materially in 2021/22 from historical levels. SAF is forecasting overall traffic safety program costs to increase $31.5 million in 2020/21 to $41.6 million in 2021/22, an increase of $10.0 million or 32% over the 2020/21 levels SAF has assumed a return to normal post-pandemic conditions. When comparing traffic safety program spending in 2019/20 (pre-pandemic),

[31] SAF forecasts Traffic Safety Program costs to be $49.6 million after reclassifying fee recoveries to other income in 2021/22. The above table reflects budgeted Traffic Safety Program spending after deducting fee recoveries.

the cost represented the “highwater mark” for the last five fiscal years at $34 million. SAF is forecasting an increase of $7.5 million or 22% over that elevated level. The budget for traffic safety expenses appears to be not supported by historical spending levels. Traffic safety expenses as a percentage of the premium earned are forecast to increase from a range of 3.1% to 3.5% experienced in the past five years to 4.3% for 2021/22.

In addition, SAF has reported current year-to-date spending to June 30th, 2021, on traffic safety is under budget by $3.4 million due to the continuation of the COVID-19 pandemic conditions. It is not clear that SAF will spend up to its forecast budget level in 2021/22. Traffic Safety program spending is a controllable expense for SAF. The Corporation should ensure that its traffic safety spending is efficient and effective.

Concerning program monitoring, SAF needs to monitor the performance of its many programs. We understand that program monitoring is essential and allows SAF to understand its program delivery effectiveness. Evaluation of initiatives will ensure that program spending is focused. We understand that SAF has classified research and development (R&D) spending as monitoring in its budget information provided. This is because the Traffic Safety Program Evaluation group, which is responsible for program monitoring, leads this R&D work. This appears to be a labelling issue related of the nature of this spending. The level of forecast spending on monitoring is materially higher than what SAF had spent historically. The level of monitoring spending has doubled from 2020/21 levels. The planned R&D pilot projects appear to be behind much of the increase. It is not clear whether this elevated level of R&D spending for the five-year forecast is sustainable. Program monitoring and R&D spending are controllable expenses. SAF should carefully assess its program monitoring and R&D spend.

11.5 *Issuer Bank Charges*

SAF reimburses issuers for credit card charges. The Bank charges were $5.8 million for 2014. Since then, Bank charges have increased materially and were $7.5 million in 2019/20 and increased to $8.4 million in 2020/21. SAF forecast issuer bank charges to be $8.9 million in 2021/22, a 53% increasing from 2014. This growth in issuer bank fees relates to the increasing use of credit cards by SAF customers, specifically to the enhanced use of MySGI online services since the last application.

11.6 *HTB Appeal Process and Other Costs*

Appeal commission costs for the operation of the Automobile Injury Appeal Commission amount to about $1.5 million per year. The costs include Board salaries, administrative expenses, and legal fees. These costs are assigned to vehicle classes based on appeal claim costs for each class. The HTB hearing expenses vary to a degree based on the number of hearings. The hearings and hearing costs were as follows:

HTB Hearing Cost 2016/17 to 2020/21

Fiscal Year	Number of Hearings	HTB Costs Paid $	Appeal Fees Collected $	Net Expense $	Cost per Hearing (net expense) $
	[a]	[b]	[c]	[d]= [b-c]	d/a
2016/17	5,650	$1,154,165	(278,675)	875,490	154.95
2017/18	4,699	1,124,388	(331,125)	793,263	168.82
2018/19	4,763	1,084,485	(239,825)	644,660	177.34
2019/20	4,781	1,019,132	(207,150)	811,982	169.84
2020/21	3,936	878,234	(215,025)	663,209	168.50

The number of hearings and related HTB expenses declined in 2020/21 due to the COVID-19 pandemic. The HTB budget for 2022 is about $1.49 million and $1.54 million for 2023.

SAF assesses administrative fees, prescribed by regulation, to offset to a degree cost incurred. SAF does not collect an appeal fee for every one of the appeal types offered and heard by the HTB. As part of the 2014 rate program consultant's report, it was suggested SAF review these fees. The fees were reviewed in 2016 and updated so that the associated costs are primarily covered by the customer using the service. Fee changes were capped at $75 to limit potential financial hardship to customers. SAF administrative fees took effect in 2017/18. SAF also introduced several new appeal process fees at $75. SAF has not begun collecting these new fees yet due to a lack of system resources.

A full listing of the SAF administrative fee changes is provided as Appendix A to this Report.

11.6.1 Observations on HTB Costs

The increase in the cost per hearing in 2020/21 is due to a combination of fewer scheduled hearings and certain fixed administrative costs which still need to be met regardless of the level of hearings. The 2021/22 budget is a 70% increase from 2020/21 or 46% higher than in 2019/20 pre-pandemic level. The forecast increase hearing costs is material from the pre-pandemic level in 2019/20. It is not clear to what extent the number of hearings will be conducted in the 2021/22 fiscal year, given the continued COVID-19 related conditions. However, this increases in HTB related hearing cost appears reasonable given there will likely be an increase in the number of hearings in 2021/22 and 2022/23 to deal with backlog caused by the slowdown in 2020/21.

11.7 *Premium Taxes*

Premium taxes are 5% of gross written premiums and remitted to the Province's General Revenue Fund (GRF). They are paid to the Saskatchewan Finance Revenue Division by March 31st of each year and are based on the prior year's gross premiums written. The current total 5% premium tax is comprised of a 4% levy under The Insurance Premiums Tax Act and a 1% levy under The Motor Vehicle Insurance Premiums Tax Act. This tax is enshrined in legislation and is beyond the control of SAF.

The following table indicates the actual Premium Tax expense from 2017/18 to 2020/21 and forecast for 2021/22.

Premium Taxes 2017/18 to 2021/22

Fiscal Year (C$000s)	2017/18	2018/19	2019/20	2020/21	2021/22F
Gross Premiums Earned	939,000	948,476	966,177	971,140	$1,004,732
Premium Taxes Expense @ 5%	46,950	47,424	48,309	48,557	$52,788
Year over year increase in Gross Premium Earned	1.1%	1.0%	1.9%	0.5%	3.5%
Year over year increase in Premium Tax Expense	1.1%	1.0%	1.9%	0.5%	8.7%

SAF collects and remits various taxes and fees to the Saskatchewan Ministry of Finance. SAF collected the following: vehicle registration, driver's license, administration and the GRF's portion of financing fees; provincial sales tax, prorated vehicle tax and fuel tax. SAF does not receive commissions on vehicle registrations, driver licenses and other fees collected on behalf of the Province but does receive commissions on prorated vehicle fuel taxes and provincial sales tax.

Effective August 1, 2017, 6% PST is charged on all insurance premiums in Saskatchewan. The amount of PST collected is calculated on the insurance premium portion only after discounts/surcharges have been applied. Effective April 11, 2018, PST applies on all used vehicle sales including light vehicles. Vehicles with a purchase price, or Red Book value (whichever is greater) of $5,000 or less will be exempt from PST.

11.8 *Issuer Fees*

SGI and the Insurance Brokers Association of Saskatchewan (IBAS) signed a negotiated renewal of the Auto Fund Strategic Accord, effective November 1, 2016, with an expiry date of November 1, 2021. There were no SAF fee changes to the fee schedule for issuing SAF insurance from the previous Accord. Under the agreement, Brokers are compensated on a 4.75% commission basis for in-person transactions and 3.75% for on-line transactions related to new and renewal vehicle registrations, Change Registration Terms, and Registration Eligibility Declaration transactions. All other transactions related to Customers, Driver Licenses, and other vehicle types continue to be based on a flat fee. There is no charge to Issuers for SAF computer hardware and software. Issuer Fees (Commission and Flat fees) accounted for approximately 4.8% of total SAF costs in 2020/21 and are expected to fall to 4.5% in 2021/22.

SAF recognizes that issuers continue to be the sole providers of SAF products and those transactions delivered online via my MySGI.

Actual issuer fees for 2019/20 and 2020/21 and forecast fees for 2021/22 to 2025/26 are shown below:

Issuer Fees 2019/20 to 2025/26

	Actual		Forecast				
Fiscal Year (C$000s)	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Premiums Written – Net	952,156	979,247	1,001,415	1,019,260	1,037,566	1,056,255	1,075,333
Total Expenses	1,090,206	981,825	1,166,453	1,128,622	1,230,999	1,248,991	1,280,341
Issuer Fees	47,482	47,071	52,238	49,462	53,769	53,189	55,299
% of Premiums Written - Net	4.99%	4.81%	5.22%	4.85%	5.18%	5.04%	5.14%
% of Total Expenses	4.36%	4.79%	4.48%	4.38%	4.37%	4.26%	4.32%

Forecast issuer fees after 2020/21 range from 4.3% to 4.5% of total SAF operating costs and range from 4.9% to 5.2% of net premiums written. SAF provided the detail of the split between in-office and online transactions on a confidential basis. SAF did not reflect any possible impact the CT project might have on the issuer fees forecast in this Application.

12.0 COST ALLOCATION

On a confidential basis, SAF filed the SGI Integrated Cost Allocation Methodology (ICAM) and the assignment/allocation of inter and intra common costs to related companies.

The SGI group of companies, including the SAF, SGI CANADA, SGI CANADA Insurance Services Ltd. (SCISL), and Coachman Insurance Company (Coachman), incurs administrative, internal loss adjusting and traffic safety expenses that 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.

SGI allocates two types of expenses: administrative and loss adjustment expenses. Administrative and loss adjustment expenses have different cost drivers.

Administrative expenses are required to manage the company and provide staff support for its operations. They 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.

LAE are costs directly related to the evaluation, processing and settlement of claims. They include costs to operate a claim centre, salaries and benefits for claims staff, travel and system expenses, etc. Some examples of departments allocated to LAE include Claims Centres (staff and buildings), Salvage, Injury and General Claims, Technical Research, Appraisal Services, Legal.

SGI allocates costs using a three-step cost allocation methodology. The three steps are direct cost allocation, step down allocation and indirect costs.

During Step 1, 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 are then allocated based on the remaining two steps.

During Step 2: Step-down allocation, indirect costs from support departments that provide services to all departments are allocated using the step-down method.

In Step 3: 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. This change facilitated the ability to allocate costs based on cost drivers that could be updated each month using the month's 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 does not track wages and benefits and other costs allocated to SAF on a cost element basis.

Cost Allocation Methodology Maintenance

Although analysis of the cost allocations was done in the past, SAF undertook its first formal annual review of the cost allocation methodology in advance of the 2020/21 fiscal year.

Most changes to the ICAM result from the 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.

SAF's share of the allocated costs through the ICAM for 2019/20 and 2020/21 and forecast for 2021/22 are as follows:

Overall SAF Cost Allocation 2019/20 to 2021/22

Company	2019/20		2020/21		2021/22F	
Share of Expenses (C$000s)	$	%	$	%	$	%
SAF	172,262	57%	164,791	55%	200,509[32]	54%

SAF's relative mix of costs allocated through the ICAM for 2019/20, 2020/21 and forecast for 2021/22 were as follows:

SAF Cost Allocation Detail 2019/20 to 2021/22

(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%**

12.1 *Observations on Cost Allocation*

SAF made changes to its ICAM in 2017/18, where the cost allocation process migrated from spreadsheets to an accounting application. We understand this change has led to the implementation

[32] Before cost recoveries, the costs allocate were $218 million.

of cost drivers that could be updated monthly. This has allowed SAF to exert more control in assessing the costs allocated through the ICAM. We believe this has led to improved internal processes and controls. However, SAF does not track wages and benefits and other costs allocated to SAF on a cost element basis. Costs are allocated to SGI on a department basis. The ICAM would be improved if allocated costs were tracked on a cost element basis. It would provide some additional insight that SAF could use in managing costs.

At the time of the last review in 2013 SAF was allocated 64% of the total costs. This has trended downward in the current 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, due to the CT project.

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%.

In our view, it is important that the ICAM appropriately allocate costs to SAF to ensure that there has been no cross-subsidization. SAF management has reviewed the allocations made through the ICAM in prior years and formalized an annual internal review process in 2020/21. SAF has confirmed that it has not had an independent external review of the ICAM.

Although its external auditors do opine on the fairness of the presentation of SAF's financial statements as a whole are free of material misstatement and would review the ICAM in arriving at its opinion, the external auditor have not undertaken a specific audit report on the ICAM.

We believe an external third-party independent review would allow for an assessment of whether the methodology is fair and reasonable. It could also determine whether the method is flexible and adaptable given the proposed changes in the CT project. It would be important that the methodology be stable and can remain in place for an extended period. An external review also assesses whether the allocators are consistent with industry practices and are practical and fair to utilize.

An external review could provide a general validation of the methodology and suggest improvements to the ICAM process. We recommend that the Panel recommend that SAF undertake an external review of the ICAM and report back at the next rate application.

13.0 PROGRAM REVENUE

13.1 *Net Premium Revenue*

SAF's net premium revenue was $979.2 million in 2020/21 and is forecast to grow to $1,001.4 million in 2021/22, an increase of $22.2 million and is forecast to grow to $1,019.3 million in 2022/23. SAF has not requested any change in the overall premium revenue in this Application. Three factors materially impact the premium revenues forecast; the assumed growth in the number of insured vehicles, the mix of the fleet, and discounts and surcharges under driver recognition programs.

As a monopoly insurance provider, SAF insures all vehicles in the province and its projected premium revenue changes based on the number of vehicles insured. SAF indicates that overall growth for vehicles excluding trailers has been close to 3% per year over the past ten years.

