Eckler FORKAST CONSULTING Kostelnyk Holdings Corp.

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REVIEW OF
SASKATCHEWAN GOVERNMENT INSURANCE
SASKATCHEWAN AUTO FUND
2014 PROPOSAL FOR RATE ADJUSTMENT
EFFECTIVE 31 AUGUST 2014

PREPARED BY

ECKLER LTD. FORKAST CONSULTING AND KOSTELNYK HOLDINGS CORP.

FOR THE

SASKATCHEWAN RATE REVIEW PANEL

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1.0 BACKGROUND AND APPLICATION OVERVIEW

Saskatchewan Government Insurance (SGI) was established by legislation in 1944 to address 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 and is administered by, yet wholly independent of, SGI. It continues to provide Basic, universal insurance coverage to drivers and vehicle owners in Saskatchewan, operating on a self-sustaining basis over time. SAF does not receive money from, nor pay dividends to the Government of Saskatchewan. SAF's operational goal is to maintain an adequate balance in its Rate Stabilization Reserve (RSR), which is a public fund used as a buffer to protect their customers from rate shock following years with unexpected outcomes, e.g., higher than expected claim costs.

SGI is headquartered in Regina, Saskatchewan. SAF licenses over 770,000 drivers and provides registration services for over one million vehicles. SAF also provides driver examination services along with numerous driver and vehicle certification programs. SAF services extend to providing safety programs that aim to reduce the costs and damage to people and property through motor vehicle use. Their services also include audit programs for vehicle operators who carry passengers or who transport goods. All of the aforementioned services are provided across the Province at 396 independent motor license and vehicle insurance issuing offices in 295 communities in Saskatchewan. SAF also operates 7 license issuing branch offices, 20 claims centers, and 5 salvage centers in 13 communities.

In addition to administering SAF on behalf of the provincial government, SGI provides competitive insurance products through SGI CANADA (SGIC) within Saskatchewan, and its subsidiary, SGI CANADA Insurance Services Ltd. (SCISL), outside of Saskatchewan. SCISL also owns Coachman Insurance Company and has recently sold their interest in the Insurance Company of Prince Edward Island (ICPEI). They are currently in the process of transitioning the ICPEI business to the new owners. SGIC and SCISL are separate entities from SAF and, therefore, are not to be considered part of this rate adjustment Application review.

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 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 Rate Stabilization Reserve at appropriate levels as determined by the Minimum Capital Test, and SAF Capital Management Policy. This will involve building into rates a capital maintenance provision combined with either a capital build or a capital release provision.

1.3 2014 APPLICATION AND RATE IMPACTS

1.3.1 Application Summary

As discussed in Section 1.2, SAF determines adequate rates based on the actual risk each vehicle represents for being involved in a claim, and the actual costs of paying that claim. SAF submits that a rate increase is required in order to generate enough premium revenue to cover all claim obligations and operating expenses for the 31 August 2014 to 30 August 2015 rating year. SAF states that the 10% year-over-year increase in auto body labour rates for each of 2014, 2015 and 2016 is the main driver for the proposed rate increase.

On 11 February 2014, SAF submitted a rate proposal for an effective average 5.2% increase to SAF rates to become effective on 31 August 2014. Although SAF's proposal is for a net overall average increase of 5.2%, that percentage simply represents how much additional revenue the Auto Fund has requested.

The 5.2% rate increase consists of a 2.7% rate increase to allow for SAF to cover expected claims obligations (excluding Motorcycles), including claims costs and operating expenses. In recognition of fairness in rating, the 2.7% increase also includes rate rebalancing for all vehicles except Motorcycles. By its nature, rate rebalancing is revenue neutral, on an overall basis, and

will not impact overall SAF premium revenues. Within this Application the Motorcycle class is to receive a 2.7% flat rate increase but no rate rebalancing is being proposed.

The overall average 5.2% rate increase also incorporates an additional 3.7% surcharge to be applied to all vehicles to further replenish the RSR, in order for SAF to maintain adequate capital. This 3.7% increase is essentially replacing the 1.23% RSR surcharge that expires on 30 August 2014. Thus, the components of the proposed effective average rate increase of 5.2% are an average vehicle premium increase of 2.7% plus a capital margin of 3.7% applied equally as a surcharge to each vehicle premium, less the current 1.23% RSR surcharge currently in rates. The new capital margin in effect replaces the RSR surcharge.

1.3.2 Rate Impacts

SAF's rate proposal for a net increase of 5.2% simply represents the amount of additional revenue SAF submits is required. However, depending on the type of vehicle owned, some customers will see rate increases, while others will see rate decreases or no rate change. The proposed +5.2% rate change would have the following impact on Saskatchewan vehicles if approved:

- Rate increases for approximately 84% of Saskatchewan vehicles with an average annual increase of $49;
- Rate decreases for approximately 16% of Saskatchewan vehicles with an average annual reduction of $12; and
- No rate change for approximately 3,000 vehicles.

The following table shows the 2014 indicated required rate changes as well as the 2014 proposed rate change impacts including capital margin for each vehicle class, both for CLEAR-rated and Conventionally-rated vehicles, as a result of the proposed +5.2% rate change:

2014 Average Rate Change (Indicated and Proposed with Capital Margin)					
Vehicle Class	**Indicated Rate Change**	**Proposed Rate Change**	**Vehicle Class**	**Indicated Rate Change**	**Proposed Rate Change**
CLEAR-Rated	2.3%	4.9%	**Conventionally-Rated**		
A - Commercial Light Trucks		18.2%	LV - Buses	10.6%	12.7%
F - Farm Light Trucks (1994 & Newer)		2.1%	LV - Buses (Restricted)	-0.8%	1.5%
LV - Private Passenger Vehicles (PPV)		5.0%	LV - Motorcycles	46.8%	5.2%
LV - PPV - Farm Cars, SUVs & Vans		4.4%	LV - Motorhomes	8.7%	10.2%
LV - Police Cars		19.7%	MT - Snowmobiles	-4.1%	-1.2%
LV - Police Trucks, Vans & SUVs		-6.5%	PB - Passenger Inter-City Buses	3.7%	5.9%
LV - U Drives		6.8%	PC - Passenger City Buses	30.7%	12.9%
PT - Taxis (Rural)		8.2%	PS - Passenger School Buses	11.3%	14.4%
			PT - Taxis	36.3%	17.3%
Conventionally-Rated					
Ambulances	2.9%	5.4%	Trailers		
A - Commercial Vehicles:			F - Trailers	4.2%	5.7%
Heavy Truck & Van IRP $2500 Ded	2.8%	5.3%	LT - Trailer Dealers / Movers	0.1%	2.6%
Heavy Truck & Van IRP $15K Ded	-11.8%	-7.2%	T - Personal Trailers	15.7%	17.2%
Heavy Trucks & Vans Non-IRP	3.2%	5.4%	T - Utility	13.3%	17.6%
Power Units IRP $2500 Ded	1.8%	4.0%	TS - Commercial Trailers	10.8%	13.0%
Power Units IRP $15K Ded	-4.5%	-2.4%			
Power Units Non-IRP	-2.5%	-0.2%	Miscellaneous Classes		
C&D - Commercial Vehicles:			A - Excess Value	-22.6%	5.9%
Heavy Trucks & Vans	11.9%	12.1%	C&D - Non-Resident	0.0%	2.6%
Power Units	3.3%	4.0%	C&D - Excess Value	-45.6%	5.9%
F - Farm Vehicles:			Industrial Tracked Vehicles	-0.2%	2.5%
Heavy Trucks & Vans	-10.4%	-1.2%	LV - Motorized Bicycle	87.4%	60.0%
Light Trucks (1993 & Older)	-12.0%	-9.9%	PV - Converted Vehicles	-1.5%	0.6%
Power Units	7.5%	10.4%	PV - Heavy Trucks & Vans	-4.5%	-0.9%
Hearses	0.2%	2.6%	PV - Power Units	0.0%	3.2%
L - Dealer Plates	-3.9%	-1.5%	TS - Excess Value	-25.3%	5.9%
L - Snowmobile Dealers	0.0%	1.6%			
LV - Antiques	4.4%	6.2%	**Total All Vehicles**	**3.4%**	**5.2%**

CLEAR-rated vehicles are expected to total 784,398 for 2014, with Conventionally-rated vehicles, excluding Trailers and Miscellaneous classes, expected to be 123,972 for the 2014 rating period. This Application forecasts the total vehicle population to be 1,120,188. CLEAR-rated vehicles represent 70% of the total vehicle population.

The minimum adequate premium (not including the capital margin) that any PPV should pay is $681, which is comprised of $35 for damage, $223 for injury, $246 for liability and $177 for flat fees and expenses. Due to previous and the proposed capping of rate changes, some vehicles will only be paying $654. As shown in the above table, adequate premiums for the

Conventionally-rated vehicles, exclusive of Miscellaneous Classes, range from an indicated decrease of 12.0% (Light Trucks 1993 and older) to an indicated increase of 46.8% (Motorcycles), before including the capital margin.

The impact of the proposed +5.2% rate change on CLEAR-rated vehicles is as follows:

- Premium increases for about 633,000 Saskatchewan vehicles (81%) with an average annual increase of $60 and maximum increase of $515/year;
- Premium decreases for about 149,000 Saskatchewan vehicles (19%) with an average annual reduction of $8 and maximum decrease of $262/year; and
- No premium change for about 2,000 vehicles.

The distribution of CLEAR-rated vehicles that are within +/-10% of adequate rates before and after the proposed 2014 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 2014 Rate Program # of Vehicles**	**Before 2014 Rate Program % of Vehicles**	**After 2014 Rate Program # of Vehicles**	**After 2014 Rate Program % of Vehicles**
Less than -10%	19,207	2%	114	0%
Between +/-10%	679,112	87%	782,848	100%
Greater than +10%	86,078	11%	1,436	0%

1.4 2014 RATE REBALANCING

In support of fairness in vehicle rating, it is proposed rate rebalancing for each vehicle class (except Motorcycles) will be applied as part of the 2.7% rate increase. Rate rebalancing takes into account accident frequency and severity for each vehicle class, including damage, injury and liability costs. The result is that the rate increase is not applied equally across the board to every vehicle class. No rate rebalancing is being proposed for Motorcycles for 2014.

SAF further submits that a flat across the board rate increase of 2.7% for Motorcycles is fair in that it recognizes that a number of recommendations from the Motorcycle Review Committee will soon be implemented. It is expected that undertaking a number of these new initiatives will reduce claims costs thereby lowering the rate need for the Motorcycle class and bring them closer to covering the cost of Motorcycle claims that will be incurred in the upcoming rating year.

SAF submits that the revenue shortfall in this Application from not rebalancing the rates for Motorcycle class is forecasted to be $6.8 million which is being proposed to be funded with a reduction in claims resulting from the Motorcycle Review Committee initiatives and out of the Rate Stabilization Reserve (the first round Information Request #9).

SAF submits that, in order to reduce rate shock for customers, increases (as well as decreases) will be capped at a reasonable level. For annual premiums less than or equal to $1,000, dollar caps ranging from $25 to $150 will be applied. For annual premiums greater than $1,000, a

percentage cap of 15% will be applied. This is the same capping structure used in the previous two Applications. The capital margin (or RSR surcharge) is applied after the rate rebalancing incorporating the 15% cap on vehicle premiums.

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%

Each entitled customer will receive the benefit of any rate decrease in the form of a refund equal to the portion of the difference between the old and new premium corresponding to the period from 31 August 2014 to their registration expiry date. Refunds for the unused portion of a customer's current term will be automatically issued in September 2014. Customers who are to receive increases will not pay the new rates until their next renewal on or after 31 August 2014.

1.5 RATE STABILIZATION RESERVE

As part of the 2014 Application SAF submits that, in addition to the 2.7% rate increase required to cover all expected claim obligations and operating expenses (except for Motorcycles), there is also a need to further replenish the RSR. The RSR serves as a savings account to cover emergencies, ensuring customers are protected in the event of much higher than expected claim costs or much 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 (MCT). As further discussed in Section 6.0, the MCT is a ratio, expressed as a percentage, of the total SAF available capital to the total required capital to fulfil SAF's ultimate claims obligations. The RSR target is to have a 12-month rolling average MCT ratio of 100%. The 12-month rolling average MCT was 63% as of 30 November 2013. In order to help replenish the RSR, a capital amount of 3.7% effective 31 August 2014 is being proposed and will be applied equally across the board to all vehicle classes. This will essentially replace the current 1.23% RSR surcharge that expires 30 August 2014. The proposed 3.7% capital margin will help move the RSR one-fifth of the way towards the 100% MCT RSR target. The impact of the new proposed surcharge will be a net rate increase of about 2.4%.

