

Saskatchewan Rate Review Panel (SRRP)

Saskatchewan Auto Fund (SAF) Rate Review

Pre-Ask Information Requests

June 4th, 2021

SRRP (SAF) Pre-Ask-1

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|--------------------------------------|---|------------------|--|
| Application Part and Chapter: | 3. 2019/20 Annual Report | Page No.: | |
| Issue: | Financial Reporting | | |
| Topic: | 2021 Annual Report/ Q1 2022 Quarterly Report | | |
| MFR: | 3 | | |

Preamble to IR (If Any):

Question:

- a) Please undertake to file a copy of the 2021 Annual Report as soon as SAF is able to release it. Please file in confidence if necessary.
- b) Please provide First-quarter 2022 Auto Fund Financial statements (when available), with explanation for variances (if any) from application. Please file in confidence if necessary

RESPONSE:

CONFIDENTIAL

- a) A copy of the 2020-21 Annual Report will be sent as an attachment by June 25th in confidence. It will be tabled on July 6.
- b) The Auto Fund will provide a confidential financial report which lists actual to budget for operations and the RSR and provides an explanation for significant changes. This will be available July 16th.

SRRP (SAF) Pre-Ask-2

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|--------------------------------------|---|------------------|----------|
| Application Part and Chapter: | 17 | Page No.: | 4 |
| Issue: | Statement of Investment Policies and Goals | | |
| Topic: | Internal Reports | | |
| MFR: | 17 | | |

Preamble to IR (If Any):**Question:**

Please file a copy of all internal and external reports (AON, and any others) dealing with risk profile of the SAF investment portfolio.

RESPONSE:**CONFIDENTIAL**

SRRP (SAF) Pre-Ask-3

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|--------------------------------------|--|------------------|----------|
| Application Part and Chapter: | 1 | Page No.: | 5 |
| Issue: | General | | |
| Topic: | Taxi Industry Stakeholder Consultations | | |
| MFR: | 26 | | |

Preamble to IR (If Any):**Question:**

Please provide a synopsis of the taxi industry consultations and any planned changes to the Taxicab program under consideration that will be effective after January 2022. Explain how SAF has taken these changes into consideration in determining the rate level change need.

RESPONSE:**SGI Ridesharing Consultations**

Ridesharing consultations were conducted in 2017 and 2018 as SGI worked on new legislation to allow ridesharing in Saskatchewan.

Consultation Approach

The first step in the process was to consult on the drafting of *The Vehicles for Hire Act*. SGI needed to create a new piece of legislation as the existing legislation would have required rideshare vehicles to be registered as taxis.

The first round of consultations started in 2017 and focused on creating the new Act which sets out the provincial framework for vehicles for hire in Saskatchewan. SGI invited stakeholders to discuss what the provincial framework should look like and what aspects of the program should be governed municipally. The Act was passed in May 2018.

The second round of consultations was held throughout 2018 as SGI worked on the Regulations. The Regulation consultations were more detailed as they addressed the specific requirements for these new vehicles for hire. Stakeholders were provided with a document and asked to provide feedback. Stakeholders provided feedback in writing or at consultation meetings. Some did both.

Outside of these scheduled consultations, representatives from SGI made themselves available via phone or email to discuss any of the stakeholders' concerns while they worked on the regulatory requirements.

Stakeholder groups

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

- The Saskatchewan Taxi Cab 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 and Uride.
- The cities of Regina and Saskatoon
- SUMA & SARM
- 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 and Manitoba.

Consultation Topics

SGI consulted with stakeholders on 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 which is the same as the insurance required for taxis and limousines.
- Stakeholders were supportive of the basic insurance model that was recommended, where the rideshare vehicle must be registered in Class LV but with a use code to indicate it is used for ridesharing. The vehicle owner pays the basic insurance rate for their private passenger vehicle and the rideshare

company pays an additional rate for all ridesharing kilometers from the time a fare is accepted in the app right up until the passenger is dropped off at their location.

Vehicle Inspections:

- Taxi representatives strongly felt that all vehicles that transport passengers should be inspected annually. The large rideshare companies did not want vehicle inspections to create a barrier for people to sign up as rideshare drivers. To ensure safety, SGI moved forward with annual inspection requirements for all vehicles for hire using an SGI-approved inspection station to conduct a standard inspection for all rideshares and taxis before they are authorized to transport passengers in Saskatchewan.