Vehicle owners upgrading to newer models impacts the mix of vehicles in the province, increasing premium revenue. As newer vehicles enter the fleet mix, they cost more to insure because they are more expensive to repair or replace. SAF has indicated that in recent years the premium mix has generated, on average, an annual premium increase of 1% to 2%. SAF indicates that for the rating year, excluding any changes in rates, the impact of mix changes and volume growth on a year over year premiums increases 2% as the forecast for volume increases.

The Safe Driver Recognition program provided $138.1 million in discounts in 2020/21 and is forecast to provide $142.5 million in 2021/22 and $146.3 million in 2022/23. In addition, the program collects revenue from drivers in the penalty zone of the bonus/malus system. The surcharges collected in 2020/21 were $24.1 million and are forecast to increase to $32.4 million in 2021/22 and $33.6 million in 2022/23.

A Minister's Order governs the rating rules and discounts. They are considered a given factor for the Panel when analyzing the request for a rate application.

The Business Recognition bonuses were $18.8 million in 2020/21 and are forecast to grow to $20.2 million in 2021/22 and $20.8 million in 2022/23. The BR program is also considered as given factors by the Panel in its review.

13.2 *Reinsurance Ceded Program*

Before 2014, the Auto Fund maintained two reinsurance programs designed to mitigate adverse effects on the RSR due to catastrophic losses caused by either a severe weather event such as hail or an automobile collision resulting in multiple serious injuries. As of April 2014, it was determined that the injury reinsurance program was no longer needed. SAF has maintained only a damage reinsurance program since then.

SAF remains covered by a catastrophe excess treaty for auto physical damage. Before 2015, the Auto Fund was covered independently by a catastrophe excess treaty. As of January 1, 2015, the reinsurance arrangements changed. The catastrophe excess treaty covers the SAF and SGI CANADA (including its subsidiaries) for auto physical damage and property on a combined basis. As this coverage applies on combined losses (and is priced as one program), as a result, the combined losses from both companies are aggregated together to determine whether reinsurance recoveries

apply. Reinsurance recoveries are then allocated between SAF and SGI CANADA based on their respective proportion of losses.

The cost of the combined program is allocated between SGI Canada and SAF based on the reinsurance broker's catastrophe modelling and expected losses analysis.

Reinsurance premiums and recoveries related to this program are as follows:

Auto Physical Damage Catastrophe Reinsurance Program

Calendar Year (C$000s)	Reinsurance Premiums	Reinsurance Recoveries
2015	5,101	1,133
2016	6,810	12,066
2017	8,453	4,556
2018	12,973	9,819
2019	10,811	-
2020	10,698	-
2021	10,080	-
Total	**64,926**	**27,574**

From 2014/15 through 202/21, SAF has been allocated reinsurance premiums totalling $64.9 million, including $5.3 million in coverage reinstatement premiums after making $27.5 million in primarily hail-related claims. Due to recent catastrophic weather losses both in Saskatchewan and in the Canadian industry in general, the cost to purchase reinsurance has increased. SAF believes the trend of increased reinsurance costs to continue.

The cost of the reinsurance program is applied as a fixed amount to each applicable class of vehicle. The reinsurance damage coverage cost per exposure is $2.41 for antique vehicles and utility trailers, $4.82 for non-utility trailers, and all other vehicle classes are charged $9.65 per exposure.

13.3 *Investment Income*

SAF's has an investment portfolio at March 31, 2021, of approximately $3,072 million, of which $1,090 million relates to an investment of RSR and almost $2,000 million set aside to meet future claims. The investment portfolio is held to pay future claims, while income earned on these investments helps keep insurance rates low for vehicle owners.

Section 92 of The Automobile Accident Insurance Act authorizes the investment of money by the SAF subject to the restrictions in limitations contained in the Insurance Companies Act (Canada). This legislation establishes the framework for SAF investment policy which is reviewed and approved annually by the Board of Directors.

The asset mix strategy is documented in the Statement of Investment Policies and Goals. In addition to capturing the asset mix strategy, this document guides permissible investments, quality and quantity guidelines, conflicts of interest, related party transactions, and investment performance expectations.

SAF's investment portfolio operates as two distinct portfolios – the Matching Portfolio and the Return Seeking Portfolio. The portfolio is managed by external investment managers. The Matching Portfolio consists of short-term investments, bonds and debentures and mortgage investment funds, while the Return Seeking Portfolio holds Canadian common shares, global equity, global small-cap equity, real estate investment fund and infrastructure limited partnerships.

The investment strategy relies on the Matching Portfolio to cover expected liability payments out to 20 years, with the remaining long-tail liabilities covered by the Return Seeking Portfolio.

The portfolio's asset mix strategy is set by the Board of Directors annually through a detailed assessment of SAF's risk tolerance. SAF made changes to its target weightings reducing its weightings in Canadian equities from a long-term target of 13% to 5% and diversifying its investments in global equities through the introduction of Global low volatility equity investments. SAF also increased its target weighting for infrastructure from 15% to 20%.

The following table illustrates the asset investment allocation percentage for the Return Seeking portfolio.

Return Seeking Portfolio	Long-Term Target %	Current Target %	2021 Revised Long Term Target %
Canadian equities	13	21	5
Global Equities	42	42	30
Global Low Volatility Eq.	-	-	15
Global small cap Equities	15	15	15
Real Estate	15	15	15
Infrastructure	15	7	20
Total	**100**	**100**	**100**

SAF engages professional investment managers which have been successful in providing above-average returns for SAF. The managers' performance is monitored and measured against a benchmark portfolio, weighted with investment returns from various market indices consistent with the SAF portfolio.

Investment income returns versus forecast for the last five years were as follows:

Investment Portfolio Income & Returns Actual vs. Forecast (C$ Millions)

Fiscal Year	Portfolio $	Forecast $	Actual $	Variance $	Forecast Return %	Actual Return %
2016/17	1,985	48.4	173.8	125.4	2.3%	8.3%
2017/18	2,024	73.2	162.8	89.6	2.6%	7.2%
2018/19	2,665	85.1	135.8	50.7	1.6%	5.6%
2019/20	2,647	83.3	2.5	(80.8)	2.9%	0.4%
2020/21	3,072	153.3	508.5	355.2	5.9%	18.4%
Total		**443.3**	**983.4**	**540.1**		

Investment earnings for SAF are derived from two primary sources: cash flow from investment assets, such as interest and dividends; and realized and unrealized gains on investments. SAF experienced a material variance in forecast investment income in 2019/20. In that year SAF incurred significant losses on its equity portfolio related to the onset of the COVID-19 pandemic which was announced on March 23, 2020. In that year, SAF generated only $2.4 million in investment income or 0.4% return. The investment income in 2020/21 showed a material increase from what was forecast again due to recoveries in markets, due to positive operating cash flows and strong returns from equities during the period. SAF reported investment income of $508.5 million for the year or for an overall 18.4%. return on its portfolio.

The following table summarizes the 2021 to 2025 expected asset mix (revised on June 30, 2021) of investment portfolios.

Investment Portfolio 2020/21 to 2024/25

Asset Mix (C$ millions)	2020/21	2021/22F	2022/23F	2023/24F	2024/25F
Matching Portfolio					
Short Term Investments	40	69	69	71	72
Bonds	1,102	1,062	1,053	1,073	1,096
	1,142	**1,131**	**1,122**	**1,144**	**1,168**
Return Seeking Portfolio					
Canadian Equities	127	93	85	85	87
Global Equities	769	841	846	847	872
Global Small Cap	268	255	257	257	265
Mortgages	225	220	220	224	229
Real Estate	245	234	235	204	194
Infrastructure	296	296	313	345	371
	1,930	**1,939**	**1,956**	**1,962**	**2,018**
Total Portfolio	**3,072**	**3,071**	**3,078**	**3,106**	**3,186**

SAF forecasts a return to normal investment market conditions in 2021/22. The following table summarizes the 2021/22 to 2025/26 expected returns for SAF's investment portfolio:

SAF Investment Return Forecast

Fiscal Year	2021/22	2022/23	2023/24	2024/25	2025/26
Forecast Investment Income ($ millions)	$124.3	$71.1	$130.8	$138.4	$149.0
Expected Return (Gross of Fees)	4.1 %	2.7%	4.6%	4.8%	5.1%
Expected Return excluding Bond Impacts	4.9%	4.9%	5.1%	5.1%	5.2%

The forecast investment income in 2022/23 is significantly lower due to forecast changes in interest rates generating significant capital losses in the fixed income portfolio. The Bond portfolio is forecast to have a negative 2.5% return in 2020/21 and negative 6.5% return in 2021/22. For SAF, these

forecasted losses are offset by the discounting of claims liabilities using higher interest rates. The return seeking portfolio returns remain constant over the forecast period, varying between approximately 5-7% depending on the asset class.

First Quarter Update – 2021/22

SAF filed results for its first quarter ended June 30, 2021. SAF recorded net investment income of $114.6 million for the quarter versus a forecast of $41.9 million for increase of $72.6 million over budget. The improved reported results due to higher than forecast unrealized returns in bonds and foreign equities.

13.3.1 Observations on Investment Income

SAF appears to have strong controls over the management of its investment portfolio. We are satisfied that SAF has adhered to the approved Investment Policy that dictates the parameters of investments for each of the Matching and Return Seeking Portfolios.

Investment income has seen significant variations in results in 2019/20 and 2020/21 due to the unsettled market conditions due in part to the COVID-19 pandemic. This has led to significant volatility in investment income.

As in the case of the last report in 2014, SAF continues to use the Conference Board of Canada forecast of economic indicators in its Application. Information gathered during this review process has indicated that interest rates are not increasing as forecast. The quarterly financial results also indicate a material improvement in the financial results in the 2021/22 forecast years.

SAF's investment income at the end of the first quarter of 2021/22 was $114.6 million which is materially higher than forecast. SAF's Application does not reflect this improved financial outlook. As recommended in section 7.2, the Panel may wish to recommend that SAF incorporate the ability to update its projections and amend its Application during the review in its application process if there are material changes in economic assumptions underpinning its Application.

13.4 *Other Income*

The table below lists the elements of Other Income from 2019/20 to 2025/26 as follows:

Other Income 2019/20 to 2025/26

	Actual		Forecast				
Fiscal Year (C$000s)	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2022/23**	**2024/25**	**2025/26**
Short Term Registration Income	16,007	16,074	15,525	15,803	16,087	16,376	16,672
AutoPay Income	19,704	19,847	19,767	20,159	20,521	20,891	21,268
Salvage Net Profit	21,125	20,536	18,686	20,013	21,434	22,956	24,585
Total Other Income	**56,836**	**56,457**	**53,978**	**55,975**	**58,042**	**60,223**	**62,525**

Other Income was $56.8 million in 2019/20 and $56.5 million in 2020/21. SAF's 2021/22 budget for other income is $54.0 million, a $2.5 million or 4.4% lower than the 2020/21 actual amount. Other Income is forecast to grow to $62.5 million in 2025/26. SAF has indicated it is reclassifying expense fee recoveries as other revenue in 2021/2022. The above forecast does not reflect this accounting change.

Short Term Registration Income include charges for administration and lost investment income for short-term financing. Increases in forecast short-term financing income registration reflect increased customer usage and higher vehicle premiums. For 2021/22, Short Term Registration Income is budgeted to be $15.5 million, which is a 4.0% decrease from 2020/21.

AutoPay Income includes charges for administration and lost investment income for monthly payment financing. The forecast increase in AutoPay Income reflects an assumed increase in customer usage and higher vehicle premiums.

Salvage net profit results from salvage operations, including salvage recovery from total loss vehicles through sales of whole vehicles and vehicle parts. The actual operating results for Salvage Operations for the last five years and forecast for 2021/22 are as follows:

Salvage Operations 2016/17 to 2021/22

Fiscal Year (C$000s)	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22F
Sales	56,940	61,421	61,661	60,848	60,801	60,669
Costs	31,981	34,509	34,923	35,428	35,833	35,832
Admin Expense	4,282	4,319	4,270	4,326	4,380	6,032
	20,677	22,593	22,468	21,094	20,587	18,805
Other Income	396	339	405	368	367	306
General Business Transfer	(416)	(367)	(526)	(338)	(418)	(425)
Net Income	**20,657**	**22,564**	**22,347**	**21,125**	**20,536**	**18,686**

The net profit from salvage operations decreased by approximately $0.6 million from 2019/20 to 2020/21. For 2021/22, salvage net profit is budgeted to be $18.7 million, a $1.9 million or 9.0% decrease from 2020/21.

13.4.1 Observations on Salvage Operations

SAF's salvage operations have been profitable and have realized savings of $20.6 million in 2016/17 and have maintained the level of profitability within a range of over $20 million to $22 million over the last five years. SAF is forecasting a reduction of salvage income in 2021/22 to $18.7 million, a reduction of almost $1.9 million from 2020/21. The reduced forecast profitability is due to a forecast increase of $1.7 million in administrative costs. This increase is primarily due to anticipate increases in general maintenance of $0.6 million, salvage IT system development of $0.4 million, wages and benefits of $0.2 million and increases in other expenses.