1.6 HISTORICAL RATE CHANGES

From 1999 to 2013, SAF had a compounded rate adjustment change of 4.65%, while the Saskatchewan Consumer Price Index (CPI) cumulative percent change for the same period was

39.65%. The following is a summary table of rate and CPI adjustments over the last 15 years along with notable points through this period:

Summary of Rate Adjustments vs. CPI			
Year	**Annual Rate Adjustment**	**CPI Year-Over-Year Change**	**Comments**
1999	2.00%	1.80%	In 1997 a 3 year rate program supported by most customers was introduced increasing rates by 5% in 1998, 2% in 1999 and 2% in 2000. The Basic deductible also changed from $500 to $700.
2000	2.00%	2.60%	
2001	0%	3.00%	
2002	0%	2.90%	Introduction of SDR program rewarding safe drivers. In 2013, discounts totalled $93 million, equal to an 11% rate reduction.
2003	0%	2.30%	
2004	0%	2.20%	Introduction of BR program rewarding businesses with discounts. In 2013, discounts totalled $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.
Compound Change	**4.65%**	**39.65%**	

1.7 CROSS-CANADA RATE COMPARISON

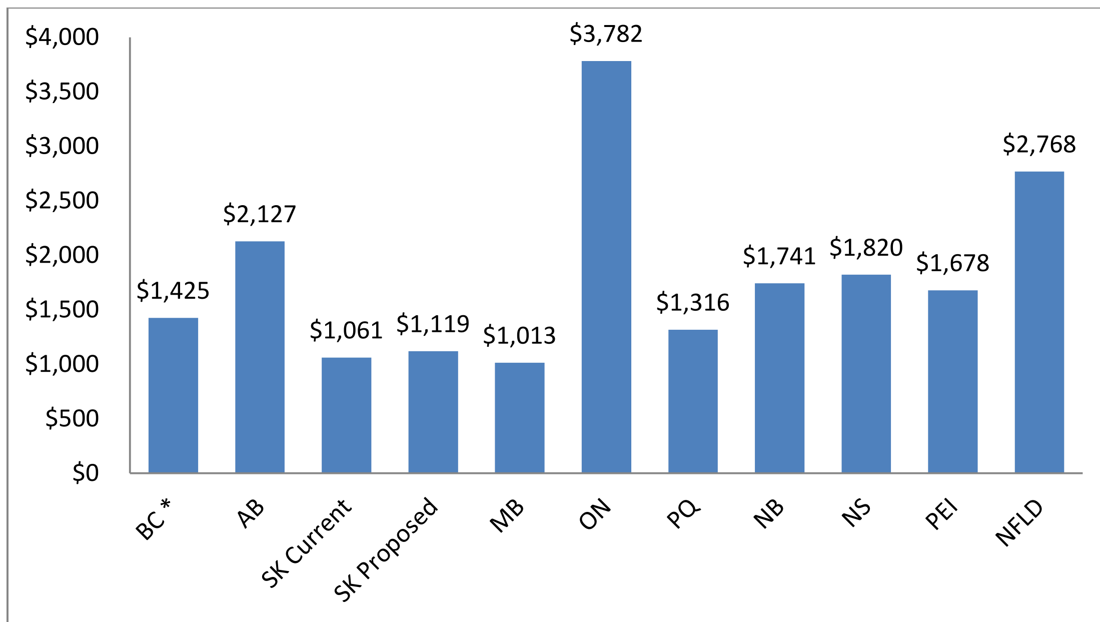
The cross-Canada rate comparison is intended to determine how much an average driver would pay for auto insurance across Canada given their vehicle, driving record, and claims history, relative to SAF's rates. SAF used 34 vehicle and driver profiles in 22 cities across Canada for this comparison, which represented various geographical areas such as major centres, rural communities, and northern communities. Driver profiles remain constant from year to year and while the 34 most popular vehicles are updated annually, there are usually minimal changes.

For the 2013 survey, SAF used the most popular vehicles registered in Saskatchewan in 2012, while the cities were selected in 2005 by the utility Crowns and Crown Investments Corporation (CIC), with one exception. In 2012, the Gatineau, Quebec location was replaced by Aylmer, Quebec, which is a sector of the City of Gatineau. This change was made to make the location more specific for the comparison.

Comparing insurance rates across Canadian jurisdictions is a challenge due to differences that exist including coverage, weather, population and traffic density, road infrastructure, crime levels and vehicle mix. The same third party liability limits and the physical damage deductible levels are used for the cross-Canada rate comparison. However, benefit level coverages across the surveyed jurisdictions varied significantly.

Based on the survey, Saskatchewan continues to have one of the lowest average personal auto insurance rates in Canada since the survey began in 2005. Manitoba remains Saskatchewan's closest competitor for lowest rates across Canada since the inception of the survey, as shown on the following graph:

SAF's Cross-Canada Automobile Insurance Premium Comparison 2013



*** BC rate based on averages from Jan 1 to Oct 31. Nov & Dec premiums were unavailable. BC rates increased Nov 1.**

1.7.1 Observations on Cross-Canada Rate Comparison

Schedule A to the Minister's Order issued for this review, dated 4 February 2014, requires that the Panel, in providing an opinion on the fairness and reasonableness of the rate request, shall consider, in part, the "*The effect of the proposed change of vehicle insurance rates on the competitiveness of the Crown Corporation related to other jurisdictions.*" In response SAF presented its rate comparison that provides insurance rates in 22 different Canadian cities, for the 34 most popular vehicles insured in Saskatchewan. Other than using different vehicle makes and/or models, as the most popular vehicles change from year to year, SAF has not made any changes from last year to the cities or driver profiles or the method used to determine the comparisons. Thus, notwithstanding the limitations of the comparison, the inclusion of a cross-Canada rate comparison in the Application is a requirement for SAF. Some elements of the Basic insurance for the public insurance companies in Canada differ amongst jurisdictions, as do the level of benefits and driver incentive programs. Private companies do not offer

universality - that is they are not obligated to insure all drivers, regardless of driving record and are not constrained by maximum mandated premiums that they are able to charge. We continue to be of the view that such rate comparisons must recognize these and other limitations and constraints. We recommend that accompanying narrative be added to improve disclosure about the inherent limitations of the comparison. SAF indicated that in their next application they will expand the narrative to improve disclosure about the cross-Canada rate comparison.

2.0 SASKATCHEWAN RATE REVIEW PANEL MANDATE

In the Minister's Order dated 1 January 2013, pursuant to Section 16 of *The Government Organization 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 31 August 2014. 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 4 February 2014, state that the Panel is to conduct a review of the SAF Application for a general increase and rebalancing of vehicle insurance rates targeted for implementation on 31 August 2014. The Panel shall provide an opinion on the fairness and reasonableness of the proposed Auto Fund rate change giving consideration to 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:

- the SAF's mandate to operate on a self-sustaining basis over time;
- the objective to maintain adequate capital within a Rate Stabilization Reserve to serve as a cushion to protect customers from large rate increases within the terms of the SAF Board approved Capital Management Policy;
- the impact of rising claims costs;

- the assumptions, estimates and methodology used in forecasting premiums, investment income, claims and expenses for the rate indication being considered; and
- the objective of ensuring stability and fairness in vehicle insurance ratings such that each vehicle class pays sufficient premiums to cover its anticipated claim costs to minimize cross subsidization.

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

- the compulsory insurance coverage provided by the SAF through its legislative mandate;
- the SAF is a public account for motorists with no profit component required in pricing of the product;
- the existing program parameters of the Safe Driver Recognition program and the Business Recognition program;
- the vehicle risk groups used by the SAF; and
- the accounting and operating policies and procedures used by the SAF.

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 is to determine a public consultation process for the rate change Application appropriate and cost effective under the circumstances and within the timeline for the review as established by the Minister of Crown Investments. The Panel is also to provide members of the public with the opportunity to review and comment on SAF's rate change submission outside any public meeting, to the extent reasonable and within the timeline for the review as established by the Minister of Crown Investments.

The Panel is to provide an opportunity to SAF to make a presentation to it and to the public as the Panel considers appropriate to discuss noteworthy Application issues. The Panel is also to, in a timely and efficient manner, forward questions to SAF for response that the Panel receives from the public, individual Panel members and its technical consultants.

The Panel is to provide SAF 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 is to include the consultant's observations, but will not include their recommendations to the Panel.

The Panel is to include in its report an explanation of how, in its opinion, implementation of the Panel's recommendations will allow the SAF to achieve the performance inherent in the parameters outlined above, where the Panel's recommendations are different from SAF's proposed rate changes.

Consistent with the "Confidentiality Guidelines" for the Panel (11 March 2010), the Panel is not to publicly release or require SAF to publicly release Confidential Information supplied by the Crown Corporation to the Panel during the course of the rate change 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 12 June 2014.

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 Eckler Ltd., Forkast Consulting and Kostelnyk Holdings Corporation (jointly referred to as the Consultants) to advise the Panel on the SAF 2014 Application. The Consultants received all documents related to the Application on 11 February 2014 and immediately commenced a detailed review. During the course of the review process, substantial information was examined and tested. This included SAF's responses to 126 first round Consultant Information Requests (IRs) and 81 second round Consultant IRs. Various other pieces of 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	Activities
Feb 11/14	Application, including MFRs, received and review commenced.
Feb 21/14	Conference call with SAF and Panel to review Application.
Feb 24/14	Consultants meet in Winnipeg to discuss review process for Application.
Mar 4/14	Consultants submit First Round IRs to Panel.
Mar 6/14	Application presentation by SAF to Panel and Consultants. Review of First Round IRs with Panel.
Mar 11/14	Consultants submit First Round IRs to SAF.
Mar 25/14	SAF responds to First Round IRs and review commenced.
Apr 3/14	Conference call with Panel to discuss First Round IR responses.
Apr 7/14	Meeting with SAF and Panel to discuss First Round IR responses.
Apr 11/14	Consultants submit Second Round IRs to Panel.
Apr 22/14	Conference call with Panel to review Second Round IRs.
Apr 22/14	Consultants submit Second Round IRs to SAF.
May 2/14	SAF responds to Second Round IRs and review commenced.
May 8/14	Conference call with Panel to discuss Second Round IR responses and final position. Conference call with SAF to clarify any outstanding issues.
May 16/14	Consultants submit draft report to Panel and abridged report to SAF.
May 21/14	SAF provides comments on abridged report.
May 23/14	Meeting with Panel to review and finalize draft report.
May 28/14	Consultants submit final report to Panel.

3.1 STUDY OBJECTIVES

The Consultants' study objectives included:

- Gathering sufficient, up to date information, to allow the Panel to fulfill its mandate;
- Identifying and evaluating feasible and appropriate alternatives to SAF's proposal;
- Reviewing the practicality of SAF's 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 RATEMAKING METHODOLOGY OVERVIEW

SAF's ratemaking methodology is designed in support of its stated major operating philosophies to:

- Provide Basic auto insurance coverage that is universal and fair;
- Fairly rate vehicle class premiums based on claims experience and cost of repair; and
- Keep rates as low as possible.

Insurance is a risk pooling process, using the premium contributions of the many to provide indemnity payouts to the relatively few, and thereby substituting the certainty of a premium payment with the uncertainty of possibly experiencing a financial loss due to an automobile accident. To promote fairness in rating, SAF has defined a number of vehicle classes, and applies its ratemaking methodology with the objective that the indicated rate level for each vehicle class is just sufficient to meet its expected claims and other costs. Deliberate cross-subsidization between vehicle classes is introduced through SAF's capping and rebalancing processes, which temper the response to the more extreme rate change indications and thereby mitigate policyholder rate dislocation.

SAF assigns vehicles to classes considering physical characteristics and exposure to risk based on use. The largest of these classes is for Private Passenger Vehicles, which accounts for about 63% of all vehicles insured (78% when Trailers and Miscellaneous Classes are excluded). Examples of other classes are Farm Vehicles, Heavy Trucks, Motorcycles, Taxis and Ambulances. A complete list of vehicle classes appears in Appendix A of the Application.

SAF's ratemaking methodology encompasses the estimation of indicated rate changes for each vehicle class, and indicated changes to class-specific rate relativities within those classes.

4.1 CLASS LEVEL DATA

SAF's objective is that each vehicle class should be charged a premium sufficient to cover the costs the vehicle class is expected to incur. SAF considers the estimated premium and other revenue sources, as well as estimated claims costs and expenses when determining the rate required for each vehicle class.

Premiums

The major considerations in forecasting premiums are vehicle drift (change in the mix of the fleet) and vehicle volume (change in number of vehicles). These factors when combined are used to predict the number and types of vehicles SAF will be insuring during the future rating period. Vehicle drift and vehicle volume factors are both estimated at the vehicle class level.

Vehicle drift estimates the change in aggregate premium due to the general tendency for some policyholders to upgrade to a newer (higher premium) vehicle from their current older (lower premium) vehicle, based on SAF historical experience.

Vehicle volume estimates the total number of vehicles that will be insured during the rating

period based on SAF historical patterns of growth.

Claims

Claims costs are, by far, the largest component of overall costs and the most difficult to predict. Claim costs represent approximately 80-85% of SAF's total costs. Of this percentage, damage claims represent 65% of total claim costs, and injury and liability account for the remaining 35%. Claims are assigned to the vehicle classes based on vehicle accident responsibility (i.e., to the at-fault vehicle). Claims for which there is no at-fault vehicle, including wildlife claims, remain with the vehicle class giving rise to the claim.

The major factors affecting Saskatchewan claims are largely unpredictable, including severe weather conditions such as summer storms and winter driving conditions. Additional factors which contribute to increased claims costs are inflation sensitive factors such as labour rates paid to body shops and the increase in the average wage of people injured. These factors increase the cost of income replacement benefits for which SAF provides coverage.

Other items impacting claims costs which are difficult to predict are injury re-occurrence rates, medical innovations, and rehabilitation programs.

Expenses

Vehicles are charged for expenses, which are categorized as being either variable or fixed.