Vehicle Identification:

- The taxi industry felt strongly that rideshare vehicles should be identifiable to their customers with some sort of decal. Other stakeholders were supportive of making this a provincial requirement as well. This requirement is similar to taxis displaying a taxi sign.

In-car cameras:

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

Driver's licence requirements:

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

It was decided to allow 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, at least two years of driving in experience in Canada, and not being part of the Graduated Driver's Licensing program.

To keep a level playing field with taxis and limousines, SGI updated the driver's licence requirements for these drivers as well, so these are now the requirements for taxis, limousines and rideshare drivers.

Criminal Record Checks:

Taxi representatives felt strongly that both a criminal record check and a vulnerable sector check should be required and recommended that they be provincially regulated. SGI did provincially regulate a requirement for annual criminal record checks to be submitted to SGI to ensure compliance. SGI did not require a vulnerable sector check provincially, since *The Vehicles for Hire Regulations* outline the Criminal Code offences that drivers must not be convicted of, and standard criminal record checks are able to check for these offences.

Criminal record check requirements apply to all rideshare, taxi & limousine drivers.

Taxi Industry

Taxi representatives were very vocal during consultations and would have preferred that government not allow ridesharing to come to Saskatchewan. However, SGI's job as regulator was not to place economic regulation where one industry controls a market with no ability for outside competition. Instead, SGI focused on regulating the safety of passenger for hire services and making regulations that ensured a level playing field for all vehicles for hire.

SGI continues to keep an open dialogue with members of the taxi industry and is open to listening to any ideas they may have on ways to reduce their insurance rates going forward.

2021 Rate Program

SGI extended invitations to taxi companies throughout Saskatchewan to attend meetings regarding the proposed changes for the taxi rating class within the 2021 Rate Program proposal. Companies from Regina, Saskatoon and Swift Current attended meetings near the submission date of June 1, 2021.

A high-level summary of the rate analysis used to determine the required premium was presented along with the Saskatchewan Auto Fund mandates to provide universal, fair, and affordable automobile insurance on a break-even basis. Specific coverages like collision, damage liability and medical expenses were shown based on their frequency rates and average claim costs, or severity. The actuarial pure premium, or claim cost per vehicle, of each component was contrasted with the private passenger vehicle class.

A brief history of rate changes and key steps within the Rate Program review process were discussed. Rate capping, as well as indicated and proposed changes, were shared along with comparisons of taxi premiums in neighbouring provinces.

Taxi representatives were interested in the ridesharing rate of 11 cents per kilometer. SGI shared the details about the derivation of the ridesharing rate and confirmed that there are no proposed changes within this Rate Program since claim data on the rate is limited.

There are no proposed changes to the taxi program at this time, though SGI has recently created a new Partnerships department in the Auto Fund to place more of a focus on our partners and stakeholders.

The role of this new department will be to create an overall partnership strategy to ensure we are working with our partners in the most meaningful ways.

This new department will be a point of contact for our stakeholders to reach out to for any issues or ideas they may have related to the Auto Fund.

They will work directly with the business areas and stakeholders to help resolve issues and come up with solutions. The Partnerships area will also be involved in stakeholder consultations for new and existing programs and initiatives to ensure we are getting input from impacted stakeholders.

The aim of this new area is to strengthen our partnerships with our many stakeholder groups in order to improve operations, create open lines of communication and improve our overall partner experience with SGI.

The Partnerships team participated in the taxi meetings and followed up with responses about requirements for the inter-city bus class, inspections, and municipal bylaws regarding passenger transportation.

SRRP (SAF) Pre-Ask-4

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|--------------------------------------|---|------------------|-----------------|
| Application Part and Chapter: | 6 | Page No.: | Pdf 1961 |
| Issue: | Motorcycle Insurance Rates | | |
| Topic: | Motorcycle Stakeholder Consultations, Premiums and Claims Experience | | |
| MFR: | 6 | | |

Preamble to IR (If Any):**Question:**

- a) Please provide a synopsis of the motorcyclists consultations and any planned changes to the motorcycle program under consideration that will be effective after January 2022. Explain how SAF has taken these changes into consideration in determining the rate level change need.
- b) Please provide a one page summary of the Motorcycle insurance experience including the earned exposures, earned premiums, ultimate claim count, ultimate loss amounts – exclusive of the permit experience, and then including the associated permit experience for each of the last five years.