14.0 FIVE YEAR FINANCIAL FORECAST

The following reflects the actual operating results for 2020/21 and the forecast operating results for the next five years based on the 0% rate increase.[33] The 0% rate change comprises a 1.6% reduction in the 2.23% capital margin currently in rates offset by a forecast overall 1.7% increase in revenue requirement proposed in this Application to be in effect January 21, 2022:

Fiscal Year (C$000s)	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Net Premiums Written before Discounts	1,136,186	1,164,116	1,186,322	1,209,050	1,232,215	1,255,822
Safe Driver Recognition Bonus	(138,148)	(142,533)	(146,270)	(150,111)	(154,054)	(158,100)
Business Recognition Bonus	(18,791)	(20,168)	(20,792)	(21,373)	(21,906)	(22,389)
Premiums Written - Net	979,247	1,001,415	1,019,260	1,037,566	1,056,255	1,075,333
Net Premiums Earned	**961,172**	**995,288**	**1,014,401**	**1,032,596**	**1,051,159**	**1,070,130**
Claims Incurred	608,807	767,005	727,118	807,341	835,822	864,203
Loss Adjusting Expense	176,647	163,057	166,978	170,520	173,317	179,213
Premium Taxes	48,557	52,788	49,983	54,335	53,749	55,881
Issuer Fees	47,071	52,238	49,462	53,769	53,189	55,299
Administrative Expenses	69,189	90,886	93,792	102,920	89,957	81,929
Traffic Safety Programs	31,554	40,479	41,289	42,114	42,957	43,816
Total Expenses	**981,825**	**1,166,453**	**1,128,622**	**1,230,999**	**1,248,991**	**1,280,341**
Underwriting Loss	**(20,653)**	**(171,165)**	**(114,221)**	**(198,403)**	**(197,832)**	**(210,211)**
Investment Earnings	508,482	124,263	71,144	130,813	138,361	148,988
Short Term Registration Income	16,074	15,525	15,803	16,087	16,376	16,672
SDR Penalty Revenue	24,105	32,241	33,573	34,703	35,616	36,298
Auto Pay Income	19,847	19,767	20,159	20,521	20,891	21,268
Salvage Net Profit	20,536	18,686	20,013	21,434	22,956	24,585
Increase (Decrease) to RSR	**568,391**	**39,318**	**46,471**	**25,155**	**36,368**	**37,601**
Rebate	(285,000)	-	-	-	-	-
RSR Year End Balance	**1,090,139**	**1,129,456**	**1,175,927**	**1,201,082**	**1,237,450**	**1,275,051**
MCT Year End Ratio	**168%**	**164%**	**166%**	**163%**	**165%**	**166%**

[33] The financial forecast was updated during the rate application process. In its original application SAF had not yet finalized its 2020/21 fiscal year. The forecast included in the Report reflects an update and refinement to the forecast in SRRP (SAF) 1-71(a) Update.

14.1 *2020/21 Financial Results Actual vs. Forecast*

The following table shows the variances between the actual and projected financials for 2021.

Fiscal Year **(C$000s)**	**2020/21A**	**2020/21F**	**$ Variance**	**% Variance**
Net Premiums Written before Discounts	1,136,186	1,131,336	4,850	0.4%
Safe Driver Recognition Bonus	(138,148)	(137,532)	(616)	0.4%
Business Recognition Bonus	(18,791)	(19,321)	530	(2.7%)
Premiums Written - Net	979,247	974,689	4,558	0.5%
Premiums Earned	**961,172**	**967,689**	**(6,517)**	**(0.7%)**
Claims Incurred and Loss Adjusting Expense	785,454	863,923	(78,469)	(9.1%)
Premium Taxes	48,557	49,816	(1,259)	(2.5%)
Issuer Fees	47,071	49,292	(2,221)	(4.5%)
Administrative Expenses	69,189	76,093	(6,904)	(9.1%)
Traffic Safety Programs	31,554	41,939	(10,385)	(24.8%)
Total Expenses	**981,825**	**1,081,063**	**(99,238)**	**(9.2%)**
Underwriting Loss	**(20,653)**	**(113,374)**	92,721	(81.8%)
Investment Earnings	508,482	153,255	355,227	231.8%
Other Income	80,562	86,887	(6,325)	(7.3%)
Increase (Decrease) to RSR	**568,391**	**126,768**	**441,623**	**348.4%**
Rebate	(285,000)	-	(285,000)	-
RSR Year End Balance	**1,090,139**	**933,515**	**156,624**	**16.8%**
MCT Year End Ratio	**168%**	**145%**	**23%**	**15.9%**

In 2021, the variances between the actual and projected financials ranged from -9.2% to 0.5%, with the exception of Traffic Safety programs, Underwriting Loss and Investment Earnings. The $10.4 million or -24.8% variance in Traffic Safety programs is that the 2021 actuals reflect many budgeted Traffic Safety programs were not implemented or deferred during the COVID-19 period. The $92.7 million or -81.8% variance in Underwriting Loss is also mainly due to impact of COVID-19 which has less claims incurred in the period. The reason for the $355.2 million or 348.4% variance in Investment Earnings is that the equity market declined sharply at the start of the COVID-19 pandemic in late March 2020, and then staged a strong recovery as unprecedented fiscal and monetary stimulus measures were announced in 2021.

15.0 PERFORMANCE MANAGEMENT AND MEASURES

SAF filed its 2021/22 Performance Management Plan and Balanced Scorecard in confidence. SAF's Performance Management plan serves as its strategic plan for the year consistent with the long term Corporate strategic plan, which spans the years 2020/21 through 2025/26.

In the 2021/22 strategic plan, the Corporation has embarked on a new three-year strategy. Its objective is Corporate transformation which includes transforming its technology, operations and culture. SAF is focused on:

- Maintaining low, stable auto insurance rates;
- Maintaining a positive customer experience;
- Preventing deaths, injuries and property damage caused by traffic collisions;
- Improving long-term efficiency;
- Reducing technical debt and reliance on external expertise;
- Maturing the capabilities required to be a digital insurer;
- Improving change management and leadership effectiveness; and
- Investing and its people.

SAF uses a balanced scorecard to monitor performance towards these corporate goals and provide an evaluation of key financial and operational results.

15.1 *Internal Operating Measures*

SAF provided a table of internal operating measures commonly used in the insurance industry in response to SRRP (SAF) 2-60. The table of data and measure determination are provided in Appendix B to this Report. The following is the results of the internal measures.

		2017	2018	2019	2020	2021	2022	2023	2024	Annual Compound Growth	
	Internal Operating Measures	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**5 yr Historical**	**3 yr Outlook**
i a)	**Operating Expense Ratio**	5.88 #	5.43	6.23	7.44	7.20	9.13	9.25	9.97	5.2%	4.5%
	% Yearly Change		-7.6%	14.7%	19.4%	-3.2%	26.9%	1.3%	7.8%		
i b)	**Operating Expense Ratio excluding Transformation Expenses & Amortization**	5.88	5.43	6.23	6.93	7.01	7.25	8.08	8.32	4.5%	7.1%
	% Yearly Change		-7.6%	14.7%	11.2%	1.3%	3.4%	11.4%	3.0%		
ii a)	**Claims Ratio Expense Ratio**	7.67	8.12	13.84	15.65	18.38	16.38	16.46	16.51	24.4%	0.4%
	% Yearly Change		5.9%	70.4%	13.0%	17.5%	-10.9%	0.5%	0.3%		
ii b)	**Claims Expense Ratio excluding Transformation Expenses & Amortization**	7.67	8.12	13.84	15.13	18.19	14.50	15.29	14.86	24.1%	1.2%
	% Yearly Change		5.9%	70.4%	9.3%	20.2%	-20.3%	5.5%	-2.8%		
iii	**Loss Ratio**	78.83	76.56	81.84	77.42	63.34	77.06	71.68	78.19	-5.3%	0.7%
	% Yearly Change		-2.9%	6.9%	-5.4%	-18.2%	21.7%	-7.0%	9.1%		
iv a)	**Combined Ratio**	102.43	100.13	112.01	110.52	98.87	113.13	107.19	115.14	-0.9%	0.9%
	% Yearly Change		-2.2%	11.9%	-1.3%	-10.5%	14.4%	-5.3%	7.4%		
iv b)	**Combined Ratio excluding Transformation Expenses & Amortization**	102.43	100.13	112.01	109.50	98.50	109.37	104.86	111.84	-1.0%	1.1%
	% Yearly Change		-2.2%	11.9%	-2.2%	-10.1%	11.0%	-4.1%	6.7%		
v	**Operating Expense/Policy**	5.80	5.39	6.22	7.04	7.18	7.80	8.83	9.21	5.5%	8.7%
	% Yearly Change		-7.2%	15.4%	13.1%	2.1%	8.6%	13.1%	4.4%		
vi	**Claims Expense/Claim**	59.97	59.84	106.19	120.85	167.35	103.46	108.00	104.15	29.2%	0.3%
	% Yearly Change		-0.2%	77.4%	13.8%	38.5%	-38.2%	4.4%	-3.6%		
vii	**Premiums/Written Exposures**	1.00	1.00	1.02	1.02	1.05	1.09	1.11	1.12	1.3%	1.4%
	% Yearly Change		0.0%	2.1%	0.2%	0.0%	3.7%	1.4%	1.4%		
viii	**Insurance Costs/Capita**	796.44	792.02	805.55	805.56	829.94	821.30	826.32	831.78	1.0%	0.6%
	% Yearly Change		-0.6%	1.7%	0.0%	0.0%	-1.0%	0.6%	0.7%		

(1) - Claims Expenses: External LAE was included with claims incurred for 2016/17 and 2017/18

(2) - FTE's identified for SAF are calculated based on total SGI employees and an allocation % to estimate SAF FTE's

The above measures have been put on a gradient from green through red. A green indicates a favourable metric which a movement on the scale to red indicates an unfavourable trend development.

Operating Expense Ratio (%): The ratio of operating expenses to net premiums earned measures the company's operational efficiency in underwriting its book of business.

Observations on Operating Expense Ratio

SAF's operating expense ratio is trending unfavorably due to an increase in operating expenditures driven primarily by one-time CT project expenditures. The operating expense ratio increases in 2021/22 by 26.9% (from 7.2 to 9.13) because of a planned spending bubble on transformational initiatives. When adjustments are made to remove transformation expenditures the operating expense ratio improves, the increase in the ratio in 2021/22 is 3.4%. SAF should monitor this trend. To the extent these costs are within the control of the organization.

Claim Expense Ratio (%): (The numerator includes internal and external loss adjustment expenses) The ratio of claims expenses to net premium earned measures the company's efficiency in adjudicating claims.

Observations on Claims Expense Ratio

Prior to 2018/19 external loss adjustment expenses were included in claims incurred. The favourable ratios in 2016/17 and 2017/18 reflect a ratio based on internal LAE which is primarily salaries of staff managing claims. The 70.4% increase in 2018/19 is reflective of separately allocating external third-

party payments for processing claims. The claims expense ratio increased materially in 2020/21 by 17.5% as a result of changes in benefits programs including updating amounts paid for living expenses to reflect current market rates, increasing the overall amount available for assistance to those with cognitive impairment and implementing a process to regularly review the amounts for alignment with market rates and ending the practice of reducing income benefits by the amount a customer receives through CPP disability (No-Fault Coverage).

SAF made a $40 million unpaid and unreported adjustment to LAE to recognize the increase in costs relative to the change. The ratio trends higher than 2019/20 levels through 2023/24. Adjusting for removing CT project costs, the trend improves when compared to 2019/20 levels.

Loss Ratio (%): The ratio of claims incurred to net premiums earned measures the SAF's underlying profitability, or loss experience, on its book of business.

SAF notes that the overall claims incurred and in turn the loss ratio will fluctuate year-over-year due to swings in interest rates and redundancies/deficiencies on the large reserves for prior year claims. However, underlying the volatility there is an observed pattern of damage claims incurred rising at a rate greater than the level of inflation, while injury claims incurred decline slightly. As damage repair costs rise and injury costs decline or remain flat, the proportion of claims incurred that are damage grows, driving the overall year-over-year trend further upward.

Observations on Loss Ratio

The loss ratio has varied since 2016/17. The ratio is influenced by the level of claims incurred. SAF has indicated the variability is subject to significant swings due to changes in reserves. SAF experience a lower loss ratio in 2020/21, because of lower collision claims in the year. The reduction attributed to the COVID-19 economic slowdown which resulted in less cars on the road and fewer accidents. SAF has forecast a return to normal claims levels in 2021/22 reflecting the 21.7% increase in the ratio for 2021/22. The loss ratio is forecast to be like pre-pandemic levels.

Combined Ratio (%): The sum of the loss, operating expense and claims expense ratios, including commissions and premium tax, excluding investment income, measures the company's overall underwriting profitability, and a combined ratio of less than 100 indicates an underwriting profit.

Observations on Combined Ratio

The combined ratio has decreased about 0.9% since 2016/17 indicated a relatively stable trend. SAF experience a lower combined ratio in 2020/21, as a result of lower collision claims in the year. The reduction attributed to the COVID-19 economic slowdown which resulted in less cars on the road and fewer accidents. The forecast combined ratio for 2021/22 reflects a return to pre-pandemic claims activity. It also shows a trend that improves when CT project costs are excluded.

Operating Expense/Policy (%): The operating expense/policy dollar value measures the cost efficiency or activity cost of issuing a policy.