Variable expenses include expenses and credits that are dependent upon premiums written, such as taxes paid to the General Revenue Fund, Traffic Safety costs, issuer commissions and credits for short term registrations and Auto Pay programs.

Fixed expenses include operating, maintenance and administrative (OM&A) costs and loss adjustment expenses (LAE) related to adjusting losses and settling claims.

4.2 INDICATED RATE CHANGES AND RELATIVITIES

Once all premiums, claims, and expenses are grouped by appropriate vehicle class, an overall rate indication for each class is determined by comparing total premiums and other revenue sources to total claim and expense costs, all as projected for the cohort of policies expected to be issued in the future rating period. If the projected revenues do not cover the projected costs, a rate level increase is required. If the projected revenues are in excess of the projected costs, a rate level decrease is required. Averages from six years of data for damage and liability claims, seven years of data for catastrophe claims and ten years of data for injury claims are utilized, to smooth the effect that isolated and unusual experience will have on the estimated rate level indication for each vehicle class.

Relativities are used to differentiate vehicle rates within a vehicle class based on factors such as usage, seating capacity, value and model year. The attributes considered for rate relativities are specific to each vehicle class. For example, rates for Motorhomes are broken down by ranges for the declared value of the vehicle. Motorhomes of different declared values have a

different rate, with more expensive vehicles attracting a higher rate. For each type of rate relativity within a vehicle class, one category is identified as the base (i.e., a relativity of 1.00), and relativities for all other categories are expressed as multipliers relative to that base (e.g., 0.80 or 1.25). The rate for a given category is derived as the rate for the base category multiplied by the appropriate rate relativity. To promote fairness in rating within vehicle classes, a relativity analysis of experience across rate categories within each vehicle class is carried out.

4.3 PROCESS CHANGES

Following is a description of the process changes from the 2013 Application being introduced with the 2014 Application.

4.3.1 Process Changes Affecting All Vehicle Classes

The SAF Capital Management Policy was revised effective 28 November 2013. The target capital level continues to be defined by the Minimum Capital Test, but has changed from targeting to be within a range between 75% and 150% to targeting a point MCT ratio of 100%. The approach used to maintain capital at an appropriate level also changed, and is now comprised of two components built into rate. A capital build/release provision is designed to help move the RSR one-fifth of the way towards the 100% MCT RSR target, and the capital maintenance provision is designed to provide for the natural growth in RSR required as SAF's business volume grows over time.

The 2014 Application also formalized the use of credibility into the estimation of the overall indicated rate change for each class. This was done judgmentally in the past. Credibility provides an objective and reliable measure of the sufficiency of the past data for deriving the overall rate indication of each class. Full credibility standards vary by vehicle class based on consideration of the extent to which the experience for a vehicle class is affected by unusual large dollar claims.

A Traffic Safety Initiative Factor was introduced into the 2014 Application as well. This factor accounts for the increased administrative costs and claim cost savings expected to result from implementation of the initiatives proposed by the Special Committee on Traffic Safety. The net effect of all the Traffic Safety initiative costs and benefits for the 31 August 2014 to 30 August 2015 rating year was a reduction of 0.2% to the rate indication.

In addition to these changes, the accident year weights to determine pure premium selections were updated for the 2014 Application.

4.3.2 Process Changes Affecting CLEAR-Rated Vehicles

There were no process changes specific to CLEAR-rated vehicles for the 2014 Application.

4.3.3 Process Changes Affecting Other Specific Classes

The following class-specific process changes were also introduced as part of the 2014 Application:

- Class F Farm Light Trucks (1993 and older) were changed to be flat rated in 2014.
- Seating capacity was removed as a rating variable for School Buses (class PS).
- Taxi rates for large and small cities are now grouped, except separate rates are charged for each of Prince Albert, Regina and Saskatoon due to their significantly different claims histories. In addition, Taxi injury rates will also vary by location as is currently the case for damage rates.
- Class LV-Motorcycles will receive a 2.7% flat rate increase along with the 3.7% capital (build/release + maintenance) margin.
- Injury losses assigned to Snowmobiles (class MT) were not removed and reallocated as was done in the past.

4.4 OBSERVATIONS ON RATEMAKING METHODOLOGY

Excluding consideration of the Safe Driver Recognition and Business Recognition programs, the SAF ratemaking methodology is reasonable and appropriate to the circumstances, and is in compliance with accepted actuarial practice in Canada.

The Minister's Terms of Reference for this review instruct the Panel to take as given the existing parameters of the Safe Driver Recognition and Business Recognition programs. Accordingly, these programs are outside of the scope of review of the Panel's Consultants. Under normal circumstances, review and recalibration of these programs would be undertaken periodically as a part of SAF's rate review process in order for this work to be in accordance with accepted actuarial practice in Canada. SAF has indicated that full reviews of both of these programs are scheduled to be completed in 2014, and SAF's actuary reported having reviewed preliminary findings of these reviews from which he concluded that the risk classification system is just and reasonable, reasonably predictive of risk and that it distinguished fairly between the classes.

From the focused and limited review done of select assumptions used in the SAF ratemaking methodology, these too appear to be generally reasonable and appropriate to the circumstances. It must be recognized that ratemaking, as a prospective exercise, requires considerable judgment and involves a risk of estimation error. Many of the underlying assumptions involve significant uncertainty. An illustration of the sensitivity of the indicated rate level changes to a plausible change in a single but important underlying assumption is provided in the response to the second round IR #20, in which the overall indicated rate level increase (before capital margin) falls from +3.4% to +2.7% simply due to a 0.50 percentage point decrease in the assumed past and future annual loss cost trend for the Damage to Own Vehicle coverage for Light Vehicles. With respect to this particular trend assumption, the response to the second round IR #19 provides some compelling rationale for SAF's selection of this assumption.

Although cross-subsidization between vehicle classes is generally undesirable, SAF's capping and rate rebalancing process (which causes cross-subsidization) is a reasonable approach to mitigating policyholder rate dislocation, which is a competing concern. SAF's current choice of

capping level (at 15% for premiums over $1,000) is at least somewhat arbitrary, and alternatives could be considered, particularly if it is felt that 15% is so high as to constitute rate shock. The response to the Panel's second round IR #14 provides an illustration of this, assuming a capping schedule scaled back by 1/3rd.

The SAF decision to fix the proposed rate level change for all Motorcycles at the overall average being proposed for all other vehicles combined is significant for several reasons. In effect, this means SAF is planning for a loss of about $6 to $7 million rather than targeting a break even result for the future rating year, which in turn would be expected to diminish the effectiveness of the capital build provision being proposed, and otherwise increase the needed capital build provision for the next Application. On the other hand, the fact that the resulting Motorcycle rate level deficiency is not being rebalanced means that rates for other vehicle classes will not provide any cross-subsidy to Motorcycles, at least in the short term for the proposed rating year (i.e., until the next Application's capital build provision is otherwise increased). SAF's rationale for making this proposal is driven by the uncertainty around the timing and impact of the various initiatives being proposed by the Motorcycle Review Committee, which is understandable. From the responses to the first round IR #17 and the second round IR #16, SAF's rough estimate of the expected impact of the Motorcycle initiatives on the required rate level for this class is about -20%, which while significant, would still leave a substantial portion of this Application's Motorcycle rate change indication (before capital provision) of +46.8% as unmet. The pivotal question is, from a "fairness in rating" perspective, should a larger rate increase be implemented for Motorcycles in response to the experience and consideration of the Motorcycle initiatives?

5.0 ACTUARIAL ANALYSIS

5.1 PURE PREMIUM CALCULATION

A pure premium is the average loss amount per unit of exposure. A unit of exposure is equivalent to one vehicle written on a policy for one year. By this definition, a Motorcycle insured for one half a year equals half an exposure unit. Non-catastrophe and liability data used were from accident years 2008 to 31 May 2013, while catastrophe data from accident years 2006 to 2012 and injury data from accident years 2004 to 31 May 2013 were used to calculate the average pure premium per coverage for each vehicle class.

Loss development factors are calculated using ultimate claims costs from the 31 May 2013 actuarial valuation. These costs are used to bring yearly incurred losses by coverage to their estimated ultimate value. The ultimate losses are divided by the number of exposures resulting in the estimated ultimate pure premium by coverage by accident year.

Trend factors are determined by coverage and vehicle class based on a comparison of several regression analyses. Trends of frequency (number of claims per unit of exposure) and severity (average cost of a claim) are utilized to identify patterns in historical data and to develop expectations for future trend periods. Where information is limited due to the small populations within a given vehicle class, trend data is grouped together and considered when determining trends for similar vehicle classes. In some cases, trends are credibility weighted as well.

Both trend factors and loss development factors are used to bring pure premium values to an appropriate level for a future rating period. A pure premium trend selection is the compounded combination of corresponding selected frequency and severity trends.

Income replacement and care benefits are adjusted for inflation prior to trend selection to bring historical data to the current cost levels. The selected frequency and severity factors are combined with a 3% inflation index factor to bring the values forward to the rating period level.

The final projected pure premium for each coverage is based on a weighted average of estimates from historical loss years using the trended pure premiums as described above.

Traffic Safety Initiative Factor

The Traffic Safety Initiative Factor is new for the 2014 Application. Increased administrative costs and claim cost savings expected from the initiatives recommended by the Special Committee on Traffic Safety as they relate to the 31 August 2014 to 30 August 2015 rating year are accounted for in the analysis of required rate level. The Traffic Safety Initiative Factor is applied to the pure premiums prior to any adjustment for the time value of money. The net effect of all Traffic Safety initiative costs and benefits is a reduction of 0.2% to the rate indication.

All costs associated with Traffic Safety enhancements are included in the budgeted administrative expenses for the rating year. Claim costs are reduced for all coverage lines by varying amounts (with the exception of damage catastrophes and out-of-province liability since

they will not benefit from Traffic Safety enhancements). Based on study of cost savings from other jurisdictions, it is expected there will be a 1% reduction in damage claims costs, 2% in injury and liability claims costs, and 4.4% in death claims costs.

Annual Discount Factor

Investment income is earned on the premium collected between the time the premium on a policy is received until the time SAF actually pays out the full value of a claim on that policy. The policyholder should then pay an amount that takes into account the expected investment income. Accordingly, the expected losses that a policyholder claims should be reduced by a discount factor to account for the expected investment income.

The rate of return used to determine investment income is based on the expected yields on the investment assets supporting the claim payments. The overall rate used to discount the expected losses in the 2014 Application is 4.26%.

Expected future claim payment patterns for different coverage's were determined in the 31 May 2013 actuarial valuation using historical experience. The annual discount factors are applied to the weighted-average projected pure premiums after reduction for Traffic Safety initiatives.

5.2 ADEQUATE GROSS PREMIUM CALCULATION

Discounted pure premiums are adjusted for loss adjustment expenses, administrative expenses, salvage amounts, reinsurance costs, medical funding, appeal costs, the malus component of the Safe Driver Recognition (SDR) program, variable expenses, a breakeven margin, and investment income on the RSR.

LAE are expenses associated with claim settlements that are not individual claim-specific. For example, internal legal costs, internal adjuster costs, and costs associated with operating claim centres are included in loss adjustment expenses. These expenses are assigned to vehicle classes based on claim counts by coverage. The total LAE is divided by the number of vehicles forecasted within the class for the future rating period in order to determine the average LAE per vehicle. The same amount will then be paid by each vehicle within the class.

Administrative expenses (such as salaries, building maintenance, and supplies) are charged as fixed expenses to every vehicle exposure, except for Trailers, Snowmobiles, Snowmobile Dealers and Antiques which are charged half of what other vehicles pay. The full administrative expense charged increased from $51.31 per exposure in last year's Application to $55.73 per exposure in this year's Application.

Credit for salvage relates to revenue received from the sale of salvaged Light Passenger Vehicles or their parts. A credit per exposure of $21.34 is applied to the damage and liability portion of pure premiums (Light Passenger Vehicles only). This is an increase from the $15.98 per exposure in last year's Application.

Protection against catastrophic losses, either due to a severe weather event or multiple serious injuries from a collision, is provided by reinsurance purchased to mitigate a potential adverse

RSR impact. The cost of reinsurance protection has risen due to recent catastrophic weather losses in Saskatchewan and for the industry in general. A reinsurance damage cost per exposure of $9.14 ($3.66 in last Application) is applied to all classes, except Trailers and Antiques which is $4.57 ($1.83 in last Application). A reinsurance injury cost per exposure of $0.81 (unchanged from last Application) is applied to all classes except Trailers, Snowmobiles, Snowmobile Dealers and Antiques. Antiques, Snowmobiles and Snowmobile Dealers are charged $0.41 per exposure ($0.40 in last Application for Antiques, with no charge to Snowmobiles and Snowmobile Dealers). There is no reinsurance injury cost for Trailers.

Medical funding is considered to offset the costs that are incurred by the provincial health care system as a result of injuries from vehicle-related accidents. SAF pays a portion of the costs of these medical expenses, which totals close to $30 million per year. These costs are allocated to each vehicle class based on actual amounts incurred and then averaged within the class so that the same amount is paid by each vehicle within the class.

Appeal costs are related to the Automobile Injury Appeal Commission (Board salaries, administrative expenses and legal fees) which are allocated to each vehicle class based on actual amounts incurred and then averaged within the class so that the same amount is paid by each vehicle within the class. The total cost is about $1 million per year.