RESPONSE:

- a) In 2019 and 2020, at the request of Riders Against Government Exploitation (RAGE), SGI undertook analysis of outcomes from the Motorcycle Review that was completed in 2013 and 2014. A report on findings was completed in November 2020, and SGI officials met with RAGE representatives in December to share the report and discuss it.

As a result of the meeting, SGI committed to looking into options to address the shortfall between motorcycle insurance premiums and motorcycle claim costs.

On May 31st, SGI met with representatives of the motorcycle community:

- RAGE – 2 representatives
- Saskatchewan Motorcycle Club – 3 representatives
- Regina Motorcycle Club – 1 representative
- Motorcycle dealerships – 4 representatives
- Insurance brokers – 1 representative

SGI spoke to trends in motorcycle safety and insurance costs, motorcycle rate analysis and four options for motorcycle insurance:

- A further breakdown of motorcycle engine size classifications for rating purposes, which is included in the current rate proposal filed with the SRRP. Less significant adjustments to the model year groupings are also contemplated in the current rate proposal.
- Daily rating, whereby vehicle owners would be able to tailor the time period their insurance policy covers to their exact requirements, anywhere from one to 365 days.
- Seasonal rating for motorcycles, where premium collected would no longer be divided evenly between each month insured, but instead be weighted toward the months motorcycles are actually ridden and at risk of collision, significantly lowering the cost of a full year of motorcycle insurance.
- Changes to how permits are priced to match the cost of claims permitted vehicles are now accounting for, also included in the current rate proposal filed with the SRRP. Options for future development, such as motorcycle-only permits or limitations on permit use, were also discussed.

The group was made aware that daily rating and seasonal rating options require significant computer system changes and would not be possible to implement until SGI completes replacement of its systems.

After the meeting, based on input from the representatives of the motorcycle community, SGI has been considering additional options to address the rate issue for motorcycle owners. There may be options related to the Safe Driver Recognition program and/or injury coverage, but it will take some time to explore them and understand if they are feasible. If they are, both would likely require significant computer system changes and would need to go through the formal approval process due to the financial impact. At this time, SGI does not see options that can be implemented quickly enough to address the current motorcycle rate need.

- b) This summary differs from the premium vs. claims charts that were provided on June 16, 2021. The summary below is consistent with the rate application's treatment of large losses where excess claims have been removed whereas the previous version had excess claims within their original accident years.

Two versions of ultimates are provided below. Ultimate Loss Amount 1 matches the exhibit 3 ultimate losses within section 6.3 of the rate application. These were adjusted for loss development, incurred loss adjustments (i.e. changes in PST and injury coverages) and on-levelling labour rate changes, but did not contain loss trending nor the large loss loading factor which are applied in later stages. These ultimates are projected to a degree, but not fully projected into the rating year.

Ultimate Loss Amount 2 removes the on-level labour rate adjustment and applies the large loss loading factors to state the original ultimate loss for the year along with large losses smoothed.

| Motorcycle Experience (excluding Permits) | | | | | |
|---|------------------|-----------------|----------------------|------------------------|------------------------|
| Fiscal Year | Earned Exposures | Earned Premiums | Ultimate Claim Count | Ultimate Loss Amount 1 | Ultimate Loss Amount 2 |
| 2016 | 8,114 | 12,956,350 | 482 | 11,041,498 | 11,521,760 |
| 2017 | 7,259 | 10,947,077 | 446 | 8,810,046 | 9,242,247 |
| 2018 | 6,612 | 9,904,827 | 394 | 10,572,554 | 11,106,165 |
| 2019 | 5,920 | 8,875,652 | 390 | 12,305,926 | 12,864,645 |
| 2020 | 5,562 | 8,369,960 | 443 | 14,401,371 | 15,091,685 |