Observations on Operating Expense/Policy Ratio

The Operating Expense/Policy Ratio has increased since 2016/17 due to a consistence increase of operating expenses. SAF's operating expense ratio is trending unfavorably due to an increase in operating expenditures driven primarily by one-time CT project expenditures. The ratio increases by 27% in 2021/22 due to the CT project spend. If the spend is excluded the ratio drops to 7.25 and the

change in only 3%. SAF should monitor this ratio and put measures in place to contain the growth to the extent possible the controllable CT project costs.

Claims Expense/Claims ($): The claims expense/claims dollar value measures the cost efficiency or activity cost of adjudicating a claim.

Observations on Claims Expense/Claims Ratio

The Claims Expense/Claims Ratio has increased about 29% since 2016/17 and 0.3% projected since 2021/22. The increased ratio in the past years due to an increasing claims expense and relative stable claims count. The claims expenses increase as damage repair costs rise.

Premiums/ Written Policy ($): The premiums/policy dollar value measures net premiums written changes per policy, year over year, even if there is no premium rate increases or decreases.

The Premiums/ Written Policy ratio has increased about 1.3% since 2016/17 indicated a relatively stable trend. There has been no change in overall average rate levels since 2014, and the trend reflects both the natural growth in the fleet and an upgrade in the mix of the insured vehicle fleet. New vehicles are more expensive to repair and attract a higher premium.

Insurance Costs/Capita ($): The insurance costs/capita dollar value measures net premiums written (Basic insurance) changes per capita based on the provincial population providing a social or public cost indicator.

The Insurance Costs/Capita ratio has increased about 1.0% since 2016/17 indicated a relatively stable trend.

15.2 *Productivity and Efficiencies*

SAF provided information related to savings from productivity and efficiency initiatives implemented in 2021. A list of those initiatives including savings amounts can be found in the table below. In summary, the 2021 initiatives projected savings of almost $29 million in 2021 along with projected savings. It is noted that several other productivity and efficiency initiatives were implemented that resulted in "soft" savings (i.e., hours saved, improved customer service, etc.) which are not listed in the table below.

Initiative / Savings Area (C$000s)	2016/17	2017/18	2018/19	2019/20	2020/21
MySGI Transactions	$1,221	1,485	1,825	2,109	$2,829
Print vehicle registrations	128	126	128	126	122
Increased email usage	48	52	64	71	80
Vision Testing	70	70	70	70	70
Inspection decals	60	-	-	-	-
Driver Development Clerical Staff Reduction	41	45	40	41	-
Vendor Switch	228	62	11	(4)	217
Admin Fee Changes	1,806	6,602	7,612	7,521	6,206
Automated Routing	17	32	15	25	10
Appraisal Transition Project	75	414	-	-	-
VIN Decals	-	-	-	-	22
Virtual Issuer Training	-	-	-	-	18
Enterprise National Car Rental	-	-	-	1,500	1,390
Total	**$3,694**	**8,888**	**9,765**	**11,459**	**$10,964**

15.2.1 Observations on productivity and efficiency initiatives savings

The above estimated efficiencies are direct in that they can be tracked. There are other efficiencies that are “soft”, generally of an avoided cost nature, such as saved hours or improved customer service. These cannot be quantified in terms of actual dollars saved.

It needs to be recognized that starting 2016/17, SAF changed the logic surrounding when a customer with receivables can purchase certain products was tightened. This resulted in a $22.9 million saving in 2020 and a projected total of $18.3 million in additional collected receivables in 2021.

15.3 *Crown Benchmarking Study*

SAF participated in a Crown Corporation benchmarking exercise that compares various Corporate and operational metrics results with the Insurance Corporation of British Columbia (ICBC) and Manitoba Public insurance (MPI). The Crown benchmarking comparison provided below formed part of a public filing at the MPI 2022 General Rate Application.[34]

Crown benchmarking ensures a comparison of SAF to an appropriate peer group for benchmarking purposes. We recommend the Panel urge SAF to continue participation in Crown benchmarking and file the results of the benchmarking at the next Rate Application.

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 due to the scale and size of ICBC, a much larger entity. A comparison of SAF, MPI, and ICBC using 2019/20 Financial and Cost Structure illustrates the sizeable scale of operations of ICBC in contrast.[35]

Gross Premiums Written

	SAF	MPI	ICBC
Gross Premiums Written (C$000s)	$962,705	$1,143,935	$3,578,882
Number of Policies In-force	940,761	1,148,962	3,848,366
Gross Expenses (C$000s)	$166,728	$149,213	$376,193

The Crown benchmarking comparative analysis was normalized to address this size differential by comparing the results per $100 million of Gross Premiums Written or as a % of Gross Premiums Written and as a % of Net Premiums Written.

[34] Manitoba Public Insurance 2022 General Rate Application Part III Benchmarking, BMK Appendix 4
[35] MPI 2022 GRA, response to PUB (MPI) 1-54

2019/20 Comparative Benchmark Report

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 (C$000s)	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 (C$000s)	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

Headcount Analysis

1. Full-time equivalents (FTEs) per $100 Million of Gross Premiums Written (GPW)

This is the ratio of staff FTEs per each $100 million unit of GPW: a lower ratio is generally preferred. This ratio calculated as the number of FTEs divided by Gross Premiums Written and measures the organization’s headcount compared to premium.

SAF’s ratio is 94.8 are higher than ICBC’s ratio 84.4 but lower than MPI’s 117.1. A lower number generally means a more efficient organization, differences in business models and the dependency on third parties need be considered when comparing organizations using this metric across the other Crown corporations.

2. Management FTEs per $100 Million of GPW

This is the ratio of the amount of management staff utilized in servicing the business per each $100 million unit of GPW, and a lower ratio is generally preferred. A lower ratio means a greater span of control, with benefits of better communication and fewer levels of management. SAF reported highest ratio of 10.5 compared with MPI of 7.7 and ICBC of 9.4 that indicate higher management proportion in the staffing.

3. Staff FTEs per $100 Million of GPW

This is the ratio of the amount of non-management staff utilized in servicing the business per each $100 million unit of GPW, and a lower ratio is generally preferred. SAF's ratio is 84.2 are higher than ICBC's ratio 75.0 but lower than MPI's 109.5.

ICBC has lower headcount ratios due to it has greater revenue to absorb operational demands and require less FTEs and lower expenses to service the operations as economies of scale are recognized. MPI indicates that its business model is unique, providing end-to-end customer service and as a result, MPI requires more employees than its peers.

Span of Control

4. Ratio of Staff to Management

This is the ratio of staff FTEs per management FTEs, and a higher ratio is preferred. This ratio indicates the span of control, which has benefits such as better communication with fewer levels of management, such as flatter organization structure. SAF's ratio of staff to management is 8.0 and is the same as ICBC. Both are lower than MPI's ratio of 14.3 which has the largest span of control among the Crowns.

Premium Metrics

5 & 6. Total Gross Expenses as a % of Gross Premiums Written (GPW) & Average Gross Premiums Written

This expense ratio indicates how much revenue the company spends on expenses compared to the Gross Premiums Written (GPW). A lower expense ratio reflects the company to be more efficient and competitive. The Crown corporations collaborated to develop the expense methodology, there are consistencies in measurement for Total Gross Expenses.

SAF's ratio are higher than both MPI and ICBC. There are differences in cost structure, and economies of scale for larger Crown entities like ICBC that make direct comparatives difficult.

7. Gross Premiums Written per FTE

This ratio is based on the GPW divided by the FTE counts. The higher ratio represents less FTEs required in terms of GPW.

SAF's ratio is good at $1.06 million and falls in the middle between the Crowns. It is higher than MPI's ratio of $0.85 million but lower than ICBC's $1.18 million.

8. Gross Premiums Written Growth

GPW Growth is the growth of the Net Premiums Written (NPW) year over year. SAF has the lowest growth rate compare with peers. The growth is influenced by factors such as vehicle volume and

vehicle upgrade growth. SAF's lower growth could also relate to the fact it has not had a rate change in seven years contributing to the lower revenue growth.

9. Net Premiums Written as a % of Gross Premiums Written

This ratio is net premium written divided by gross premiums written. It represents the percentage of retained business net of reinsurance. SAF has the lowest ratio compare with peers, which represents a higher reinsurance percentage.

10. Total Net Expenses as a % of Net Premiums Written

This expense ratio indicates how much revenue the company spends on net expenses compared to the Net Premiums Written (NPW). A lower expense ratio reflects the company to be more efficient and competitive. The differences in the NPW and GPW for all Crown corporations in relation to overall expenses was insignificant.

SAF's ratio at 17.5% is higher than MPI 13.2% and ICBC at 10.5%. There are differences in cost structure, and economies of scale for larger Crown entities like ICBC that make direct comparatives difficult.

Policy Metrics

11. Adjusted Policies in Force per FTE

This ratio is calculated as Policies in force divided by FTE counts. It represents the number of policies supported by one FTE. A higher ratio in this metric is favourable. SAF's ratio at 1,031 falls in between the Crowns. SAF's ratio is higher than MPI's ratio at 857.5 but lower than ICBC's 1,274.1.

12. Total Gross Expenses Per Adjusted Policy

The Total Gross Expenses per Adjusted Policy in Force shows how much of the policy premium is used to pay expenses. This ratio represents the cost to maintain one policy. Companies can see how much of the policy premium they are spending on expenses and determine and evaluate potential expense reductions.

Total expenses are relatively consistent with MPI and ICBC, with slight variations. SAF has the highest ratio compare with peers represents a higher cost incurred per policy.

Traffic Safety Measurements

13 & 14. Total Traffic Safety Expenses & Total Traffic Safety Expenses as a % of Gross Premiums

SAF spending on Traffic Safety is the highest among the Crown's. SAF spent $34 million in 2019/20 compared to $30.4 million for ICBC and $11.7 million for MPI.

The Traffic safety metric are based on expenses related to Loss Prevention, and traffic safety as a percentage of GPW. It indicates how much of premium is spent on Traffic Safety. SAF has the highest ratio compare with the other Crown corporations. SAF has significant levels of enforcement funding compared to MPI. SAF, like ICBC also fund investments in traffic safety infrastructure.

Other Performance Measures

15. & 16. Pure Loss Ratio & Personal Lines Loss Ratio

The pure loss ratio is losses incurred (net claims) divided by Net Premiums Earned; this ratio shows how much premium a company dedicates to paying claims. For-profit insurer's goal is to have a low loss ratio as it increases profitability. Not-for-profit companies aim to have a loss ratio and expense ratio that comes close to breakeven. SAF pure loss ratio and personal lines loss ratios were 77.4% higher than MPI at 73.6% but lower than ICBC at 102.6%.

17. Loss Adjustment Expense Ratio.

Loss Adjustment Expense Ratio is calculated as Claims Expenses divided by Net Premiums Earned. This ratio shows how much of the premium an insurer dedicates to paying claims expenses. Insurers target a low ratio. SAF loss adjustment expense ratio was 15.6% higher than MPI at 12.1% but lower than ICBC who’s loss adjustment expense ratio was 19%.

18. Total Gross Expense Per FTE

Total gross expenses divided by the FTE counts. Reflects the total operating costs in terms of staff. A lower number is targeted by insurers.

SAF has the highest ratio compare with the other Crown corporations.

SAF ratio at $183,000 per FTE versus $124,547 per FTE for ICBC and $111,364 per FTE for MPI. SAF’s high ratio could be attributed to higher operating costs for SAF compared to peers, including the CT project which SAF commenced in 2019/20; both administrative salaries and benefits and contracted services were at elevated levels.

16.0 SENSITIVITY ANALYSIS

SAF assessed the impact of four positive scenarios and four negative scenarios on the overall rate requirement, RSR levels and MCT ratios for 2022. This sensitivity analysis looked at some of the basic revenue and expense drivers that are used in the preparation of SAF's forecasts. The following table lists the eight scenarios (four positive and four negative) and specifically looks at the financial impact they each would have on 2022, which includes the proposed rate change of 0.0% and assumes all else to be equal.

In response to an information request, SAF provided their rough estimation of the ranking relative likelihood of the various scenarios as follows:

1) 10% increase or decrease in investment income

2) 0.5% increase or decrease in vehicle volume

3) 0.5% increase or decrease in vehicle drift

4) 10% increase or decrease in Traffic Safety costs

Scenario (C$000s)	**Net Premiums Earned**	**Total Claims & Expenses**	**Year End RSR Balance**	**MCT Ratio**
2021 Actual*	964,891	1,011,969	1,019,775	158%
2022 Forecast*	992,802	1,071,772	1,061,907	157%
Positive (Favorable) Scenarios & Impact to 2022 Forecast				
10% increase to investment income	992,802	1,071,772	1,074,688	158%
0.5% increase to vehicle volume	995,695	1,074,826	1,062,069	158%
0.5% increase to vehicle drift	995,652	1,072,056	1,064,791	158%
10% increase to traffic safety costs	992,802	1,075,820	1,057,860	157%
Negative (Adverse) Scenarios & Impact to 2022 Forecast				
10% decrease to investment income	992,802	1,071,772	1,049,127	157%
0.5% decrease to vehicle volume	989,908	1,068,676	1,061,787	158%
0.5% decrease to vehicle drift	989,951	1,072,472	1,058,039	157%
10% decrease to traffic safety costs	992,802	1,067,724	1,065,956	158%

* All scenarios and base case are based on the information provided in the Application Appendix A and Tab 23.

16.1 *Observations on Sensitivity Analysis*

Of all scenarios analyzed, changes in investment income have the most impact to the RSR balance and the MCT ratio. The impact of a 10% increase in investment income would increase the RSR balance by about $12.8 million and the MCT ratio would increase by 1% while a 10% decrease would result in a $12.8 million decrease in the RSR balance.