The credit for Safe Driver Recognition malus (financial penalty) is applied only to those vehicle classes that qualify for the program. The forecasted malus amount, which is approximately $13 million ($14 million in last Application), is divided by the total number of qualifying vehicles to determine the discount per vehicle. Every vehicle within the qualifying classes receives the same SDR malus discount.

Variable expenses account for 10.94% (10.52% in last Application) of the 2014 premiums as follows:

Variable Expenses	2014 Rate Program	2013 Rate Program
Premium Taxes	4.95%	5.00%
Traffic Safety	4.20%	3.34%
Issuer Commissions	4.81%	5.15%
Short Term Registrations	(1.19)%	(1.17)%
Auto Pay	(1.83)%	(1.80)%
Total Variable Expenses	**10.94%**	**10.52%**

The 2013 Application introduced, for the first time, a breakeven margin of 0.81%, which was loaded into the rates to offset the expected cost arising from the increased risk provision that is required when setting unpaid claims liabilities. Expected permit premiums and cancellation retention amounts are applied as offsets to this margin. The break even margin is recalculated for each subsequent Application and can be expected to vary based on forecasted future claims and estimated bond yield rate changes. This margin is set at 0.48% for the 2014 Application.

A credit is applied for forecasted investment income on the forecasted RSR amount for the future rating period. This is calculated by dividing the forecasted investment income by the

number of forecasted vehicles for the future rating period. The result in this Application is a $2.54 per vehicle credit ($1.55 in last Application).

5.3 INDICATED RATE CHANGE

The indicated rate change is the indicated required premium divided by the projected on-level average premium, excluding the RSR surcharge, minus one. The projected on-level average premium is calculated on a class-by-class basis. Historical written premiums are brought up to the current rate level (on-levelled) by applying past rate changes to premiums written prior to implementing each rate change. The average on-level premiums are then calculated. Past and future vehicle volume growth trends are selected from exponential trend regressions fitted to this data for each vehicle class.

The rating year projected on-level average premium is reduced by the expected SDR discount and Business Recognition (BR) discount/surcharge to determine the projected average amount of premium to be collected per exposure. The resulting on-levelled average premium is reduced by the RSR surcharge amount (which is 1.23% effective until 30 August 2014) since the surcharge should only replenish the RSR and not impact the determination of rate indications.

The direct required premium (or adequate gross premium) is calculated by dividing the sum of the discounted pure premium including loss adjustment expenses, administrative expenses, the credit for salvage, reinsurance costs, medical funding, appeal commission costs, and the malus component of the SDR program by one minus the variable expenses and break even margin percentages, to which is added the RSR investment income credit.

Credibility

The 2014 Application formalizes the use of credibility weighting in the indicated rate change calculation for each class, which was done judgmentally in the past. Credibility measures whether there is sufficient past experience to use in predicting expected costs for the future rating year. The concept of credibility is not new for SAF as it has been used in the past in the selection of relativities for the many SAF classification systems. Credibility provides an objective and reliable measure of the sufficiency of the past data in the estimation of the overall rate indication for each class.

5.4 BASE RATES AND RELATIVITIES

The base rate is the rate applicable to the base rating category for a particular class of vehicles. For greater credibility, the base category is usually chosen to be the category with the largest number of vehicles.

SAF typically has three base rates: damage, injury, and liability. These three base rates when added together comprise the base premium for any class. Rates within a vehicle class may vary by rating category reflecting the expected variance in loss experience for each of the categories relative to the base category. A relativity factor is applied to the base rate to recognize this variance. As the loss experience deteriorates, the corresponding relativity factor and consequent premium typically increases.

Premiums charged for Private Passenger Vehicles, Motorcycles and Urban Taxis are calculated by multiplying the damage base rate by the damage relativity, then adding the injury base rate multiplied by the injury relativity, and finally adding the liability base rate (including flat fee amounts). Premiums charged for the other vehicle classes with rating categories are calculated by multiplying the damage base rate by the damage relativity and then adding the injury base rate and the liability base rate (including flat fee amounts). Premiums charged for the remaining vehicle classes without rating categories are calculated by adding the damage base rate to the injury base rate and the liability base rate (including flat fee amounts).

Once indicated adequate rates (prior to any capital margin) have been determined, dollar and percentage caps are applied. SAF proposes to mitigate possible rate shock to customers using maximum increases or decreases expressed as either a dollar or a percentage limit for all vehicle classes (excluding Motorcycles). The parameters are outlined in the table below:

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

In some cases, the limited data available for small populated vehicle classes may skew the accuracy of forecasting. To account for this, SAF uses the base rate of Private Passenger Vehicles (PPV) and applies either a surcharge or a discount based on the loss experience for the particular vehicle class. To be consistent, the change in these rate surcharges or discounts are capped at 15%, but any change to the discount or surcharge amount for that class is applied on top of the capped PPV rate. The resulting effect of the PPV rate change plus the discount or surcharge change may be greater than 15%.

Because of the past and present practice of capping, very few classifications have current relativity factors. Currently, the vehicle distribution by class is used to derive the weighted average current rate relativity factors. These are used to arrive at the proposed relativities used in the above premium calculations. Once premiums are calculated, the individual current vehicle premium is compared to the calculated proposed premium and capped where appropriate or deemed necessary by SAF. Capital margin amounts are then applied after rate change capping has occurred.

5.5 VEHICLE RATING CLASSES

5.5.1 Canadian Loss Experience Automobile Rating System

The Canadian Loss Experience Automobile Rating system (CLEAR) was created by the Insurance Bureau of Canada. It is based on loss experience data collected from across Canada

on Light Passenger Vehicles, from 1977 to present, and is used by insurance companies Canada-wide. SAF Light Passenger Vehicles rated under the CLEAR system include: PPVs; Farms Cars, SUVs and Vans; Farm Light Trucks with model years of 1994 and newer; international and inter-provincial Commercial Light Trucks; Police Cars, Trucks, SUVs and Vans; U-Drive (rental) Vehicles; and Rural Taxis.

CLEAR was developed on the premise that the vehicle specific portion of rates should be based only on the likelihood of vehicles being involved in claims and the costs of settling those claims. The Insurance Bureau of Canada analyzes historical claim frequencies and severities of each vehicle make, model, and model year to predict future losses and establish a claim-to-vehicle historical relationship matrix. The relationships are adjusted according to actual claim history in order to predict future losses.

Factors such as driving record or geographic location do not influence the CLEAR system. However, matters such as vehicle construction, loss prevention features, and susceptibility to damage as well as new vehicle design developments are considered.

CLEAR has two major components: rate group assignments and associated relativity factors. Vehicles are assigned to one of 99 damage rate groups. The higher the rate group, the greater the relativity factor and, therefore, the higher the premium charged. SAF uses internal data to produce damage relativities by rate group, supplemented with CLEAR relativity factors when required to produce credible numbers. Proposed rate group relativities are multiplied by damage base rates to determine the physical damage premium for a vehicle.

SAF reduces the damage rate group by one for every year that a vehicle is older than 1998 until a rate group of 0 (SAF derived) is reached and then this remains at 0. As of 31 May 2013, 17% of vehicles have model years of 1998 and older and 4% are in rate group 0.

Rate group tables are published annually on a revenue-neutral basis, with new vehicles added and existing vehicles updated to reflect depreciation and additional claims information. SAF can only implement new tables upon approval of an Application and has indicated that they will endeavour to keep rates as close as possible to CLEAR by conducting annual reviews and filing Applications as needed.

SAF considers that CLEAR injury rate groups are not a good fit for the Saskatchewan loss experience. Injury rates are based solely on SAF injury claim data and vary by vehicle body style for: two-door cars; four-door cars; convertible cars; station wagons; vans; SUVs; and trucks. These are subject to a relativity analysis using a Poisson / Gamma method to determine injury costs per body style.

SAF uses credibility in the derivation of the indicated rate group relativities, credibility weighting the raw experience-based relativities against CLEAR relativities for damage and against the current relativities for injury.

5.5.2 Conventionally-Rated Vehicles

All vehicles that are not rated using CLEAR are Conventionally-rated. The major vehicle

classes are: Heavy Trucks and Power Units; Farm Vehicles (excluding Light Trucks 1994 and newer); Urban Taxis; Buses; Snowmobiles; Motorcycles; Vehicle Dealers; Special Use Vehicles (Ambulances, Hearses and Antiques); Trailers; Motorhomes; and Private Vehicles. Criteria used for conventional classes are based on significant rating attributes such as model year, engine size, seating capacity, value, and body style.

5.6 RATE INDICATIONS BY CLASS

5.6.1 CLEAR-Rated Vehicles

SAF's actuarial analysis shows that a 2.3% increase (before capital margin) is warranted for CLEAR-rated vehicles based on the loss experience and premiums for the entire group. Rates for individual classes are based on loss experience for each of the classes as they relate to the PPV class.

SAF recommended increasing CLEAR-rated vehicles by 2.4%, slightly above the 2.3% indicated rate increase. This takes into consideration capping in other vehicle classes, the shortfall of which is made up by CLEAR-rated vehicles through the rebalancing process. The exception for this rate program is the Motorcycle class shortfall which is not being rebalanced and which will in effect be absorbed by the RSR. In addition to the recommended 2.4% rate increase, a capital margin will be applied on top of the capped amounts. This results in a total rate level increase of 4.9% for CLEAR-rated vehicles.

Private passenger rates will be increasing by 2.5%, for a total increase of 5.0% once the capital margin is applied. The current and proposed changes for each of the remaining CLEAR-rated vehicles are as follows:

Changes Proposed for Remaining CLEAR-Rated Vehicles				
Vehicle Class	**Current Discount / Surcharge**	**Proposed Discount / Surcharge**	**Effect of CLEAR & Discount/Surcharge Changes**	**Effect of CLEAR & Discount/Surcharge Changes including Capital Margin**
Class A - Commercial Light Trucks	55%	75%	15.4%	18.2%
Farm Cars, SUVs and Vans	-20%	-20%	2.0%	4.4%
Farm Light Trucks (1994 & Newer)	-25%	-25%	-0.3%	2.1%
Police Cars	70%	80%	16.9%	19.7%
Police Trucks, Vans and SUVs	-10%	-20%	-8.7%	-6.5%
Rural Taxis	50%	50%	5.7%	8.2%
U-Drive (Rental) Vehicles	25%	25%	4.3%	6.8%

Damage, injury and liability totals plus flat fee premiums per vehicle produce the adequate vehicle premium. The adequate premium is compared to the current premium to determine dislocation. Capping is then used to minimize rate shock. Some vehicles will receive the maximum capped premium for the third rate program in a row. However, continued rate rebalancing will move all vehicles closer to their adequate premiums, resulting in fewer vehicles reaching the cap in future rate programs.

In summary for CLEAR-rated vehicles, 633,000 vehicles or 81% will experience an increase in

rates (including capital margin). The average increase will be $60 annually with a maximum increase of $515 per year. Approximately 149,000 vehicles or 19% will experience an average decrease of $8 annually with a maximum decrease of $262 per year, while about 2,000 vehicles will experience no change to their rates.

5.6.2 Conventionally-Rated Vehicles

The proposed average indicated premiums for all vehicles not rated according to CLEAR criteria are determined based only on SAF internal rating criteria. The rating criteria uses significant rating attributes that include gross vehicle weight, make and model year, seating capacity, declared value, body type, motor size, and for Taxis, geographic location. The resulting indicated and proposed average rate changes are detailed in Section 1.3 of this report. The details of the SAF rating criteria are included in the Application. Proposed vehicle premiums are determined as discussed in Section 4.0, Ratemaking Methodology Overview.

6.0 CAPITAL MANAGEMENT POLICY AND MINIMUM CAPITAL TEST

The overriding principle of SAF's Capital Management Policy, which was first approved to become effective 1 January 2010, is the prudent management of SAF's capital. The primary objective of the policy is to maintain a level of capital in the Rate Stabilization Reserve (RSR) sufficient to cushion SAF from the volatility inherent in investment and underwriting operations as well as to ensure a positive RSR without having the need for excessive rate increases.

Although not subject to regulation by the Office of the Superintendent of Financial Institutions Canada (OSFI), SAF's Board approved a new Capital Management Policy effective 28 November 2013 in response to a recent OSFI guideline with respect to the setting of internal target capital ratios for insurance companies. The revised policy established a new Minimum Capital Test target ratio of 100% and no longer requires an RSR surcharge if the 12-month rolling average MCT ratio drops below 75% or a rebate if the 12-month rolling average MCT ratio goes above 150%. The previous MCT target rate was the midpoint of this range, or 112.5%.

SAF's Capital Management Policy still measures capital adequacy using the MCT, a common industry regulatory solvency measurement. The MCT ratio is calculated by dividing the capital available, which is primarily the excess of assets over liabilities, by the capital required, which is mostly comprised of various margins applied to unpaid claims, unearned premiums, and investments. OSFI requires an MCT ratio for regulated companies to be 150% or higher. By adopting an MCT target for its RSR below this level, SAF is giving recognition to its distinct situation as a monopoly and Crown corporation insurer.