| Motorcycle Experience (Permits Only) | | | | | |
|--------------------------------------|------------------|-----------------|----------------------|------------------------|------------------------|
| Fiscal Year | Earned Exposures | Earned Premiums | Ultimate Claim Count | Ultimate Loss Amount 1 | Ultimate Loss Amount 2 |
| 2016 | 217 | 246,756 | 55 | 725,700 | 732,759 |
| 2017 | 274 | 310,243 | 28 | 742,836 | 752,954 |
| 2018 | 280 | 315,926 | 35 | 474,097 | 481,308 |
| 2019 | 286 | 321,841 | 30 | 1,095,487 | 1,110,514 |
| 2020 | 305 | 344,604 | 40 | 817,775 | 833,744 |

| Motorcycle Experience (including Permits) | | | | | |
|---|------------------|-----------------|----------------------|------------------------|------------------------|
| Fiscal Year | Earned Exposures | Earned Premiums | Ultimate Claim Count | Ultimate Loss Amount 1 | Ultimate Loss Amount 2 |
| 2016 | 8,331 | 13,203,106 | 537 | 11,767,198 | 12,254,518 |
| 2017 | 7,533 | 11,257,320 | 474 | 9,552,882 | 9,995,201 |
| 2018 | 6,892 | 10,220,753 | 429 | 11,046,651 | 11,587,474 |
| 2019 | 6,206 | 9,197,493 | 420 | 13,401,413 | 13,975,159 |
| 2020 | 5,867 | 8,714,564 | 483 | 15,219,146 | 15,925,429 |

SRRP (SAF) Pre-Ask-5

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|--------------------------------------|--|------------------|--|
| Application Part and Chapter: | 3. Annual Report | Page No.: | |
| Issue: | Detailed Financial Information | | |
| Topic: | IFRS Accounting Changes - Impacts | | |
| MFR: | | | |

Preamble to IR (If Any):**Question:**

Please file reports and analysis on the International Financial Reporting Standards (IFRS) potential impact of implementing new standards; IFRS 9 - Financial Instruments and IFRS 17 - Insurance Contracts, on SAF financial statements and future rates.

RESPONSE:

Accompanying the commentary below is an Implementation Update and Discount Rate Assumptions for IFRS 17. The accompanying information is highly confidential and proprietary material, but the response below is not.

IFRS 17 – Insurance Contracts

For the Auto Fund, the first fiscal year for which IFRS 17 will be in effect is April 1, 2023 – March 31, 2024. Impacts and changes from this standard are not contemplated for the rating year January 22, 2022 – January 21, 2023.

SGI is in the process of evaluating the impacts that the standard will have on various financial statement balances as well as the actuarial calculation of unpaid claims. While it is still too early to determine the full impact of this standard on the financial statements, some early work has been done to determine positions that SGI may take on some of these assumptions. These papers are in various stages of development and/or review. Additional detail on the preliminary positions of the Auto Fund can be found in the attached "2021-02-24 AFCRC - 19.1 Appendix A - Information from past updates."

The project of transitioning to the new standard is designed in three phases, with varying levels of progress achieved to date. Detail on the projects in each phase and their progress can be found in the attached "2021-02-24 AFCRC - 19.0 IFRS 17 Implementation Update."

Since these updates, an initial draft of a position paper for the IFRS 17 discount rates for Liabilities for Incurred Claims and Liability for Remaining Coverage has been completed. This position paper is also attached: "DRAFT IFRS 17 - Discount Rates." Potential impacts on discount rates for pricing purposes have not been evaluated at this time.

IFRS 9 – Financial Instruments

This standard is effective April 1, 2023 for the Auto Fund alongside IFRS 17, and so impacts and changes from this standard are also not contemplated for the rating year.

Investments - The Auto Fund currently classifies all investments as fair value through profit and loss with changes in fair value flowing through the statement of operations. Given that SGI manages investments on a fair value basis and that the fair value changes in investments do significantly offset an accounting mismatch (discounting of unpaid claims liabilities), the working assumption is that current accounting practice would hold true and that investments would continue to be classified as fair value through profit and loss. This is a preliminary assumption that is subject to change as SGI works through implementation of the standard.

Accounts receivable – As well with IFRS 9, there may be a change to the allowance for doubtful accounts accounting policy. IFRS 9 expects the allowance to be calculated using an expected credit loss model which incorporates not just items that we deem to be uncollectible now, but that we make an estimate for the portion of receivables that will become uncollectible. The working assumption is that the Auto Fund elect the simplified approach of a lifetime expected credit loss provision. This preliminary assumption is also subject to change. Overall impact is uncertain.