All other scenarios have less impact to the RSR balance and MCT ratio. The impact of 0.5% changes in vehicle volume would increase/decrease the RSR balance by about $0.2 million. The impact of 0.5% changes in vehicle drift would increase/decrease the RSR balance by about $2.9 million. The impact of 10% changes in traffic safety costs would increase/decrease the RSR balance by about $4.2 million.

A major unforeseen event not anticipated was the impact of global events such as the COVID-19 pandemic has had on SAF's operations over the last 18 months. The once-in-a-lifetime event resulted and continues to result in a material reduction in claims, higher than forecast investment income and a significant build-up of capital.

17.0 TORT VERSUS NO FAULT

All Saskatchewan residents have the choice between Tort and No-Fault coverage, with No Fault the default option. That is, residents must fill out a Tort election if they wish to have this coverage. This election can be made at any time.

The following table shows the total number of drivers as well as Tort and No-Fault drivers, from 2010 to 2021 Year.

Year	No fault Customer Count	Tort Customer Count	Tort Customer %
2010	923,398	4,474	0.48%
2011	955,713	4,652	0.49%
2012	987,330	4,733	0.48%
2013	1,019,422	4,808	0.47%
2014	1,051,907	4,885	0.46%
2015	1,081,797	4,963	0.46%
2016	1,112,210	5,038	0.45%
2017	1,141,652	5,092	0.45%
2018	1,173,224	5,153	0.44%
2019	1,208,279	5,222	0.43%
2020	1,237,287	5,262	0.43%
2021	1,252,598	5,286	0.42%

Premiums for Tort and No-Fault coverages are identical. There have been no changes in the determination of premiums or claims settlement processes between the two coverages since its inception in 2003.

18.0 NEXT STEPS

We commend the effort put forward by SAF staff to provide a vast amount of information in its Application and clarification of matters promptly. We would also like to thank the Panel for its diligence in reviewing the Application and identifying areas for our exploration. It has been seven years since the last SRRP rate review, and we understand that the filing process is new to some personnel due to the staff changes and lapse time. Despite these challenges, SAF staff and Panel have adapted well to bridging the information gap since the previous Application.

We believe the best way to build upon this review process and leverage future regulatory efficiencies is for SAF to submit annual rate applications. An annual process would:

- align rates with costs on a regular and timelier basis;
- minimize the degree of rate rebalancing compared to this Application;
- allow the Panel to understand and appreciate the need for operational changes that impact rates; and
- assist in ensuring Panel recommendations are addressed in a timely fashion.

An annual review is vitally important during SAF's CT project undertaking, which will result in an extraordinary level of expenditures to achieve the transformation of SAF operations in an efficient and effective manner for both the customer and the corporation.

We recommend the Panel meet with SAF to review this past application process and discuss process improvements for future rate Applications.

19.0 PUBLIC PRESENTATIONS

19.1 *Public Meetings*

Virtual public meetings were held on July 28, 2021, and in person meeting in Regina on August 16, 2021.

Each meeting started with an introduction by SRRP including a description of their role in the review of the 2021 SAF Application. The SRRP mandate was to review the Application and provide a report with recommendations to the government that balanced the interests of SAF, the customers and the public. After the SRRP introduction, a formal presentation was made at each public meeting by SAF on the 2021 Application.

Presentations were made by private citizens at the public meetings. There were presentations made by Ms. Aleana Young, NDP MLA for Regina University and Opposition Critic for SGI. As well as formal presentations and submissions were made by representative of the Taxicab industry the RAGE and the Saskatchewan Motorcycle Coalition (SMC) representing motorcycle rider interests. Questions were also fielded from the public, some of which included the following:

- Rationale for setting motorcycle rates based on engine size;
- Motorcycle insurance purchase demographics;
- Applicability of a separate Safe Driving Recognition program for Motorcycles;
- Setting motorcycle rates based on other rating criteria;
- Reduction in motorcycle rates to increase ridership and premiums;
- Classes with best not-at-fault claims rating;
- The capping of rate decreases treated the same as 15% cap on increases;
- Why no rate increase for Ridesharing rates;
- Increases in Taxi rates cause migration of taxi drivers to ridesharing;
- Increases in Taxi rates given the low at-fault rating; and
- The frequency of future rate applications.

19.2 *2021 SAF Application Public Presentation*

SAF public presentation 2021 Proposal for Rate Adjustment. The Corporation summed up the auto funds mandate is to operate on a break-even basis over time; to collect enough premium revenue to cover claims and expenses and to maintain adequate reserves. SAF’s mandate, which was to:

- Provide universal, fair and affordable automobile insurance;

- Operate as a public fund for Saskatchewan motorist; and
- Operate on a self-sustaining breakeven basis.

SAF described the two components of its rate request which include Basic insurance rate that covers the claims and expenses and a capital component to ensure adequate capital reserves.

SAF indicated the overall base insurance rate increase of 1.7% is required which includes improving injury claims experience, rising overall damage costs and increases in expenses. In addition to the base rate increase, SAF indicate there is a capital release of 1.6% which will bring the capital amount in rates from 2.2% to 0.6% because there was sufficient capital in reserves.

The proposed revenue changes and rebalancing of rates effective January 21, 2022, include:

- Overall 0% rate change to the auto fund;
- Increases for 48% of Saskatchewan vehicles with an average annual increase of $96;
- Decreases for 52% of Saskatchewan vehicles with an average annual reduction of $102; and,
- No premium change for approximately 900 Saskatchewan vehicles.

SAF provided an update on its financial results including investment returns in the last five years including 2020/21 where SAF earned over $500 million which precipitated the results to enable enhanced benefits as well as to provide a rebate to all customers of $285 million in 2021.

SAF described some significant changes made to benefits made possible by exceptional investment return results in 2020/21. Including enhancement to injury benefits that came into effect May 1, 2021, for increases in living assistance for impaired claimants and to eliminate the practice of offsetting income replacement benefits paid out to recipients for their Canada pension plan benefits. These changes will lead to increases in income benefits to catastrophically injured claimants.

SAF described claims trends for both collision and injury benefits. SAF notes claims cost trends that have shown annual increases in collision costs of 4% annually. SAF further noted negative trends in injury, care and death benefits and a flattening trend in medical benefits claims.

SAF recounted motorcycle claims experience since 2009, noting there had been a shortfall of motorcycle premiums to cover motorcycle claims of about $17 million. SAF noted that prior motorcycle rate increase in 2012 and 2014 as well as motorcycle programs introduced in 2015 have reduced the shortfall in motorcycle rates to only $2 million. SAF believes that another rate increase needs to be part of the solution for the motorcycle class currently. SAF also provided examples of how losses are attributed among classes involving a motorcycle.

SAF also spoke to the need for increases in taxi class rates. The indicated rate shows a need for a 38% increase for the group. However, with capping in place, the proposed increase in this rate application is only 13%.

SAF also described the introduction of a new TNC rating class. Given the unique nature of the TNC group, SAF introduced a different rating structure to price these vehicles correctly. The rate is charged as a per-kilometre rate is driven during ridesharing. The rate was initially set up as 11 ¢/km,

based on the fully adequate taxicab rate, not a current capped taxi rates. The use of the current taxicab rates would have resulted in a lower rideshare per km rate.

19.3 *Public Presentations*

Aleana Young, MLA Regina University

Ms. Aleana Young appeared and provided a submission as the NDP MLA for Regina University, and the critic for the Official Opposition for SGI. Ms. Young questioned the overall 0/0% rate request of SAF. She suggested that SAF should have submitted a plan for a rate reduction, given the significant amount of RSR funds that have been accumulated and the growth of those reserves in recent years. Ms. Young noted that SGI targets to have 140%. Currently, the 2020/21 SGI Annual Report shows that even after rebating $285 million to policyholders, the RSR is still far above its target level at 168% MCT, a full 20% higher than that 140% MCT target. Ms. Young noted that SAF has too much money in reserves and that rates should be lowered to make life more affordable.

SGI is bound by legislation to operate on a break-even basis and to keep rates affordable. Although insurance rates in the Province are lower than other jurisdictions, that should be of no concern to SGI or the Panel when considering what rate changes to recommend to the government. Ms. Young urged the Panel to reject SAF’s submission for revenue neutral rebalancing and to recommend to cabinet that SAF cut rates.

Don Fuller - RAGE

Don Fuller representing RAGE, spoke to the motorcycle rate proposal at the July 28th public meeting. Mr. Fuller stated that SGI's rate proposal does not consider the socio-economic impact from 2004 to 2014 of the oil boom, which brought about serious social problems in Saskatchewan. The issues brought on by a transient population. SGI reacted to this temporary condition by removing the motorcycle group from the larger risk-sharing pool, which meant that the tiny demographic of motorcyclists would stand on their own rather than be part of a larger risk-sharing pool. Mr. Fuller recounted that traffic collisions and accidents, and injuries from 2004 onwards were escalating Province-wide.

Mr. Fuller recounted the history of motorcycle rate changes and stated concerns that motorcycles insurance is no longer affordable. He discussed the circumstances which led to the formation of the Motorcycle Review Committee and the changes targeting motorcyclists from that committee's recommendations.

The changes brought about regulation and licensed changes, a three-year Graduated Learning Program, which incorporated safety changes such as required protective clothing, restricted riding hours, and tolerance for zero alcohol while operating a motorcycle. Mr. Fuller reviewed the impact on Motorcycle claims noting a decline in both at-fault and collisions since the motorcycle program changes. Mr. Fuller pointed out the average cost of an injury claim had declined from $117,000 to $90,000, citing SGI indicated these reductions are likely due to safety improvements among motorcycles, nothing to due to increasing rates

Mr. Fuller further stated that the motorcycle side of the Auto fund is approaching insolvency; premiums revenue from Motorcycles had declined by 39% due to riders being unable to afford the premium and looking for low-cost alternatives such as permits. Motorcyclists are now starting to permit rather than taking out a long-term premium policy for the riding season. SGI admitted that any further rate increases would likely reduce registrations and cause premium revenue to drop even further, which will push the auto fund's motorcycle side further towards insolvency. The 10% rate increase sought will further make riders take out permits, reducing premium revenue.

Kevin Jones - SMC

Mr. Kevin Jones filed a submission on behalf of the Saskatchewan Motorcycle Coalition (SMC), formed in 2011 with a mandate to Lobby the Government on issues that affect Motorcycle Clubs Organizations and their affiliated Members.

Since the rate increases in 2013, SMC has seen its members go from insuring year-round to insuring seasonal; members who own multiple motorcycles are now only insuring one motorcycle and using a permit if they choose to ride their other unplaited motorcycles.

Most Members use a motorcycle as a means of everyday transportation (when safe to do so). SMC members have experienced riders, many of whom never had a claim. Safe and responsible Motorcycle riders are being penalized through insurance rates because they choose to use a motorcycle for transportation.

SMC feels positive, safe driver recognition points shouldn't subsidize those who are inexperienced or careless in the operation of motorcycles. SGI should be looking to rebalance instead of raising rates dependent on the year and engine displacement.

SMC has seen some impressive reductions in collisions and injury claims in the past few years, which in return has saved SGI millions in payouts and believes further improvements are possible with more education, awareness campaigns and safety incentives. SGI must make insurance rates affordable to attract more people to use this alternative means of environmentally friendly transportation in the years to come.

SMC recommends that the SRRP deny SGI's application for a rate increase and suggests that the Motorcycle review committee get back to work to find alternative ways to reduce insurance rates rather than simply raise them.

19.4 *Saskatchewan Taxi Cab Association*

Representatives of the taxicab industry appeared to speak of the rate increase included in this application and made recommendations to the Panel. Mr. Glenn Sali of Capital Cabs and Mrs. Sandy Archibald representing Buffalo Cabs, both in Regina, attended the public meeting and presented. Mr. Scott Suppes of Riide Taxi in Saskatoon provided a written submission.

Glen Sali – Capital Cabs, Regina

Mr. Glen Sali states SGI rates are based on evaluating previous years' information. SGI has failed to recognize changes in the industry with the introduction of Rideshare nor the significant impact the COVID-19 pandemic had on the industry.

Mr. Sali states that COVID-19 has destroyed the transportation industry. The taxi industry will take some time to come back, but it will never be the same. Mr. Sali noted through the pandemic, the taxi industry, as an essential service, was the only form of transportation for the public and continued throughout the pandemic, putting driver's safety at risk. Mr. Sali was very proud of every driver who worked through these times.

Mr. Sali described the negative impact rideshare companies have had on the taxi industry. Stating that Rideshare in Saskatchewan takes thousands of taxi industry trips, reducing taxi drivers' income. The industry has lost hundreds of drivers. The industry has lost customers, trip counts are down, taxis are not putting as many kilometres on the vehicle, and there are many part-time operators with Rideshare. Insurance rates should be decreasing, not increasing.

Mr. Sali further added that Insurance rates are increasing while the income earned by taxis has dropped, meaning less time spent on the road. Currently, taxis revenues are down 50 %, but the public needs the taxi industry to do well. The taxi industry plays a significant role in public transportation and requires support from SGI or higher up.

Mr. Sali concluded the taxi industry needs help and recommend that SAF leave taxi rates the same or reduce them.