The December 2013 month-end MCT ratio for SAF was 58% while the 12-month rolling average MCT ratio was 64% and the RSR balance was $162.8 million. In response to the first round IR #41, SAF reported the January 2014 month end MCT ratio to be 51% and the February 2014 month end MCT ratio to be 64%. SAF monitors its MCT ratio on a monthly basis.

The approach used to maintain capital at an appropriate level also changed under this new policy, and is now comprised of two components built into rate. A capital build/release provision is designed to move the RSR level towards its target evenly over five years, and the capital maintenance provision is designed to provide for the natural growth in RSR required as SAF's business volume grows over time.

The capital build/release provision is intended to build or release capital through rates in a measured way and thereby reduce rate volatility, which would otherwise occur if the full amount of any shortfall or excess in the RSR were accounted for in a single rate change. This provision is included within rates, and with each rate program, the provision is adjusted so as to move the current MCT ratio 1/5 of the way toward the 100% MCT target ratio.

The capital maintenance provision accounts for the natural erosion of the MCT over time as the growth in capital required outpaces the growth in capital available, due to SAF business volume growth through inflationary pressures and vehicle population. The capital required portion of the MCT ratio is increased by factors such as higher claim costs and growth in investments. Therefore, the capital available portion must also grow by the same percentage in order to

maintain the same MCT ratio (all else being equal). As a result, an additional capital amount is required in order to maintain the MCT at its current level.

Based on these two provisions, SAF is seeking a capital amount of 3.7% to help move the RSR 1/5 of the way towards the MCT target of 100%. The capital amount is in addition to the 2.7% overall rate increase and replaces the 1.23% RSR surcharge currently in place until 30 August 2014. The 3.7% capital margin (currently worth about $30.2 million) is comprised of 2.7% (currently worth about $22.4 million) from the capital build provision and 0.9% (currently worth about $7.8 million) from the capital maintenance provision. These percentage amounts will remain in effect until reviewed and adjusted by the next Application.

OSFI establishes its MCT, and it is subject to periodic change. SAF's Capital Management Policy, including its use of the MCT and its setting of an MCT target ratio of 100%, are all subject to periodic formal reviews by SAF and its Board, at least annually or more often if warranted. The SAF Board has full authority over SAF's Capital Management Policy, and may exercise that authority if the appropriateness of continuing with the current policy comes into question.

6.1 DYNAMIC CAPITAL ADEQUACY TESTING

SAF's selection of 100% as its MCT target ratio was based on a financial forecasting and stress testing analysis referred to as Dynamic Capital Adequacy Testing (DCAT) based on SAF's experience to 31 December 2011. Annual financial condition reporting is required by OSFI from its regulated companies, and DCAT is the approach employed by actuaries in Canada to fulfil this statutory responsibility. DCAT investigations involve construction of a multi-year financial forecast of the expected results for an insurance entity, and then stressing those results through a variety of plausible adverse scenarios to assess the impact on the entity's financial strength and solvency status. DCAT investigations are also commonly adapted to support selection of internal target capital ratios.

SAF's selected MCT target ratio is driven by the results of the most significant plausible adverse scenario tested, which models having unexpected unfavourable runoff on SAF's unpaid claims provision for prior year injury claims compounded with elevated injury claims levels going forward, and mitigated in part by delayed and tempered RSR surcharges in response going forward. The magnitude of the unfavourable runoff assumption for this adverse scenario was based on an analysis of Canadian industry Personal Accident Benefits experience for years 2003 to 2011, and was estimated to reflect a 1-in-100-year event or 99th percentile outcome level. Over a three year time horizon (from the time the modeled adverse circumstances start to arise), this adverse scenario shows a decline in the RSR of about $268 million and a decline in the MCT ratio of about 88 percentage points. Based on this modeling, SAF set its target MCT ratio at 100%.

6.2 RATE STABILIZATION RESERVE

The Rate Stabilization Reserve (RSR) represents the accumulation of all profits and losses for SAF since its inception, net of any policyholder rebates paid. In effect, the RSR acts as a savings account to cover emergencies, ensuring customers are protected against significant

rate changes due to much higher than expected claim costs or much lower than expected investment income. The Government of Saskatchewan injects no capital into SAF, and neither does it receive any dividends from SAF. A key operating principle for SAF is to ensure consistency and stability in rates so that customers are not subject to ongoing price fluctuations or large rate increases. The RSR gives SAF a financial resort on which it can draw when adverse financial events occur.

Tab 16 of the Minimum Filing Requirements provides a history of the RSR balance for each month-end from February 2010 to December 2013. Over this period it has fluctuated from a low value of about $122 million at July 2012 month-end up to a high value of about $275 million at May 2011 month-end. Over this same period, the MCT ratio has fluctuated from a low value of 46% at January 2013 month-end up to a high value of 128% at May 2011 month-end. Similarly, the twelve month rolling average MCT ratio has fluctuated from a low value of 57% at March 2013 to May 2013 month-ends up to a high value of 116% at May 2011 to June 2011 month-ends. This exhibit illustrates the much greater volatility of the month-end MCT ratios compared to the twelve month rolling averages, and the importance of this to the Capital Management Policy.

In order to help replenish the RSR, with this Application SAF is seeking a capital margin of 3.7% which is intended to move the RSR 1/5 of the way towards the MCT target ratio of 100%. The capital margin will be applied proportionally to all vehicles, including Motorcycles. It is in addition to the 2.7% overall average rate increase and replaces the 1.23% RSR surcharge in current rates. The following table illustrates the projected evolution of the RSR and MCT ratio from 2013 to 2018, with and without the requested 2014 rate changes:

Projected RSR Changes – Without 2014 Rate Changes (in $ millions)						
	2013 Actual	2014	2015	2016	2017	2018
Premiums Earned	$807.0	$868.7	$919.8	$972.9	$1,030.9	$1,092.4
Total Expenses	$900.2	$976.8	$1,006.6	$1,103.5	$1,196.1	$1,272.8
Underwriting Loss	$(93.2)	$(108.1)	$(86.8)	$(130.6)	$(165.2)	$(180.4)
Investment Earnings	$86.7	$46.8	$26.8	$59.8	$89.6	$97.9
Other Income	$38.7	$44.0	$45.9	$49.0	$52.2	$55.7
Change in RSR	$32.3	$(17.3)	$(14.1)	$(21.9)	$(23.3)	$(26.8)
Year End RSR Balance	$162.8					
Year End MCT Ratio	58%	57%	50%	40%	30%	21%

Projected RSR Changes – With 2014 Rate Changes (incl. Capital Margin) (in $ millions)						
	2013 Actual	2014	2015	2016	2017	2018
Premiums Earned	$807.0	$873.0	$967.1	$1,036.7	$1,098.6	$1,164.1
Total Expenses	$900.2	$977.8	$1,011.9	$1,109.8	$1,202.7	$1,279.8
Underwriting Loss	$(93.2)	$(104.8)	$(44.8)	$(73.1)	$(104.1)	$(115.7)
Investment Earnings	$86.7	$46.8	$27.0	$61.8	$95.6	$107.6
Other Income	$38.7	$44.5	$47.7	$50.9	$54.2	$57.8
Change in RSR	$32.3	$(13.5)	$29.9	$39.7	$45.8	$49.7
Year End RSR Balance	$162.8					
Year End MCT Ratio	58%	57%	65%	73%	81%	89%

Without any 2014 rate change, the RSR balance declines in 2014 and each year thereafter. With the proposed 2014 rate change (including capital margin), the RSR balance would still decline in 2014 (but by a lesser amount), and thereafter would grow significantly each year.

Last year SAF indicated that future Applications would show the RSR surcharge contribution to the RSR balance as a discrete amount in the financial forecasts and other documents filed with the Panel. In regard to this Application, SAF's response to the first round IR #39 provided a financial statement showing the RSR surcharge, capital build/release provision, and capital maintenance provision contribution amounts for each year over the forecast period.

6.3 OBSERVATIONS ON CAPITAL MANAGEMENT POLICY

The Minister's Terms of Reference include the statement that the Panel should consider "*the reasonableness of the proposed rate changes in the context of … the objective to maintain adequate capital within a Rate Stabilization Reserve to serve as a cushion to protect customers from large rate increases within the terms of the SGI Board approved Capital Management Policy*" [underlining added]. This brings into question the extent to which the Panel should consider the Capital Management Policy in its review.

SAF proposes to embed the capital margin in the rates. As a result, from the consumers' perspective, only the combined impact of the pure rate level change for rate adequacy purposes (+2.7% as an overall average as proposed) and the capital margin (+3.7%) is directly

observable by them. For the Panel to assess the reasonableness of the proposed rate level change (+5.2% as an overall average), it needs to assess the reasonableness of the capital margin, which in turn is a direct result of application of SAF's Capital Management Policy. For this reason, a review of the Capital Management Policy is considered to be relevant to the Panel's consideration of the Application.

There are three main aspects of the Capital Management Policy that directly impact the proposed rate level change and therefore are of direct relevance to the Panel's review:

1) The MCT target ratio of 100%;
2) The 5-year approach of the capital build/release provision; and
3) The capital maintenance provision.

SAF has provided compelling rationale supporting the need for the capital maintenance provision, and the estimation of this provision seems reasonable and appropriate to the circumstances.

With respect to the 5-year approach of the capital build/release provision, SAF defends this approach in its response to the first round IR #47 as striking "*the appropriate balance between making significant movement toward the target, avoiding rate shock for the customer, and keeping the process as straightforward as possible*". Application of the policy in this instance leads to a capital build provision of 2.7%. This level of capital build provision represents an increase of about 1.47 percentage points over the 1.23% RSR surcharge in current rates. In addition to this increase, the 0.9% capital maintenance provision must be added on, for a combined impact of +2.37 percentage points. From the response to the first round IR #33, the expected change in the capital margin in future years (assuming no departure from current forecast) is modest by comparison (ranging from +0.1 percentage points down to -0.6 percentage points), in part because any remaining difference between the current and target MCT ratios is re-spread over another future 5-year interval of time with each future Application. As a result, the impact of this policy is expected to be most keenly felt by ratepayers when the policy is first implemented, i.e., with this Application.

Considering that the purpose of the RSR is to mitigate the need for large rate increases, and that the purpose of these provisions is to adequately fund the RSR, and that rates for every vehicle are affected by these provisions, this raises the question, does the impact of the implementation of the new Capital Management Policy in this Application (+2.37 percentage points) raise concern with respect to rate shock, either on its own, or in combination with the pure rate level change for rate adequacy purposes (the impact of which varies by and within vehicle classes)?

A decision to partially delay full recognition of the initial implementation of the new Capital Management Policy will mitigate this rate shock risk, at the expense of deferring realization (or substantial realization) of the MCT target ratio.

With respect to the MCT target ratio of 100%, the use of DCAT by SAF to set this target is reasonable and appropriate to the circumstances. There are three aspects of SAF's setting of this target that deserve particular attention by the Panel, as follows:

1) **Interpretation of Adverse Scenario Results.** The MCT target ratio of 100% is based on modeling of an adverse scenario that causes an 88 percentage point decline in MCT ratio over a three year time horizon. In response to the second round IR #35, SAF provided an alternative approach to modeling this scenario (known to be favoured by OSFI for internal target setting purposes) which indicates that an MCT ratio of about 91.5% would be an appropriate MCT target ratio, all other things being equal. In either case, it appears there is some inherent conservatism in the selection of the MCT target ratio of 100%. For example, using the derivation of SAF's MCT ratio as at 31 December 2013 as provided in the response to the first round IR #42, a reduction of 10 percentage points in the MCT target ratio would represent a reduction of about $28 million to the target dollar level of the RSR as at that date.

2) **Choice of Adverse Scenario Percentile Level.** The MCT target ratio is based on modeling of adverse scenarios that are estimated to reflect 1-in-100-year events or 99th percentile outcome levels. This choice of percentile level is consistent with the upper limit of the percentile range (95th to 99th percentile outcome levels) expected for DCATs prepared in accordance with accepted actuarial practice in Canada and used for financial condition reporting as required by statute for submission to OSFI. This raises the question, what is the appropriate percentile level for RSR target setting purposes for a Crown corporation monopoly provider of Basic insurance coverage? SAF provides some compelling rationale for its choice in this regard in its response to the second round IR #46. Of course, the argument for a lower percentile level is that consumers will be asked to contribute less money into rebuilding the RSR, leaving these funds available to them for saving or discretionary spending. Consideration of a lower percentile level should be constrained by common sense, to mitigate the risk of having the RSR fully depleted by relatively common (and therefore not infrequent) adverse circumstances. The process of rebuilding or releasing RSR funds also raises issues of inter-generational equity (e.g., using contributions from ratepayers today to fund the RSR to meet adverse circumstances to the benefit of ratepayers possibly several years from now). Modeling of a lower percentile level, if deemed appropriate, would produce a lower MCT target ratio. For example, using the information provided in the responses to the second round IRs #27 and #32, a rough approximation of the reduction in the MCT target ratio due to changing from a 99th to a 97.5th percentile outcome level would be about 15 percentage points. Again, using the derivation of SAF's MCT ratio as at 31 December 2013 as provided in the response to the first round IR #42, a reduction of 15 percentage points in the MCT target ratio would represent a reduction of about $42 million to the target dollar level of the RSR as at that date. A more accurate sense of the impact of such a change can only be determined by proper modeling of the appropriate adverse scenarios.