SRRP (SAF) Pre-Ask-6

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|--------------------------------------|---------------------------------------|------------------|--|
| Application Part and Chapter: | | Page No.: | |
| Issue: | Detailed Financial Information | | |
| Topic: | Impact of Covid 19 | | |
| MFR: | | | |

Preamble to IR (If Any):

Question:

The operational and financial impact of COVID-19 on SAF financial results, ratemaking approach, and capital management policy.

RESPONSE:

OPERATIONAL:

SGI's main priority was ensuring the health and safety of staff while meeting the needs of our customers. At the onset of the pandemic, SGI determined the safe working procedures and conditions needed for each employee role to achieve social distancing. SGI first applied this to the staff that needed to be in the office to serve customers or provide critical functions.

This meant shifting the majority of the workforce to remote work, changing procedures and adjusting schedules to accommodate the maximum allowable staff on-site to provide service in the spaces designated as safe.

SGI then reviewed the transactions being completed at branches and our motor licence issuers and adjusted procedures to reduce physical interactions between customers and staff. Many in-person transactions shifted to phone calls and SGI also promoted its online service, MySGI. The only transactions that required in-person visits including: renewing a driver's licence or photo ID card; creating a new customer (issuing a new customer number, driver's licence or photo ID); a new vehicle registration or transfer, for which a new licence plate is required; and, purchasing a 24-hour or 8-day permit for a vehicle that hasn't been previously registered.

In addition, to avoid line-ups, SGI started completing the in-person transactions by appointment. SGI required customers to answer COVID-19 screening questions and wear the appropriate PPE (Personal Protection Equipment i.e. mask) as required by the Saskatchewan Health Authority (SHA). Additional cleaning and foot traffic mapping were implemented and shared with issuers for safety and consistency. SGI hired security within branches to enforce the new procedures to protect staff and customers.

SGI implemented additional policies to make interactions safer for both customers and issuers. SGI began accepting TAP transactions and increased the amount TAP could be used for. SGI started accepting eTransfers to pay for transactions in addition to credit cards. SGI removed the credit card cap of \$10,000 to make it easier for commercial companies to pay for their fleet registrations.

To aid our customers, many of whom were not working, SGI provided relief in several forms including:

- Waived NSF fees during the pandemic.
- Allowing customers to move between Auto Pay and Short Term without penalty.
- Deferred receivable payments.
- Waived billing payment requirements and allowed customers to renew and obtain their licenses even with past due receivables.
- Stopped cancelling driver's licences for non-payment of the driver licence payment.

For those who were unable to maintain their registrations during this period, SGI made 24-hour and 8-day permits available through MySGI. SGI also allowed these permits to be purchased over the phone and permits were emailed to customers.

SGI reverted the annual CLEAR rating changes to ensure customers would not face any additional financial pressures as a result of their vehicle being subject to a rate increase.

All driver examination appointments and testing were suspended temporarily. Once vehicle road tests resumed, a new approach was used to reduce the risk of COVID-19 transmission; a trail vehicle with Bluetooth/hands-free cellphones and dash cams helped to ensure safety.

SGI provided extensions for customers who had just moved to Saskatchewan, held work permits or student visas to obtain a Saskatchewan licence or registration.

FINANCIAL:

COVID-19 caused an estimated \$170 million decrease in claims for 2020-2021. There was a small impact on premiums in 2020-2021. Direct earned premiums were

approximately \$8 million (or 0.8%) lower than budgeted in 2020-2021. Most of this can be attributed to slightly fewer registered vehicles as a result of the pandemic.

RATEMAKING:

A 5% exposure reduction is assumed for class CD and IRP commercial classes due to expected economic conditions following the pandemic. The number of vehicles insured in these fleets has historically been correlated with the health of the economy. While this pandemic has had a significant effect on vehicle usage and claims in 2020, we have assumed that the effect will be largely concluded by the proposed rating year (Jan. 21, 2022 to Jan. 20, 2023). Adjustments were made to the 2019-20 fiscal year loss and claim development factors to remove the impact of COVID-19 in projections for the rating year.

CAPITAL MANAGEMENT POLICY:

The capital management policy did not change as a result of COVID.