Sandy Archibald – Buffalo Cabs, Regina

Mrs. Sandy Archibald spoke to the challenges of the 13% increase to PT urban taxis rates given changes in the competitive landscape and the COVID-19 pandemics impact and continuing effects on the taxi industry. Mrs. Archibald notes the Panel's mandate is to provide the government with an opinion regarding the fairness and reasonableness of the proposed rate request and made three requests:

1. stop any premium increase to the PT class; the timing of an increase is terrible;

2. recommend to SGI to seek ways to increase the class/pool size by including Ridesharing vehicles with the PT class; and

3. for SGI to consult with the taxi industry to investigate a more flexible premium rate option and the feasibility of charging a per kilometre premium to the taxi industry and the pros and cons of that regulatory scheme.

Speaking to the negative impact of Ridesharing on the taxi industry, Mrs. Archibald cited a City of Regina report dated February 17, 2021, "For Hire Transportation." The report notes trip data that shows that by December of 2019 (7 months after UBER launched), the taxi industry had lost 28% market share to UBER. In the first three months of 2020, that trend continued until the Government of Saskatchewan declared the COVID-19 pandemic state of emergency in March of 2020.

Mrs. Archibald described the conditions under the pandemic that resulted in a dramatic decline in the demand for taxi services. Most taxi operators paused their operation due to the drop-off in activity in the economy and health concerns from drivers who lived in multi-generational homes. She acknowledged and commended the few operators who continued to provide the necessary service; however, there was no reduction in their SGI premium despite significantly reduced utilization. Vehicle utilization continues to be much lower from pre-pandemic use.

Mrs. Archibald further noted that the Regina taxi industry suffered three hits: a sluggish economy, the advent of Ridesharing and the pandemic. The taxi operator needs rate relief, not an increase. The industry is just starting to get onto a bit more stable ground with the economic re-opening and cannot absorb a 13% rate increase.

Mrs. Archibald submitted that now is the time to revisit the Taxi and Rideshare premiums. Taxi vehicle utilization has decreased, leading to less utilization and fewer kilometres travelled. It should follow that there are fewer accidents for taxis. She questioned how to level the competitive playing field; whether the premium for taxis is determined based on the number of kilometres travelled while drivers are engaged with a taxi customer like the Rideshare premiums?

Mrs. Archibald acknowledged that taxis have high exposure because, under normal times, a taxi is on the road a more significant number of hours than the general public and in all types of weather. However, it must be considered that the average public member depends on a taxi service to be available. Taxis supply a necessary, vital, and affordable service to the public. It is difficult to quantify the effect of an accident that did not happen because an impaired person or someone with a slower reaction time chose to take a taxi. However, it is vital to factor this into the overall premium rate that is applied to the PT taxi class to ensure the continued viability of this essential public service.

Mrs. Archibald requests that the Panel recommend no rate increase. The real solution is for the industry and SGI to review the Rideshare and Taxi premiums after SGI collects more data regarding Rideshare vehicles and claims and how to group those vehicles into the same class or pool. The vehicles and drivers are engaged in the same activity of transporting the public for remuneration. Many taxi operators use their taxi vehicles for private use, similar to Rideshare drivers and their vehicles' use. The taxi industry welcomes the opportunity to work with SGI to explore flexible premium options, including a per kilometre premium.

Scott Suppes – Riide Taxi, Saskatoon

Mr. Scott Suppes filed a written submission. He stated that the proposed rate adjustment for taxis is extremely unfair and detrimental to taxi owners and the industry overall. Taxis are highly regulated by both provincial and municipal laws and regulations, with significant associated costs. With the changes in legislation to allow Rideshare (Uber) with very little regulation, the COVID-19 pandemic has made it very difficult to survive in the taxi business.

Mr. Suppes questioned that the rate review only considers pre-pandemic data. Only using 2020 data would significantly impact numbers and loss ratios. Given the recent rebate of premiums to SGI customers, Mr. Suppes questioned the need for a rate review and whether it should wait to see the effect the pandemic may have?

Mr. Suppes stated that taxis keep rates lower for other classes of Insured. When someone does not want to drive their vehicle due to road conditions and weather or when someone should not drive their

vehicle due to intoxication or other reasons, taxis are there to provide transportation and reduce the chance of an accident for other people's vehicle classes.

Taxis have the best percentages for not-at-fault accidents, but taxis still face substantial premiums. The taxi industry believes the primary reason for the proposed large increase is that taxis are a very small rating group and cannot generate enough insurance premiums to offset the increasing costs of repairs. The PT rating group consists of 517 taxis, representing less than .004 percent of the total number of registered vehicles in Saskatchewan. Over the last ten years, there has not been any significant rise in the number of taxis.

In the past, the taxi industry has proposed several things to SGI to help mitigate PT costs. The industry has asked SGI to consider moving the PT class in with a larger group such as LV or PB to help spread taxi premium costs. The industry does not believe this would be detrimental to whichever group taxis are moved to because the group is very small. The taxi industry had also asked SGI to consider having the premiums paid by Ride Share (Uber) vehicles moved over to the PT class. These LV classed vehicles are working as Rideshare are doing the same job as taxis.

Mr. Suppes stated the pandemic had a significant impact on Riide Taxi. In March of 2020, Riide had parked three-quarters its fleet of taxis and still has many taxi plates not operating in the City of Saskatoon because of the scarcity of drivers and business. Additional insurance premium costs will only further exacerbate the situation.

The pandemic, as for many businesses, has had severely detrimental effects on the Taxi industry. However, taxi owners have and continue to suffer from the pandemic and the addition of lower-cost competition with Ride Share.

Mr. Suppes recommends the Board consider the Taxi industry requests for no premium increases at this time and recommend that SGI work with the industry to examine ways to increase the class/pool size and to encourage SGI to meet with the industry to evaluate other premium options and to look at other ways to help mitigate costs.

20.0 2014 PANEL RECOMMENDATIONS

The Panel made several recommendations in its report to the Minister pursuant to SAF's 2014 rate adjustment Application. As part of the 2021 Application Minimum Filing Requirements (MFRs), SGI provided the status of these recommendations as follows:

Recommendation 1: That the overall general rate increase (before the capital amount) be 3.4%, to take effect August 31, 2014.

Status: SAF implemented the 3.4% general rate increase on August 31, 2014.

Recommendation 2: That all vehicle classes be included in rate rebalancing, and that rate capping be set at a maximum 10% on premiums over $1,000, and at two-thirds of the proposed rate cap in dollar amounts on premiums less than $1,000.

Status: SAF applied rate rebalancing to all classes, including motorcycles. The capping policy applied was capped at 10% for premiums over $1,000, and at the recommended two-thirds dollar amounts for all other premiums.

Recommendation 3:

a) That a total capital amount of 2.23% be approved, to take effect August 31, 2014, which is one percentage point greater than the 1.23% Rate Stabilization Reserve surcharge in the current rate.

Status: SGI implemented the recommended 2.23% capital amount on August 31, 2014.

b) That SAF bring forward rate adjustments based on the Capital Management Policy annually, regardless of whether there is a rate Application, so that the capital amount embedded in rates can be recalibrated to reflect changes in circumstances over the year. These rate adjustments could be contained in a confirmation submission to the Saskatchewan Rate Review Panel, which would verify the change to the Rate Stabilization Reserve.

Status: SAF is committed to bringing forward annual rate adjustments based on the Capital Management Policy.

c) That SAF include as part of the Minimum Filing Requirements in future Applications discussion regarding any recent, pending or proposed changes to the Minimum Capital Test, and how these have affected or may affect recent or forecasted Minimum Capital Test ratios and the Capital Management Policy.

Status: SAF filed MFR #15 in response to this recommendation.

Recommendation 4: That the Auto Fund track and report budget and actual Traffic Safety initiatives on a line-by-line basis and provide specific detail respecting any over- or under-expenditures as part

of the Minimum Filing Requirements and that each safety initiative be evaluated for anticipated benefits on an annual basis.

Status: SAF filed MFR #14 a Traffic Safety Initiatives Report.

Recommendation 5: That reviews by SAF of the Safe Driver Recognition and Business Recognition programs be included in the Minimum Filing Requirements of future Applications.

Status: SAF filed MFR #12 section 3 for SDR/BR review, and two reports are included at the end of this MFR #26 section on SDR and BR program reviews**.**

Recommendation 6: 2014-2016 Auto Body Shop Labour Rate Increases - That SAF file a report on the efficiencies and customer service enhancements that are anticipated to occur, and to provide an updated status report regarding the number of closures or additions of body shops in the province, especially in the rural areas, as well as an evaluation of the success in attracting body repair journeyman into the industry, including how many successful candidates are employed in rural areas.

Status: SAF response:

No cost savings were anticipated to arise due to the 2014 to 2016 year-over-year 10% increase to auto body labour rates. A portion of this shop compensation strategy was intended to assist shops staff and tool-up in preparation for the Appraisal Transition Project (ATP). The ATP launched in 2014 and was operationalized in 2017 and provided for remote approval of shop generated supplements and has resulted in approximately 35% of estimates being done by shops and remotely approved by SGI. The main goal of the project was to position the SGI Appraisal team to handle a projected increase in claims without increasing any internal appraisal staff that could otherwise serve as technicians to the industry. At the onset of the ATP, there were 283 accredited body shops operating throughout the province. When the project wrapped up, 255 shops successfully made the transition and 28 dropped out of the accreditation program. Beyond isolated incidents of technicians wanting to get “off the bench” and obtain employment with SGI in an appraisal capacity, industry has not continued to raise concerns with technician recruitment.

Since the implementation of the Appraisal Transition Project, the collision repair industry has fundamentally changed due to an increased focus on fuel economy and vehicle safety features. These changes are driving up claims costs and have highlighted gaps in industry knowledge and capabilities. In response, SGI launched the Safe and Quality Auto Repair Project (SQARP) set to “go-live” in July 2021. As part of this program, SGI has reinvented its accreditation program and added new minimum training and tooling requirements. These changes are necessary to ensure customers vehicles are being repaired correctly and will provide protection in the event of a subsequent claim. It is projected that these changes will result in some consolidation, though it is expected that repairers representing approximately 95% of repair volumes will remain accredited and are positioned to deliver all repairs required provincially.

Recommendation 7: That the Auto Fund include, as part of its Minimum Filing Requirements, a Statement of Operations for four potential scenarios, including separate line items for Rate

Stabilization Reserve components for the capital build/release program and capital maintenance provisions, and also showing resulting Minimum Capital Test ratios. The four scenarios are:

- 10% increase or decrease in investment income;
- 0.5% increase or decrease in vehicle volume;
- 0.5% increase or decrease in vehicle drift; and
- 10% increase or decrease in Traffic Safety costs.

Status: SAF filed MFR #27 reflecting the results of the scenario testing.

21.0 CORE ISSUES AND RECOMMENDATIONS

21.1 *General Rate Increase, Capping and Rebalancing*

As discussed in section 5.7 of this Report, COVID-19 “Stay-at-home” orders and other directives beginning mid-March 2020 led to a decline in vehicle traffic, and a resulting decline in claim frequency. However, as the historical loss experience data used for this rate Application is through to March 31, 2020, there is an immaterial impacted by COVID-19 on the historical loss data.

The pandemic has resulted in a reduction in traffic and collisions. As a result, the loss amounts are less than originally assumed within the premium levels, and the excess has flowed to the RSR. With the increase in the RSR, the MCT increased as well. However, in the calculation of the provision for the break-even margin and the capital management plan provision, the updated forecast of the RSR/MCT was not used. SAF estimates that substituting the more recent MCT estimate would reduce the overall rate level indication by (a material amount of) +1.8 ppt (i.e., from +0.0% to -1.8%).

For this *current* Application, we suggest the Panel consider the following issues and recommendations regarding the calculations of the rate level change need:

1. Delay in Release of Application to the SRRP and Resulting Effective Date Change

i. The Panel recommend SAF update the application of the trends so as to reflect the actual effective date. (See SRRP (SAF) 2-22). This change would increase the overall rate level indication by 0.5 ppt.

ii. The Panel recommend SAF further update the calculation of overall rate change proposal so as to reflect the updated MCT for 2021/2022 (See SRRP (SAF) 1-25). This change would reduce the overall rate level indication by -1.8 ppt.

2. Expense Provision

The Panel recommend SAF treat any longer-term project costs, such as the claim transformation, as capital costs and not expenses, for the purposes of the calculating the rate level change need. (See SRRP (SAF) 2-59(c); with a reduction in the overall rate level change by -0.9 ppt.) This rate treatment would ensure the costs of the new systems are recovered from the ratepayers benefiting from the new service offerings. SAF should consider the fairness and reasonableness of the approach on todays, and future customers who will benefit from this investment.

3. Complement of Credibility

The Panel recommend SAF use a more robust approach to reflect change in claims costs, expenses and the break-even provision since the prior filing pure premium estimate.

4. Excess RSR

The Panel recommend SAF consider the updated estimate of COVID-19's impact on the MCT/RSR a "once-in-a-life-time" material issue that should be addressed expeditiously. The capital management plan did not envision the massive excess capital buildup due to COVID. In the spirit of fairness to policyholders, the excess RSR should be returned to the policyholders in a timely fashion as a rebate (or more expeditiously as part of this rate indication model).

5. Rate Capping and Rebalancing

i. The Panel consider the reasonableness of the proposed cap program limits (both dollar amount and percentage) from a public policy perspective.

ii. The Panel consider the fairness of the rate rebalancing whereby the reduction in premium from rate capping is offset by an increase to the CLEAR category of vehicles.

iii. Any reduction in revenues by eliminating the rebalancing would be absorbed through the RSR as the SAF operates under a closed-system, meaning any shortfall or overages in revenues flows to the RSR.