3) **Choice of Adverse Scenario Modeling Assumptions.** The particular adverse scenario that drives the selection of the 100% MCT target ratio is based on modeling of Canadian Industry historical experience for Personal Accident Benefits coverage. SAF made this choice out of concern that using only its own experience would not be sufficient to fully capture the range of possible outcomes to reliability set a 1-in-100-year adverse scenario assumption. On the other hand, use of non-Saskatchewan data is necessarily less relevant to Saskatchewan. Using SAF only information provided in

response to the second round IR #29 and a rudimentary approach to setting this scenario's assumptions suggests that the Canadian Industry assumptions as used by SAF are reasonable for application in Saskatchewan.

Because the MCT ratio is defined by OSFI and subject to periodic revision by OSFI, it is important for SAF to be proactive in assessing the expected impact of any changes to the MCT ratio and whether the current Capital Management Policy continues to be appropriate. An excellent example of this comes from the changes to the MCT that took effect in 2013, in which an Interest Rate Risk Margin was introduced as an addition to the denominator of the MCT ratio. For SAF, the main cause for its Interest Rate Risk Margin is its use of non-interest sensitive assets (i.e., equities) to back a portion of its interest sensitive actuarial liabilities. SAF's use of equities in this instance was a risk mitigation decision because of the nature of its actuarial liabilities, and yet SAF's MCT ratio is penalized because of this practice. Should something similar happen in the future, the Capital Management Policy would need to be revisited. The current Capital Management Policy is based on consideration of the current (i.e., 2014) MCT.

7.0 RECOGNITION PROGRAMS AND PROGRAM REVIEWS

7.1 SAFE DRIVER RECOGNITION

SAF's Safe Driver Recognition program was introduced in 2002. The program is designed to reward safe drivers who own or lease a vehicle in the LV, PV, or F (light) vehicle classes by providing discounts on their vehicle insurance. The program also ensures drivers who demonstrate risky behaviour and who are involved in at-fault accidents pay their share through a financial penalty for each incident for which they are held responsible. The SDR program parameters remain unchanged since last year. However, it is expected a number of initiatives resulting from recommendations made through the Motorcycle Review and All Party Traffic Safety Review will be implemented in 2014.

For every year of accident free driving, one safety rating point is awarded. Each point in the Safety Zone (safety rating greater than 0) corresponds to a 2% discount on Basic insurance, to a maximum discount of 20%. The SDR program considers driving history since 1995. As of 1 January 2013, drivers are able to earn up to 18 points, which will increase to 19 points in 2014. Although the discount remains subject to 20% maximum, points in excess of 10 (Platinum customers) provide protection against the financial penalties of future incidents.

Under the SDR program, drivers lose points for unsafe driving behaviour, such as at-fault accidents (-6 points) or certain convictions and roadside suspensions (-3 or -4 points). As well, driving disqualifications (arising from Criminal Code offences, for example) move drivers to at least -20 points. Each point in the Penalty Zone (safety rating less than 0) attracts a $25 penalty. A rating of -20 attracts the maximum financial penalty of $500, except for Criminal Code offences resulting in injury or death, when the penalty is $2,500.

In 2013, the SDR discounts amounted to $105.1 million and are forecasted to be $118.5 million in 2014, while the malus penalty in 2013 amounted to $12.2 million and is estimated to increase to $13.0 million in 2014.

7.2 BUSINESS RECOGNITION

SAF's Business Recognition program was introduced in 2004. The program is designed to reward businesses with safe driving records (with Basic insurance discounts of up to 10%). This program is for heavy vehicles in the Commercial and Farm classes as well as any vehicle registered to a company. The BR program parameters remain unchanged since last year.

SAF has determined that a loss ratio of 70.1% to 80.0% is their break even range. The break even range is calculated by subtracting all administrative costs, premium taxes, issuer fees, and Traffic Safety program costs from the total premiums paid for all vehicles. Losses are capped to ensure that the impact of a single claim does not result in an unreasonable and unfair relationship to the size of a business's vehicle fleet. It is noted that the "break even" loss ratio was calculated at 80% when the BR program was introduced in 2004 and has remained unchanged since then. SAF subsequently explained that the impact of using capped losses to determine the BR loss ratio reduces the loss ratio by about 7%. Therefore, the use of the 80% loss ratio as the "break even" point as opposed to claims cost being about 85% of premiums is

consistent with the approximate impact of capping the losses.

Companies with a capped loss ratio of 70% or less in the past five years are eligible for a discount, to a maximum of 10% for a capped loss ratio of 0%. Companies with a capped five year loss ratio greater than 80% are subject to financial penalties, to a maximum of 200% for a capped five year loss ratio of 350.1% or greater. It is noted that International Registration Plan (IRP) customers with 6 or more registered vehicles and a loss ratio greater than 80% are reviewed individually by SAF. They are subject to varying financial penalties and capping of losses may not apply.

The BR net discounts for 2013 were $9.0 million and it is forecast to be $9.7 million in 2014.

7.3 SDR AND BR PROGRAM REVIEWS

The SDR program was introduced in 2002 and the BR program followed in 2004. Formal reviews of these programs have not been completed since their inception. However, SAF is currently undertaking a formal review of both programs to ensure fairness to customers and to ensure discounts and penalties / surcharges are appropriate and reflect a reasonable balance between the benefits and cost of the programs. It is noted that both program reviews were delayed in 2013 due to other priorities.

Recommended changes respecting the BR program are expected later this spring which will then be discussed with stakeholders to get feedback. The earliest expected date for implementation of BR program changes is 1 May 2015. The SDR analysis is expected to be completed by the end of 2014 at which time feedback will be sought, as is being done with the BR program. Any changes to the program (other than the SDR scale growing to a possible 19 demerit points in 2014) are not expected until at least 2016. The 2014 changes respecting demerit points consist of penalty points for several chargeable offences for MGDL drivers and for all drivers, flowing from the Motorcycle Review Committee recommendations and other chargeable offences flowing from the Traffic Safety Review Committee recommendations, all to become effective 27 June 2014.

7.4 TAXI REVIEW

One of the recommendations included in the 2013 Consultant Report was that SAF be urged to complete a comprehensive review of its SDR and BR programs to address a number of long-standing issues, including those concerns expressed by the Taxi industry regarding the BR program.

SAF developed a Taxi consulting strategy in December of 2013 that encouraged all customers with a PT (Taxi) plate to participate. Rural based companies were able to use a variety of methods, including on line or paper surveys, or phone communication. In-person meetings were held in Regina, Saskatoon and Prince Albert. Topics initially considered at these meetings included the introduction of e-mail abstracts, Taxi registration changes, BR changes for Taxis licensed under an individual's name, as well as the Taxi proposed rate indication.

Subsequent meetings in March 2014 discussed a voluntary telematics program as well as

providing more detailed information for the planned registration changes and forms for the new e-abstract proxy capability.

The following four changes resulted from these discussions which appear to have addressed a number of Taxi companies concerns:

1) Individuals will now be subject to surcharges under the BR program, so as to level the field between Taxis registered to individuals and to companies. This change will be effective May 1, 2015. Taxi companies agreed to this change.

2) Effective in the latter part of 2014, Taxis will be required to be registered under the vehicle owner's name rather than the city license holder's name. This only impacts Taxis in Regina, Saskatoon and Prince Albert, where the number of licenses are regulated by the cities.

3) Commencing in March 2014, Taxi owners are now able to be granted proxy access to their drivers' abstracts through MySGI, to assist company safety programs and ultimately reduce claims costs. This process is simplified by the provision of forms for driver sign-up by SAF.

4) Taxi broker companies expressed an interest in the use of telematics as a possible method of providing driver feedback with the objective of reducing collisions and claims costs. This concept is expected to be pursued later in 2014.

At follow-up meetings on March 25th and 26th, more details were discussed regarding the new registration process. Sample registration forms were also reviewed for Taxi companies in Regina, Saskatoon and Prince Albert. Further refinements to these forms are currently being considered by representatives of SAF, the Taxi companies and the three cities administrations. Procedures for issuers as well as communications to Taxi companies and owners are being drafted for implementation in early June 2014.

Also at these March meetings, SAF gave a presentation regarding the possible Telematics Pilot, including how the devices would function and the type of information that could be made available. A summary of the implementation of an Insurance Corporation of British Columbia Taxi telematics study was also presented. SAF is currently reviewing proposals received from vendors of the telematics systems, and a pilot project is being considered for implementation in the fall of 2014.

In a separate initiative, SAF completed the analysis of Taxi cab losses for each rural and urban Saskatchewan community to see whether claims costs change along with a community's population size or if some other factor should be used to group Taxi rates. The results showed that small city Taxis and large city Taxis, with the exception of Taxis in Prince Albert, had similar claims histories, and SAF has grouped these together for rating purposes in this Application.

Also, since Regina, Saskatoon and Prince Albert have significantly different claims histories, this Application proposes separate rates for each city. This methodology will determine rates by incorporating specific loss experience of each city and the pooled loss experience of all three

cities combined, to ensure stable and credible results.

7.5 MOTORCYCLE REVIEW COMMITTEE

Reaction from the Motorcycle community and various stakeholders to SAF's initial 2013 rate proposal (that the indicated rate for this class, of an average increase in excess of 72%, be implemented without any capping) drew a very vocal and negative response from individual motorcyclists and rider associations, at many forums including presentations at public meetings held in 2013. The proposal was subsequently amended to cap the Motorcycle rates at 15%, as was done for all other classes, at the direction of government. The government also directed SAF to review its rating approach for Motorcycles, including injury benefit levels provided with the Basic coverage and to examine ways to improve Motorcycle safety.

SAF invited various stakeholders and groups to be part of the Motorcycle Review Committee. Discussions commenced in May of 2013 exploring possible approaches to safety and rate structure to enhance fairness and options for injury benefits put forward by SAF and committee members. SAF also invited feedback related to its 2014 rate proposal. SAF provided statistical and program analysis to the committee. The committee and SAF developed a number of options and submitted these for public consideration and feedback in July 2013.

Committee recommendations and SAF positions fell into the following six major categories:

1) Motorcycle Graduated Driver Licensing (MGDL)
2) Protective clothing for all Motorcycle riders and passengers
3) Motorcycle inspections
4) Rates, penalties and discounts for all drivers
5) Motorcycle rates and rate groupings
6) Injury, scarring and death benefit options for Motorcycles.

Much discussion surrounded all the above topics, and in a number of cases there was support for the recommendations while other recommendations did not get unanimous support. The details of the various discussions, recommendations and SAF positions were provided in the response to the first round IR #17 and are available for review on the Panel website.

In summary, a conclusion reached by the committee was that the Motorcycle class's rate need has the potential to decrease if committee recommendations are adopted. Improved parameters for the MGDL, similar to those adopted in Quebec where teen Motorcycle casualties dropped by 47% and teen injury frequency by 23%, have the potential to decrease overall MGDL claims in Saskatchewan by 20-25%. In addition to a knowledge test, similar to that required in Saskatchewan, Quebec requires mandatory training and a zero blood alcohol content. These program enhancements for Saskatchewan have been recommended by the committee. Other recommendations include the use of additional protective gear for riders that have a potential 40% reduction in the likelihood of permanent physical defect and return to work earlier by 20 days.

SAF has estimated an overall potential reduction of 25 to 50% in scarring benefits and a 4% reduction in Income Replacement benefits. On an overall basis, the combined effects of the

above changes would have reduced the 2013 rate increase for Motorcycles by approximately 20%, primarily because of the 20 to 25% reduction in overall MDGL claims. As these estimates are based largely on the Quebec experience, which include program features not present in Saskatchewan, SAF considers these to contain significant uncertainty and as a result have not included any of them in the indicated rate calculation, opting rather for a “wait and see approach”.

SAF has identified other potential influences of the proposed changes to include additional driver training to make drivers more aware of Motorcycles on the road; new inspection program respecting unsafe Motorcycles; opportunity for private sector training schools; and new riders being dissatisfied with proposed new rules and potential fees and surcharges.

7.6 OBSERVATIONS ON REVIEWS

We commend SAF for not only undertaking the SDR/BR programs, Taxi Cab and Motorcycle reviews, but also for encouraging stakeholder and public input as part of the process. We also recognize it took a significant effort including staff time and resources for undertaking all these reviews and we expect this effort will continue to be required. These reviews are intended to address the immediate and long term concerns of the Taxi companies and Motorcycle community with various aspects of the current programs and product offerings. The level of dissatisfaction has been evident for a number of years, primarily in the last review and again this year as rates continued to increase.

We also recognize that while SGI is the administrator of the SAF operation, it does not hold the ultimate authority to affect all changes. This authority rests with the Provincial Government. Changes to programs, coverages and benefit levels may require legislative or regulation changes, and these require adequate time for review and consultation by various parties prior to implementation.

As discussed above, these reviews will be ongoing and not many changes are reflected in this Application. We recognize the inherent difficulty in accurately quantifying the potential savings that could flow from the various recommendations, as these are based on experience from other jurisdictions that have similar, but not identical program features to those recommended by SAF and to a very large degree are dependent upon changes in drivers’ attitudes.

We consider the proposed changes to the Taxi Cab rating structure to be appropriate, as these are supported by detailed claims experience and analysis.