For future Applications, we suggest the Panel consider the following issues and recommendations:

6. Future Ratemaking Indication Model Improvements

A. Loss Development

Consider the use of more granular data, when credibility and complexity are not an issue.

B. Loss Trend

i. 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.

ii. 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.

iii. 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.

C. Accident Year Weights

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.

D. Special Adjustments -Taxi

Consider an adjustment to the historical loss data to reflect a change in usage (e.g., reduced annual km/taxi) as the dynamics of the marketplace shift with the introduction of TNCs.

E. Discount Rate Forecasting

The Panel recommend SAF implement a practice to use the most current available information in preparing its rate application as practical to do so 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 economic assumptions such as interest rates.

7. Taxi and Transportation Network Companies (TNC) Rates

i. The Panel request SAF to report at the next rate application on the claims experience and loss ratio for the TNC rate class.

ii. The Panel urge SAF consider, if technology allows for it, taxicab companies to gain access to a per kilometre rate scheme option and whether a similar scheme offered by ICBC could be appropriate in Saskatchewan.

8. Motorcycle Rates

i. There is a public policy issue of affordability, the alternatives available including changes to rate capping or shifting of costs such as wildlife claims to other drivers.

ii. The Panel suggest SAF consider adopting system architecture sufficiently flexible to accommodate future changes to motorcycle rates including seasonal rating, potential SDR changes and other potential injury benefit changes. We would recommend the Panel recommend SAF report back at the next rate application on its efforts related to the progress on these measures.

9. Claims Incurred

Given the continued reduction in claims related to the pandemic, the Panel recommend SAF monitor the continued development of claims incurred and address any further unexpected increase in capital at SAF’s next Rate Application.

10. Autobody Repair

i. The Panel request SAF continue to monitor the autobody shop-generated cost estimates and report to the Panel on the program at the next Rate Application.

ii. The Panel request SAF should report on the status of the SQARP role out, and the health of the autobody industry, in particular access to rural-based repair shops at its next Rate Application.

11. Corporate Transformation Project Costs

i. The Panel recommend SAF provide the completed business case and project plan to be filed with the next rate application to allow the Panel to understand the full implications of the CT project on future rates.

ii. Recommend the Panel urge SAF engage professional advice on capitalizing CT project costs within the IFRS framework and report back at the next rate application on the impact on rates.

iii. The Panel urge SAF to consider the extent that internal staff are engaged in similar transformation activities as external resources and the activities are capital in nature, SAF should review and consider whether it is consistent in its treatment of such costs.

12. Traffic Safety Expenses

Traffic Safety program spending including program monitoring and R&D projects is a controllable expense for SAF. The budget for traffic safety expenses appears unsupported by historical spending levels. Included in the budget are increases for program monitoring or R&D projects higher than historical levels.

We recommend that the Panel urge SAF to closely monitor its traffic safety spending to ensure it is efficient and effective.

13. Cost Allocation

i. The Panel recommend SAF consider changes to the ICAM to track allocated costs on a cost element basis so as to provide additional insight to SAF in managing costs.

ii. The Panel recommend SAF undertake an external third-party independent 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.

14. Performance Measurement Benchmarking

i. The Panel recommend SAF continue participation in Crown benchmarking and file the results of the benchmarking at the next Rate Application.

ii. The Panel recommend SAF file internal operating metrics, provide interpretation of the metrics and compare the results to metrics prepared by MPI.

15. Overall Impact of Recommendations

We recommend SAF file an updated rate indication and financial forecast that reflect the combination of Panel adopted recommendations presented in this Report.

16. Next Steps

i. The Panel recommend SAF file an annual rate application.

ii. The Panel meet with SAF to review this past application process and discuss process improvements for future rate Applications.

22.0 GLOSSARY OF ACRONYMS

AA	Appointed Actuary
AAP	Accepted Actuarial Practice
ATP	Appraisal Transition Project
BR	Business Recognition (Program)
CBoC	Conference Board of Canada
CIA	Canadian Institute of Actuaries
CIC	Crown Investments Corporation
CLEAR	Canadian Loss Experience Automobile Rating
CMP	Capital Management Policy
CPI	Consumer Price Index
CPP	Canada Pension Plan
CT	Corporate Transformation
CTSS	Combined Traffic Safety Services Saskatchewan
FCT	Financial Condition Testing
FTE	Full Time Equivalents
GDL	Graduated Driver Licensing
GISA	General Insurance Statistical Agency
GRF	General Revenue Fund
GVW	Gross Vehicle Weight
HTB	Highway Traffic Board
IBAS	Insurance Brokers Association of Saskatchewan
IBC	Insurance Bureau of Canada
ICAM	Integrated Cost Allocation Methodology
ICBC	Insurance Corporation of British Columbia
IFRS	International Financial Reporting Standards

IRP	International Registration Plan
IR	Information Request
IRR	Internal Rate of Return
IT	Information Technology
KPI	Key Performance Indicators
LAE	Loss Adjustment Expenses
LDF	Loss Development Factor
MCT	Minimum Capital Test
MGDL	Motorcycle Graduated Driver License
MFR	Minimum Filing Requirement
MPI	Manitoba Public Insurance
MSA	Master Services (Accreditation) Agreement
OEM	Original Equipment Manufacturer
OM&A	Operating, Maintenance and Administrative (Expenses)
OSFI	Office of the Superintendent of Financial Institutions Canada
PDO	Property Damage Only
PfAD	Provision for Adverse Deviations
PIPP	Personal Injury Protection Plan
PPV	Private Passenger Vehicles
RAGE	Riders Against Government Exploitation
ROI	Return on Investment
RSR	Rate Stabilization Reserve
SAAR	Saskatchewan Association of Automobile Repairers
SaaS	Software as a Service
SADA	Saskatchewan Automotive Dealers Association
SAF	Saskatchewan Auto Fund

SCISL	SGI CANADA Insurance Services Ltd.
SCOTS	Special Committee on Traffic Safety
SDR	Safe Driver Recognition (Program)
SGI	Saskatchewan Government Insurance
SGIC	SGI CANADA
SMC	Saskatchewan Motorcycle Coalition
SOP	Standards of Practice
SQARP	Safe and Quality Auto Repair Project
SRRP	Saskatchewan Rate Review Panel
TIC	Temporary Insurance Cards
TNC	Transportation Network Company
TSS	Traffic Safety Strategy
WHO	World Health Organization

23.0 GLOSSARY OF TERMS

Term	Definition
Catastrophe reinsurance	A policy purchased by a ceding company that indemnifies that company for the amount of loss in excess of a specified retention amount subject to a maximum specific limit from a covered catastrophic event.
Claims incurred	The total for all claims paid and related claim expenses during a specific accounting period(s) plus the changes in the provision for unpaid claims for the same period of time.
Combined ratio	A measure of total expenses (claims and administration) in relation to net premiums earned as determined in accordance with IFRS. If this ratio is below 100% there was a profit from underwriting activities, while over 100% represents a loss from underwriting.
Gross premiums written (GPW)	Total premiums, net of cancellations, on insurance underwritten during a specified period of time before deduction of reinsurance premiums ceded.
IBNR reserve	Abbreviation for 'incurred but not reported'. A reserve that estimates claims that have been incurred by a policyholder but not reported to the insurance company. It also includes unknown future developments on claims that have been reported.
IFRS	International Financial Reporting Standards. These are global accounting standards issued by the International Accounting Standards Board (IASB), including interpretations of the International Financial Reporting Interpretations Committee (IFRIC).
Loss ratio (Claims ratio)	Claims incurred net of reinsurance expressed as a percentage of net premiums earned for a specified period of time.
Motor license issuer	A person who negotiates driver's licenses and vehicle license/insurance on behalf of the Auto Fund and who receives a fee from the Auto Fund for licenses placed and other services rendered.
Net premiums earned (NPE)	The portion of net premiums written that is recognized for accounting purposes as revenue during a period.

Net premiums written (NPW)	Gross premiums written for a given period of time less premiums ceded to reinsurers during such period.
Premium	The dollars that a policyholder pays today to insure a specific set of risk(s). In theory, this reflects the current value of the claims that a pool of policyholders can be expected to make in the future, as well as the costs of administering those potential claims.
Premium tax	A tax collected from policyholders and paid to the Province. It is calculated as a percentage of gross premiums written.
Redundancy & deficiency	Claim reserves are constantly re-evaluated. An increase in a reserve from the original estimate is a deficiency while a decrease to the original reserve is called a redundancy.
Underwriting profit/loss	The difference between net premiums earned and the sum of net claims incurred, commissions, premium taxes and all general and administrative expenses.
Unearned premiums	The difference between net premiums written and net premiums earned. It reflects the net premiums written for that portion of the term of its insurance policies that are deferred to subsequent accounting periods.

24.0 USE CONSIDERATIONS, AND LIMITATIONS

24.1 Oliver Wyman

Usage and Responsibility of Client – All sections of this report include important considerations, assumptions, and limitations and, as a result, is intended to be read and used only as a whole. This report does not represent investment advice nor does it provide an opinion regarding the fairness of any transaction to any and all parties. In addition, this report does not represent legal, medical, accounting, safety, or other specialized advice. The report sections may not be separated into, or distributed, in parts. All decisions in connection with the implementation or use of advice or recommendations contained in this report are the sole responsibility of the Panel. We have relied on SAF to ensure that the information included in this report is for public consumption. Accordingly, we do not take any responsibility for inadvertent disclosure of confidential information in this report.

Data Verification – For our analysis, we relied on data and information provided by SAF without independent audit. Though we have reviewed the data for reasonableness and consistency, we have not audited or otherwise verified this data. Our review of data may not always reveal imperfections. We have assumed that the data provided is both accurate and complete. The results of our analysis are dependent on this assumption. If this data or information is inaccurate or incomplete, our findings and conclusions might therefore be unreliable.

Rounding and Accuracy – Our models may retain more digits than those displayed. Also, the results of certain calculations may be presented in the exhibits with more or fewer digits than would be considered significant. As a result, there may be rounding differences between the results of calculations presented in the exhibits and replications of those calculations based on displayed underlying amounts. Also, calculation results may not have been adjusted to reflect the precision of the calculation.

Internal / External Changes – The sources of uncertainty affecting estimates are numerous and include factors internal and external to SAF. Internal factors include items such as changes in claim reserving or settlement practices. The most significant external influences include, but are not limited to, changes in the legal, social, or regulatory environment surrounding the claims process. Uncontrollable factors such as general economic conditions also contribute to the variability.

Uncertainty Inherent in Projections – While this analysis complies with applicable Actuarial Standards of Practice and Statements of Principles, users of this analysis should recognize that projections involve estimates of future events and are subject to economic and statistical variations from expected values. We have not anticipated any extraordinary changes to the legal, social, or economic environment that might affect the frequency or severity of claims. For these reasons, we do not guarantee that the emergence of actual losses will correspond to the projections in this analysis.

24.2 Cathcart Advisors

Standard of Care – We provided the services set out in the scope with reasonable skill and care, following the professional standard expected of us, and in a timely manner. Our analysis, observations and conclusions are based on information made available to us and discussions with and representations made by SAF. Although we reviewed the information for reasonableness, we have not audited or otherwise verified this information for our Report. We do not express any view on its compliance with International Financial Reporting Standards and the standards related to future oriented financial information. We accept no responsibility or liability for any losses occasioned by any party due to our reliance on information provided to us or that we have obtained from external sources.

Limitations of Financial Forecasts – Our observations and conclusions are based on the current financial forecast. Our analysis has considered the assumptions made by SAF regarding future events and financial forecasts with respect to SAF's operations. These assumptions by their nature cannot be substantiated, and while currently are considered reasonable by SAF, they will not occur exactly as forecast/projected. Readers are therefore cautioned to review this Report considering this limitation.

Confidential Information – We have prepared this Report having access to both public and information deemed confidential by SAF. This Report has been prepared for public release. The Report was provided to SAF in draft form to vet in advance of its finalization to ensure that the information included in this Report is accurate and can be publicly disclosed. We have relied on SAF to ensure that the information included in this Report is for public consumption. Accordingly, we do not take any responsibility for inadvertent disclosure of confidential information in this Report.

APPENDIX A – ADMINISTRATIVE FEE CHANGES

Auto Fund Administrative Fee Changes

Media backgrounder – December 2016

SGI is making changes to Auto Fund fees to better reflect what it costs to deliver the services. Most of the fee changes take effect Jan. 1, 2017, with some changes being phased-in mid-2017, as detailed below.

		Fee Description	Current	New
Driver Testing Fees	1	Class 1, 2 or 3 licence – road test	$40	$100
	2	Class 4 or 5 licence – road test	$22	$55
	3	School bus endorsement – road test	$20	$40
	4	Air brake endorsement – practical test	$15	$55
	5	Well service rig endorsement – road test	$40	$75
	6	Well service rig air brake test	–	$25
	7	Heavy trailer endorsement – road test	$40	$100
	8	Motorcycle basic ability road test	$22	$55
	9	Motorcycle endorsement – road test	$22	$55
	10	Written examinations for all licence classes	$10	$25
	11	Pre-trip inspection test	–	$55
	12	Oral examination if unable to complete a written examination[1]	$10	$85
	13	Driver ability assessment – road test or practical vision test[2]	–	$75
	14	Driver ability assessment – written examination[2]	–	$25
	15	Other driver tests	$15	$55
Driver's Licence Fees	16	Cancel driver's licence	$10	$15
	17	New photograph – existing driver's licence	$10	$15
	18	Change driver's licence class, endorsement or restriction	$10	$15
	19	Change customer name – existing driver's licence	$10	$15
	20	Reprint driver's licence	$10	$15
	21	Reprint temporary driver's licence	$10	$15
	22	Driver's abstract	$10	$15
	23	Non–driver photo ID	$10	$15
Driver Program Fees	24	Driving Without Impairment (DWI) course	$150	$170
	25	Ignition interlock program fee	$30	$105
	26	Vehicle impoundment release certificate	$50	$125
	27	Driver's licence reinstatement fee (new fee for Criminal Code charges)[2]	–	$75
Driver Training Fees	28	Driver instructor's certificate of certification	$30	$100
	29	Driver training school certificate of certification	$30	$100
	30	Fee for each training school instructor	$8	$15
	31	Replacement of a driver instructor or training school certificate	$7	$40
	32	Transfer of a driver instructor or driver training school certificate	$5	$40
	33	Written exam to become a driver instructor	$10	$85

[1] The oral examination fee will increase to $25 on Jan. 1, 2017 and to $85 mid-2017
[2] Fee change will take effect mid-2017
[3] All International Registration Plan fees will increase to $15 on Jan. 1, 2017; some will increase to $35 mid-2017
[4] Permit fees will increase to $15 on Jan. 1, 2017; new permit fees will be $15 starting mid-2017

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		Fee Description	Current	New
Appeal Fees	34	Safe Driver Recognition appeal	$25	$100
	35	Business Recognition appeal	$25	$100
	36	Roadside suspension appeals (written or oral)	$100	$175
	37	Ignition interlock appeal	$100	$175
	38	Ignition interlock exemption appeal	$100	$175
	39	Vehicle impoundment appeal	$100	$175
	40	Chair review appeal	$100	$175
	41	Restricted licence appeal	$100	$175
	42	Commercial vehicle impoundment appeal	$100	$175
	43	Driver Improvement Program appeal[2]	–	$75
	44	Graduated Driver's Licensing Improvement program (GDL) appeal[2]	–	$75
	45	Medical appeal[2]	–	$75
	46	Fraudulent ID appeal[2]	–	$75
	47	Safety fitness certificate appeal[2]	–	$75
Vehicle Registration Fees	48	Transfer vehicle registration	$10	$15
	49	Change of vehicle information	$10	$15
	50	Licence plate replacement	$10	$15
	51	Replace vehicle registration certificate	$10	$15
	52	Cancel vehicle registration	$10	$15
	53	Fee for new licence plate when existing licence plate is less than two years old[2]	–	$15
	54	Change vehicle registration	$10	$15
	55	Change registration term	$10	$15
	56	Lease buyout	$10	$15
	57	Change renewal day	$10	$15
	58	Plate transfer to another registrant	$10	$15
International Registration Plan (IRP) Fees[3]	59	New/renew IRP registration	$10	$35
	60	Registration and issue of IRP cab card	$10	$35
	61	Replace IRP cab card	$10	$15
	62	Change of vehicle information resulting in fee recalculation	$10	$35
	63	Change of vehicle information with no fee recalculation	$10	$15
	64	Each addition to a fleet on any one occasion	$10	$35
	65	Each replacement of a vehicle in a fleet	$10	$35
	66	Each replacement plate	$10	$15

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		Fee Description	Current	New
Search Fees	67	Registration search by name	$10	$20
	68	Registration search by licence plate	$10	$20
	69	Confirmation of driver's licence or vehicle registration record	$10	$20
	70	Registration search by Vehicle Information Number (VIN) when 25 or fewer VIN searches are requested (fee is per VIN search)	$10	$20
	71	List of active licence plates and corresponding registration information when 10 or fewer searches are requested (fee is per search)	$10	$20
	72	List of current licence plates and corresponding vehicle information when 10 or fewer vehicle searches are completed (fee is per search)	$10	$20
	73	Certified copy of a driver record or vehicle registration record	$10	$40
	74	Fee for letter to verify payment of vehicle registration fees and insurance premiums (up to three vehicles for up to three years)	$10	$20
	75	Each additional three vehicles in letter	$10	$20
	76	Each additional three years in letter	$10	$20
	77	Each separate letter covering a single vehicle for up to three years	$10	$20
	78	Each separate letter covering up to three vehicles for a single year	$10	$20
	79	Cross Canada VIN search if the number of searches is 25 or fewer (fee is per search)	$10	$20
	80	Cross Canada VIN search for each search after 25 (fee is per search)[2]	–	$5
National Safety Code Fees	81	New safety fitness certificate	$50	$125
	82	Reprint safety fitness certificate	$10	$15
	83	Renew safety fitness certificate[2]	–	$50
Permit Fees[4]	84	Permits issued by the Central Permit Office	$2	$15
Vehicle Inspection Fees	85	Yellow vehicle decals	$3	$15
	86	Orange vehicle decals	$3	$15
	87	Liquid propane gas/compressed natural gas decals	$3	$15
	88	Red and white body integrity decals	$3	$15
	89	Inspection mechanic certificate – annual fee	$25	$100
	90	Signing officer certificate – annual fee	$25	$100
	91	Inspection station certificate – annual fee	$100	$175

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APPENDIX B – SAF INTERNAL OPERATION MEASURES

										Annual Compound Growth	
		2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	5 yr. Historical	3 yr. Outlook
Premiums Earned (C$000s)	1	922,526	930,352	935,287	955,609	961,172	995,278	1,014,401	1,032,596	1.0%	1.9%
Operating Expenses (C$000s)	2a	54,201	50,502	58,244	71,068	69,189	90,886	93,792	102,920	6.3%	6.4%
Normal Operating Expenses excluding Transformation Expenses & Amortization (C$000s)	2b	54,201	50,502	58,244	66,190	67,411	72,169	81,955	85,891	5.6%	9.1%
Claims Expenses (C$000s)	3a	70,795	75,591	129,478	149,505	176,647	163,057	166,978	170,520	25.7%	2.3%
Normal Claims Expenses excluding Transformation Expenses & Amortization (C$000s)	3b	70,795	75,591	129,478	144,627	174,869	144,340	155,141	153,491	25.4%	3.1%
Net Claims Incurred ($000s)	4	727,209	712,276	765,404	739,796	608,807	767,005	727,118	807,341	-4.3%	2.6%
Commissions & Premium Taxes (C$000s)	5	92,706	93,203	94,513	95,791	95,628	105,026	99,445	108,104	0.8%	1.5%
Investment Income (C$000s)	6	173,811	162,762	135,849	2,450	508,482	124,263	71,144	130,813	N/A	N/A
Number of Claims	7	118,060	126,316	121,933	119,677	104,495	139,506	143,651	147,373	-3.0%	2.8%
Number of Written Exposures	8	933,738	937,399	936,573	940,761	938,283	924,912	928,659	932,436	0.1%	0.4%
Number of Full-Time Equivalents (FTEs)	9	1,178	1,127	1,116	1,153	1,126	1,216	1,229	1,241	-1.1%	1.0%
Gross Premiums Written ($000s)	10	933,530	937,307	956,472	962,705	988,696	1,010,896	1,028,956	1,047,436	1.4%	1.8%
Net Premiums Written ($000s)	11	924,954	927,642	941,790	952,156	979,246	1,001,415	1,019,260	1,037,566	1.4%	1.8%
Provincial population (,000s)	12	1,161.4	1,172.2	1,169.1	1,182.0	1,179.9	1,219.3	1,233.5	1,247.4	0.4%	1.1%
Ratios											
Operating Expense Ratio	2a)/1	5.88	5.43	6.23	7.44	7.20	9.13	9.25	9.97	5.2%	4.5%
Operating Expense Ratio	2b)/1	5.88	5.43	6.23	6.93	7.01	7.25	8.08	8.32	4.5%	7.1%
Claims Ratio Expense Ratio	3a)/1	7.67	8.12	13.84	15.65	18.38	16.38	16.46	16.51	24.4%	0.4%
Claims Expense Ratio	3b)/1	7.67	8.12	13.84	15.13	18.19	14.50	15.29	14.86	24.1%	1.2%
Loss Ratio	4/1	78.83	76.56	81.84	77.42	63.34	77.06	71.68	78.19	-5.3%	0.7%
Combined Ratio	(2a+3a +4+5)/ 1	102.43	100.13	112.01	110.52	98.87	113.13	107.19	115.14	-0.9%	0.9%
Combined Ratio	(2b+3b +4+5)/ 1	102.43	100.13	112.01	109.50	98.50	109.37	104.86	111.84	-1.0%	1.1%
Operating Expense/Policy	2b/8	5.80	5.39	6.22	7.04	7.18	7.80	8.83	9.21	5.5%	8.7%
Claims Expense/Claim	3/7	59.97	59.84	106.19	120.85	167.35	103.46	108.00	104.15	29.2%	0.3%
Premiums/Written Exposures	10/8	1.00	1.00	1.02	1.02	1.05	1.09	1.11	1.12	1.3%	1.4%
Insurance Costs/Capita	11/12	796.44	792.02	805.55	805.56	829.94	821.30	826.32	831.78	1.0%	0.6%

APPENDIX C – CONSULTANT INFORMATION REQUEST INDEX

SAF 2021 Rate Review – Consultant IR Reference Table				
Category	**Round 1**		**Round 2**	
	Public	**Confidential**	**Public**	**Confidential**
General				
Mandate	1			
Collective Agreements	2			
Ratepayer Stakeholder Consultations – Taxicab & TNC	3		1, 2	
Ratepayer Stakeholder Consultations – Motorcycles – Seasonal Rates	4		4	
Non-Controllable Expenses	5			5
Administrative Expense Increase			6	
Claims Incurred Liabilities				
IFRS – 17 Accounting Policies		6		7
Strategic Plan and Performance Measures				
Strategic Initiatives		7		
Balanced Scorecard		8		
Cross-Jurisdictional Comparison	9		8	
Capital Improvement Spending Plans				
2021/22 to 2025/26 Capital Plans		10		9
Reinsurance				
Injury Reinsurance		11		
Damage Reinsurance		12		
Capital, Operating and Administrative Expenses				
Claims Incurred – Tort vs No Fault	13			
Break-Even Margin				
COVID-19 Impact on Claims Incurred	14		10	
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Motorcycle Rate Comparisons			3	
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Malus Component of Business Recognition	16			
Reinsurance Provision	18			
Loss Development Factors	19, 20		12, 13, 14, 27	
Motorcycle Loss Development Factors			27	
Discount Factors	21			
Economic & Interest Rate Forecast		22		23, 24
Labour Adjustment Factors	23			
Management Capital Plan Calculation	24, 25		26, 25	
Large Loss Factor Calculation	27, 34		30	
Loss Trend Rates	29, 30		15, 17, 18, 19, 20, 21	

SAF 2021 Rate Review – Consultant IR Reference Table				
Category	**Round 1**		**Round 2**	
	Public	**Confidential**	**Public**	**Confidential**
Sensitivity Testing – CLEAR Vehicles	31		31	
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Accident Year Weights	32		32	
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CLEAR Rated Surcharge & Discount Factors	35			
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Rate Adequacy Summary	39			
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Wildlife Claims	17		11	
Motorcycle Claims/ Capping of large losses	26		28, 29	
Claims Incurred Trend	72		52	
Loss Adjustment Expenses	75			56
After Market Part Usage	77		54	
Repair Costs	91, 92			
Ratemaking Model				
Loss Trend	28			
SDR & BR Incentive Programs				
Jurisdictional Comparison	40			
Traffic Safety				
Traffic Safety Program Evaluation	41			
Traffic Safety Expenditures		42, 61	42(c)	42(a)&(b), 43
Traffic Safety Programs	43, 44		35, 38	36
2014 New Initiative Evaluation Report 2020	45, 46		37	
MCT Ratios and Capital Management Policy				
RSR Balance and MCT Forecast	47		39, 40	50
MCT Target Scenario	48		40	
Financial Condition Testing		49		41
Financial Forecast RSR	62	50	49	
FCT Modelling and Testing	51			
MCT Changes	52			
RSR & MCT Ratio	53			
MCT Ratios	54			

SAF 2021 Rate Review – Consultant IR Reference Table				
Category	**Round 1**		**Round 2**	
	Public	**Confidential**	**Public**	**Confidential**
Investment Strategy and Income				
Investment Policy Changes	55	55(c)		
Investment Risk Management	56			
Investment Portfolio Management	57	57(c)		
Investment Portfolio	58			
Investment Portfolio Target Composition	59			
Investment Income	66, 68		44, 45, 46	
Investment returns	67			
Issuer Fees				
Broker Agreement	60			
Revenue				
Breakdown of Written Premium	63			
Other Income – SDR	64			
Other Income - Salvage Operations	65			
Capital, Operating and Administrative Expenses				
Expense Trends	69			47
Issuer Fees		70		48
SAF Operating Expenses	71	71(c)	51	
OM&A Expenses		73		
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Productivity & Efficiencies				
Key Performance Metrics		87	60	
Capital Improvement Spending Plans				
Information Technology Capital Spending		88, 90		59,62,64
Information Technology Capital Planning		89	63(b)	61, 63(a)