As discussed elsewhere in this report, we have some concern with the flat rate 2.7% increase proposed for Motorcycles, in view of indicated rate change of +46.8%. Our concern is that, notwithstanding the potential savings (which cannot be estimated with any precision) flowing from implementation of the various committee recommendations, there remains a likelihood that Motorcycle required rates for future years could still be greater than current system average rates. Automobile insurance, by its nature, requires “cross-subsidization” in that many pay for the claims of a few. However, there should be a limit to this cross-subsidy, in that it should be restricted to be within vehicle classes that pose like exposure to risk to the insurer.

Motorcycles, for example, should not be pooled with Private Passenger Vehicles, as the statistical analysis clearly demonstrates the risk posed by the two types of vehicles are significantly different, regardless of the experience or driving habits of the respective operators. We also recognize that SAF administration had made a commitment to the Motorcycle stakeholders that they would not recommend Motorcycle rate changes prior to the completion of the consultation process to encourage full and active participation in the review.

In conclusion we laud the efforts of both the stakeholders and SAF in attempting to resolve the long standing dissatisfaction and concern relative to Motorcycle rates driven by this class's historical claims experience. While it is too early to be able to actuarially or statistically determine the cost savings of the new program initiatives just commenced, we feel the Panel has two options to consider in addressing this rate issue.

First is to recommend capping and rebalancing occur for the Motorcycle class. Since the current indicated rate requirement is +46.8%, most if not all riders would experience rate increases at or near to the rate cap. Second, the Panel could recommend approval of the SAF Application to provide a rate increase of 2.7% plus the capital margin for a net rate increase of 5.2%. Given the effort expended by parties to date to address this long standing issue, the Panel could take a "wait and see" position and support the Application as filed. In so doing, the Panel needs to be aware that there will be a revenue shortfall of approximately $6.8 million which SAF has in effect proposed will be funded from the RSR.

From the Consultants' vantage point, the issue is not so much what should be the recommendation for this year's Application, but more so what principles are going to be the foundation for proposed rate changes for the Motorcycle class in this and subsequent Applications. To provide the relief proposed in this Application for the Motorcycle class, an additional burden has still been placed on other ratepayers.

The specific Terms of Reference of this review require the Panel to determine whether the Application meets the basic 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. As such the proposed treatment specifically for the Motorcycle class will not, in its current form, meet that objective.

Secondly, in assessing the reasonableness and fairness of the proposed rate rebalancing across and within the various rating classes of vehicles underlying rating classifications, to freeze rebalancing for the Motorcycles class without determining when the "thaw" will occur questions the principle of fairness relative to all other vehicle classes.

This is especially notable when considering that the Motorcycle class currently has a rate adequacy gap of 46.8% before considering the impact the new Motorcycle initiatives. Additionally from the information provided in the discovery process, current average Motorcycle rates are likely to remain 20-30% under the indicated rate requirement, with full and complete success of those initiatives. As such, we believe the Application proposal as filed (that is, not capping and rebalancing the Motorcycle class) fails to meet the test of being just and reasonable.

8.0 PROGRAM COSTS

8.1 CLAIM COSTS INCURRED

Claim costs represent about 80% of SAF's total costs. Estimated claim costs are determined by actuarial analysis which considers the historical trends of claim payments, economic conditions, inflation, and business class characteristics. Claims are grouped into the years in which the claim occurred (accident years). At the end of each accident year, the total ultimate costs for all current accident year claims that have occurred and were reported are estimated by an actuary along with those that have occurred but were not reported.

In addition, an actuarial review of prior accident years is performed at each fiscal year end to determine if prior estimates are still appropriate. If adjustments are necessary, they are included in the current year's financial statements. More specifically, if the estimates were too high then a redundancy exists resulting in a decrease to claim costs. If the estimates were too low then a deficiency exists resulting in an increase to claim costs.

Claim costs are separated into three components:

1) Personal Injury coverage if injured or killed in an automobile collision, for which customers have a choice between tort and no-fault;

2) Third Party Liability coverage for damage caused to others by a motor vehicle collision, which is subject to a $200,000 limit; and

3) Physical Damage coverage for personal vehicle damage (collision and comprehensive), which is currently subject to a $700 deductible for most vehicles.

Generally, damage claims including damage liability represent approximately 65% of total claim costs and are resolved fairly quickly. Approximately 75% of damage claims are resolved within the year of the accident occurring and nearly 99% of damage claims are resolved within 12 months of the end of the accident year. SAF identifies these claims as short-tail claims.

Injury and Liability claims excluding damage liability represent the remaining 35% of total claim costs and take much longer to resolve. SAF estimates that only 20% of injury claims and 3% of liability claims are paid in the accident year. SAF identifies these as long-tail claims. The time for ultimate settlement, combined with inflation, medical innovations, and rehabilitation programs, leads to uncertainty in estimating ultimate total costs for settlement.

SAF notes that although there is over 18 years of historical data and experience available for injury programs, the claim durations and reoccurrence rates are difficult to estimate, making changes in estimates inevitable as the claims mature.

SAF states that accident year costs can change significantly from year to year, but on average will increase. The reason for this is that damage claim costs for vehicles and property increase each year mostly due to the costs to repair and replace newer and technologically advanced vehicles. In addition, labour repair rates and costs of parts are subject to inflation, thus

increasing overall costs as well.

SAF notes that since 2000, the costs of damage claims including damage liability have increased on average by 5.6% per year. Injury claims have also increased as certain accident benefits (tort and no-fault) are indexed with inflation. Since 2000, injury costs have increased on average by 4.1% per year. Injury claim increases vary more than damage claim increases from year to year due to the lower volume of claims and the higher average cost per claim.

8.2 COLLISION REPAIR COSTS

Since 2004, SAF and the collision repair industry have used alternate parts on collision repairs for cost saving purposes. The following table shows the costs of parts used in auto repairs from 2007 to 2012 as well as projections for 2013 and 2014, as provided in the response to the second round IR #60:

Costs of New (OEM), Aftermarket, Remanufactured and Recycled Parts (in $000's)								
Part Type	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
New (OEM)	68,017.1	70,578.1	76,445.5	73,864.4	82,027.5	82,956.3	95,574.9	99,511.7
Aftermarket	10,053.9	9,756.4	10,073.5	9,860.7	11,929.4	12,628.6	11,597.1	11,817.6
Remanufactured	8,427.2	8,810.8	9,326.1	9,436.8	10,201.7	9,059.4	9,558.2	9,719.8
Recycled	6,305.1	6,086.1	6,267.7	6,800.0	7,233.8	7,131.9	6,183.2	6,165.8
Total Costs	**$92,803.3**	**$95,231.4**	**$102,112.8**	**$99,961.9**	**$111,392.4**	**$111,776.2**	**$122,913.4**	**$127,214.9**

The following table shows the estimated savings from using remanufactured, recycled and aftermarket parts instead of new (OEM) parts for repairs:

Savings from Using Aftermarket, Remanufactured and Recycled Parts (in $000's)								
Part Type	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Aftermarket	691.6	1,686.4	1,148.5	1,298.0	2,180.3	1,821.3	2,075.4	2,273.1
Remanufactured	3,273.9	3,439.3	3,704.7	3,835.8	4,173.1	3,644.2	3,936.1	4,030.7
Recycled	3,152.5	3,043.0	3,133.8	3,400.0	3,616.9	3,565.9	3,091.6	3,082.9
Total Savings	**$7,118.0**	**$8,168.7**	**$7,987.0**	**$8,533.8**	**$9,970.3**	**$9,031.4**	**$9,103.1**	**$9,386.7**

The overall repair costs (excluding taxes) for parts, labour, paint & material and windshield claims from 2007 to 2014 are shown below:

Overall Repair Costs (in $000's)								
Description	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Parts	92,803.3	95,231.4	102,112.8	99,961.8	111,392.4	111,776.2	122,913.4	127,214.9
Labour	93,497.4	95,782.4	104,371.6	109,218.2	129,787.1	129,850.1	131,890.8	145,984.0
Paint & Material	17,953.1	19,009.3	19,912.5	20,061.5	22,396.4	22,876.6	24,787.8	25,764.2
Windshield	167.0	223.7	517.4	693.1	1,077.0	1,364.2	1,463.3	1,648.5
Total Costs	**$204,420.8**	**$210,246.8**	**$226,914.3**	**$229,934.6**	**$264,652.9**	**$265,867.1**	**$281,055.3**	**$300,611.6**

Total collision costs as noted in the above table are forecasted to increase from $ 281.1 million in 2013 to $ 300.6 million in 2014.

8.2.1 Observations on Collision Repair Costs

SAF has recently embarked on its Appraisal Transition Project (detailed in Section 8.3 below) that improves the reporting accuracy on parts, labour and material costs, relative to past estimates that included a number of assumptions. The use of aftermarket, remanufactured and recycled parts has shown a steady increase from a 2007 total of $7.1 million to $9.4 million forecast for 2014, or about 27% in 7 years. During this same time period overall material costs for collision repairs have shown a 37% increase, while the use of OEM parts has increased by 46%. Newer vehicles contain more sophisticated electronic and diagnostic accessories and these increasingly require the use of OEM parts for repair. Nonetheless, SAF has estimated that the use of parts other than OEM parts resulted in savings of $9.1 million in 2013 and is expected to save $9.4 million in 2014. Total repair costs were reported to be $281.0 million in 2013, and are expected to be $300.6 million in 2014. Thus savings attributed to use of other than OEM parts represent 3.3% and 3.1% for 2013 and 2014, respectively.

Total collision repair costs have increased about $96.2 million since 2007, from $204.4 million to $300.6 million expected for 2014, or 47%. In 2007, the labour component represented 45.7% of total costs and 48.4% in 2012. As further discussed in the following sub-section, body shop labour rates have increased 10%, effective January 1, 2014, with further 10% increases being agreed to for 2015 and 2016. However, the labour component of total 2014 collision repair costs is still expected to account for about 48.6% of total costs. After the last negotiated labour rate increase of 2% in 2011, the 2012 labour costs represented 48.8% of total costs in 2012.

8.3 LABOUR RATES

SAF typically meets and negotiates labour rates annually for car and light truck repair with representatives of the Saskatchewan Automobile Dealers Association (SADA) and the Saskatchewan Association of Automobile Repairers (SAAR).

SAF received the industry's labour rate proposal for 2013 in January of that year. The proposal requested an immediate $20.00 (28.7%) increase to the hourly rate to ensure labour rates remained competitive to address three main issues: attraction and retention of talent; funding of technology; and training needed for the industry to remain viable. Although there was no rate increase granted in 2013, a 10% increase was negotiated to be effective 1 January of 2014, 2015 and 2016 for all accredited shops. 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.

1) The MNP study assembled financial and other information from the industry and concluded financial performance of shops in Saskatchewan is relatively strong, compared to other provinces (the second round IR #57).

2) Revenue growth has kept pace or exceeded operating costs over the past three years.

3) Saskatchewan auto rates are comparable to other public insurance jurisdictions.

4) A significant portion of collision repair business is conducted by shops that are too small for ongoing viability.

5) Operating profits are not sufficient to support significant capital investment for shops with revenue below $2 million.

6) Owners seeking to exit the industry may not be finding buyers.

7) Availability of labour is a significant concern to the industry.

8) There are opportunities to streamline the business processes, particularly relative to supplemental estimates.

All accredited shops are required to employ a qualified journeyman. The demand for this skill level far exceeds the available supply (annually 27 are produced every year, whereas 40 are required. A large driver of enrollment in the journeyman program is the compensation for such positions. SAF suggests that the industry cannot compete with other journeyman occupations or industries.

Vehicles are becoming more complex with electronics and different material compositions and thus are increasingly difficult and costly to repair, and shops required significant capital investment for sterile repair facilities, be welding technologies, different tools and different skill sets.

SAF interaction with the industry is undergoing a fundamental change. Generally an SAF employee, usually a journeyman prepares an initial damage assessment at one of its claims centers, or in local rural repair shops. Many claims require an additional assessment, as not all damages are found in the initial assessment. This requires the SAF employee to attend at the repair shops and approves a settlement. The new Appraisal Transition Project allows SAF to remotely approve supplemental estimates and settlements for shops that acquire the appropriate software and hardware electronically with SAF, enabling them to communicate with SAF. This allows for improved cycle time, increased customer satisfaction and efficiencies as SAF employees are no longer required to attend shops for this function. As a result, SAF has been able to increase its capacity for providing estimates by approximately 7,200 per year between the Regina and Saskatoon claims centers, with the same staff levels and expect further increased capability in this regard.

Currently over 50% of all accredited shops representing over 80% of repair volume (by dollars) are online. The estimated cost for the necessary hardware, as well as a seat license allowing access to SAF's estimating platform, is approximately $6,000 per year, payable to the software provider. This new system allows SAF a greater tracking of individual shop performance based on key performance indicators and thus enable SAF to focus its audit and remedial work on shops falling below expectations.

SAF is proposing to move towards having approved shops prepare estimated for carefully selected claims, for example low-damage, non-contentious claims, currently expected for the last quarter 2015. The customer would have the option of selecting either an SAF appraisal or to go directly to an approved repair shop of their choice, with SAF remotely approving such an appraisal. The following table shows the labour rates from 2010 to 2016:

	2010	2011	2012	2013	2014	2015	2016
Hourly Rate	$68.27	$69.63	$69.63	$69.63	$76.59	$84.24	$92.66
Percentage Increase	1.9%	2.0%	0.0%	0.0%	10.0%	10.0%	10.0%

8.3.1 Observations on Labour Rates

SAF considers the 10% annual wage increase settlement agreement, which will be in place for each of the next three years to be one of the main drivers for the 2014 requested rate increase. The increase as shown in the tables in Section 8.2 is, in part, expected to result in total labour repair costs for 2014 of $146 million, relative to 2013 levels of $131.9 million, some $14.1 million, or approximately 10.7% higher. While not all of this can be attributed to increased hourly rates (number and severity of claims also will most likely increase), it is nonetheless, a significant cost driver.

The auto body repair industry requested a significant labour increase prior to SAF embarking on its Appraisal Transition Project (ATP). Although the ATP will assist SAF in containing costs, improving efficiencies and customer service, it is not intended to nor cannot alone justify the agreement. The most significant issues facing industry were the retention and recruitment of qualified staff and the need for capital investment.

SAF stated that it does not currently expect any actual cost savings in repair costs, from 2014 to 2016, but rather expects to provide better customer service, being able to handle more appraisals with the same staff complements. We can appreciate the desire to allow existing repair shops, especially in the rural areas, to be sufficiently compensated so that they are able to re-tool, employ and retain staff that is able to properly assess and repair the more complex vehicles.

We also recognize that the process for handling claims may be altered significantly, putting more onus on the repair shops. Revising the claims handling process is expected to lead to cost efficiencies in the future. We also note the hourly rate was increased by 1.9% in 2010, 2.0% in 2011, with no increases in 2012 and 2013. In 2009, the labour rates for Passenger Vehicles and Light Trucks were blended rather than having individual rates for various types of repair functions. The corresponding CPI increased by approximately 9% from 2009 to 2013. If the CPI annual increase remains at or near 2% until 2016, the negotiated increases from 2013 to 2016 will be considerably greater than the CPI over those 3 years. Since the structure of the agreement was changed in 2009, the cumulative CPI could be approximately 16%, while the cumulative labour rate increase would be about 34%. We further note that SAF dealt with 325 body shops (300 accredited, 25 non-accredited) and expect the number to decrease by approximately 10 in 2014, perhaps some evidence of limitations on the viability of the smaller

shops.

Our concern is that the increase itself may not ensure the survival of the smaller shops and the larger shops may show greater profitability, and as the MNP report concluded, the Saskatchewan repair industry already compares favourably with other public insurance jurisdictions. As well, we have some concern about the potential impacts of this agreement on other aspects of SAF's operations. However, we do recognize that the agreement has been ratified, and is to remain in effect until 2016, and that some efficiency has been achieved with the on-line supplement process, and more will likely result, in particular, following the last phase of the project in 2016, as industry begins to do on-line estimating. We further note that SAF is of the view it must balance the need for efficiency, to contain costs, against the need for effective industry audit, to also contain costs. SAF will be monitoring the progress of this project carefully over the next number of years, ensuring effective use of staff, while also ensuring there are effective industry controls in place. It is expected SAF will update the Panel of their efforts on this matter in future Applications.

8.4 DEDUCTIBLE LEVELS

The Panel expressed an interest in having the impact of increasing the Basic deductible level from the current $700 (for most vehicles) estimated. SAF provided the estimates on the 2014 required rate change if the Basic deductible level were to be increased by $100, $200 and $300. With respect to CLEAR-rated vehicles, the original indicated required rate change of +2.3% (prior to the capital margin request of an incremental 2.5% increase over the existing RSR surcharge amount) would decrease to a level of an additional 1.4%, 0.5% and then a decrease of 0.4% for each of the three deductible scenarios, respectively. Rate impacts for Conventionally-rated vehicles showed much variability in the indicated rate changes for the various classes and this variability, although somewhat dampened with deductible level increases still would exist. On an overall vehicle basis including Trailers, the required indicated rate changes, rather than the +3.4% originally indicated, are estimated to be +2.5%. +1.6% and +0.8%. Motorcycles are the vehicle class that is least impacted by increasing deductible levels, illustrating again that the majority of the claims costs for this class result from claims other than physical damage, primarily personal injury including income replacement benefits. The original indicated rate change for Motorcycles was +46.8%. Increasing the deductible level by $100, would result in an indicated Motorcycle rate change of +46.5%, while further $100 increases in deductible result in an estimated indicated required rate change of +46.2% and +45.9%, respectively.

8.4.1 Observations on Deductible Levels

The last change in the Basic deductible level implemented by SAF was in 1998, when it was increased from $500 to $700. While the data respecting collision repair costs is not readily available for the decade from 1997 to 2007, collision repair costs have increased by over $95 million from the 2007 amount of $204.4 million to the expected $300.6 million for 2014, an increase in excess of 47%. As stated by SAF, vehicle electronics and material compositions are becoming increasingly complex and more expensive to repair.

While the existing deductible level is a factor that is outside of the Panel's Terms of Reference,

we offer the following for the Panel's consideration. Repair costs have dramatically increased since the deductible level was last increased to the current $700 in 1998, as supported by the analysis conducted by SAF. On an overall basis, an increase to a Basic $800 deductible would have reduced the overall indicated rate increase from the original 3.4% to 2.5%, while a deductible increase to $900 would have an indicated rate increase of 1.6%, all prior to any capital margin. As noted above for CLEAR-rated vehicles the comparable numbers go from 2.4%, to 1.4% for a $100 deductible increase to -0.3% for a $300 deductible increase.

Increasing the deductible level would not necessarily expose Saskatchewan motorists to increased risk, as the deductible could still be reduced, by purchasing extension insurance from SGI or any of the other insurers offering such coverage, on a competitive basis.

Additionally, increasing the Basic deductible imposes greater costs on those involved in accidents where they are at fault and, in our view, reasonably reflects cost causation. As such, the Panel may wish to encourage SAF to give consideration to increasing the Basic deductible level as an alternative option to requesting or mitigating a general rate increase.

8.5 PERSONAL INJURY MEDICAL SERVICE RATES

SAF is under contract with and reimburses the Ministry of Health and medical providers for a portion of hospital and physician service costs resulting from injuries in motor vehicle collisions. The reimbursements are made on a quarterly basis and amount to almost $30 million per year. The following table shows the reimbursements from SAF to the Ministry of Health and medical providers from 2007 to 2013:

(in $000's)	2007	2008	2009	2010	2011	2012	2013
Ministry of Health	15,218	20,260	17,609	18,104	22,300	24,782	24,598
Medical Providers	2,075	2,212	2,300	2,888	3,084	3,070	4,005
Total	**$17,293**	**$22,472**	**$19,909**	**$20,992**	**$25,384**	**$27,852**	**$28,603**

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. The following table displays the Medical service rates from 2008 to 2013:

Schedule of Medical Service Rates SAF Pays						
Treatment	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Chiropractic Initial	23.00	23.00	23.00	45.00	47.00	60.00
Chiropractic Subsequent	17.00	17.00	17.00	33.00	35.00	36.05
Massage Initial	25.00	31.00	31.00	31.00	31.00	41.00
Massage Subsequent	25.00	30.00	30.00	30.00	30.00	34.00
Physiotherapy Initial	75.00	76.88	76.88	84.76	86.46	86.46
Physiotherapy Subsequent	33.75	34.60	34.60	38.15	42.08	42.08
Acupuncture Initial	55.00	55.00	55.00	55.00	55.00	55.00
Acupuncture Subsequent	40.00	40.00	40.00	40.00	40.00	40.00
Voc Rehab	90/hr	92/hr	94/hr	96/hr	96/hr	96/hr
Occupational Therapy	90/hr	92/hr	94/hr	96/hr	96/hr	98.88/hr

8.5.1 Observations on Personal Injury Medical Service Rates

As is shown in the foregoing table, 2013 medical service costs were $28.6 million, increasing at near the inflation rate over 2010 total costs. As these medical service costs are driven by injuries that occur in vehicle collisions, any future positive results flowing from the new and continuing Traffic Safety initiatives should have a limiting effect on the growth of these costs in the future.

8.6 OPERATING, MAINTENANCE & ADMINISTRATIVE EXPENSES

Operating, Maintenance and Administrative (OM&A) costs include most of the expenditures related to Loss Adjusting Expenses, Administrative Expenses and Traffic Safety programs. On an overall basis, OM&A costs in 2013 were $138.2 million (15.4% of total costs) and are expected to increase by $17.5 million or 12.6% to an estimated 2014 total of $155.7 million (15.9% of total costs).

The following table illustrates actual OM&A results that also include cost for loss adjustment expenses and Traffic Safety costs from 2011 to 2013 (unaudited) and 2014 forecasts. The 2013 results illustrated in this table were the estimated amounts and do not reflect the 2013 audited results shown in the 2013 Annual Report.

SAF OM&A Expenses (in $000's)						
	2011	2012	2013	2014	2013-2014 Variance	
Description	Actual	Actual	Actual	Budget	$	%
Wages & Salaries	66,843	69,162	74,207	76,970	2,763	3.7%
Benefits	11,547	12,556	12,892	13,183	291	2.3%
Pensions	3,857	4,074	4,224	4,423	199	4.7%
Advertising	158	408	533	620	87	16.3%
Amortization Costs	2,266	2,606	2,841	3,146	305	10.7%
Building Rehabilitation	2,005	2,305	2,265	2,321	56	2.5%
Data Processing	12,399	11,630	11,238	10,096	-1,142	-10.2%
Drinking & Driving Awareness	2,655	2,659	2,833	2,814	-19	-0.7%
Driver Education	2,495	6,369	6,769	8,862	2,093	30.9%
Employee Training	1,571	1,733	1,709	2,367	658	38.5%
External Services	3,790	3,595	4,241	13,733	9,492	223.8%
Insurance	405	432	407	428	21	5.2%
Issuer Bank Charges	4,010	4,203	4,845	5,779	934	19.3%
License Plates	833	867	686	770	84	12.2%
Material & Supplies	707	708	781	828	47	6.0%
Postage	2,684	3,591	3,465	3,975	510	14.7%
Safety Awareness	3,411	861	477	2,619	2,142	449.1%
Tools & Equipment	165	178	186	202	16	8.6%
Travel (including Vehicle Costs)	1,969	2,054	2,144	2,067	-77	-3.6%
Other Expenses	347	753	1,456	459	-997	-68.5%
Total	**$124,117**	**$130,744**	**$138,199**	**$155,662**	**$17,463**	**12.6%**

Loss adjusting expenses are associated with settling claims that are not claim-specific. This includes internal legal fees, adjusters and operating costs of claim centers. In 2013, LAE totaled $82.2 million. In 2014, LAE is expected to decrease by $5.7 million or 70.5%, to $70.4

million. For 2014, LAE is approximately 7.2% of the total budgeted operating costs.

Administrative Expenses consist of operating expenses such as salaries, infrastructure and system support costs. In 2013, Administrative Expenses totaled $53.1 million. In 2014, Administrative Expenses are expected to increase by $5.5 million or 10.4%, to $58.6 million. For 2014, Administrative Expenses are approximately 6.0% of the total budgeted operating costs.

Traffic Safety program costs consist of programs, sponsorship and advertising associated with promoting Traffic Safety, which is discussed in greater detail in Section 8.11. In 2013, Traffic Safety program costs totaled $24.6 million. In 2014, Traffic Safety program costs are expected to increase by $10.6 million or 43.1%, to $35.2 million. For 2014, Traffic Safety program costs are approximately 3.6% of the total budgeted operating costs.

Of the $17.5 million projected increase in OM&A for 2014, External Services account for $9.5 million, Wages & Salaries for $2.8 million, Safety Awareness for $2.1 million, Driver Education for $2.1 million, and the remaining $1.0 million from various other cost components (a combination of both increases and decreases).

8.6.1 Observations on OM&A Expenses

On an overall basis, the projected increase for OM&A, LAE and Traffic Safety costs of $17.5 million is an increase over 2013 of 12.6%. This is considerably greater than the increase in the CPI of under 2%. Using a 2% inflationary allowance for all of the above expenses would result in an increase of only $3.1 million.

However, this is much too simplistic an approach for several reasons. SAF, as administrator of the Traffic Safety Act, is bound to administer and fund all costs for Traffic Safety pursuant to the implementation of the all-party Traffic Safety Committee. SAF submitted that 2013 expenditures in the amount of $95.6 million were beyond its control, including for certain Traffic Safety programs, registration and licensing & one part Drivers' licenses, premium taxes and medical funding, including STARS funding. Traffic safety costs alone account for an increase of $9.5 million, of the $17.5 million increase, while increases for driver education programs and medical funding account for over $3.0 million. When these factors are considered, the overall expenditure increase appears to be reasonable.

8.7 EXTERNAL SERVICES

External Services mainly relate to consulting or other support services and fluctuate year to year depending on what projects, studies and applications are required or implemented. The 2013 actual amount for External Services was $4.2 million. The 2014 budgeted amount for External Services is $13.7 million, which is an overall increase of $9.5 million or 223.8%. SAF reports that this significant increase is expected due to the following:

- $4.0 million for the Special Committee On Traffic Safety (SCOTS) recommended policing pilot;

- $2.5 million for other SCOTS Traffic Safety recommendations;
- $1.3 million for other Traffic Safety initiatives including wildlife initiatives and roadside screening devices for enforcement agencies;
- $1.1 million for the usage based insurance Motorcycle project; and
- $0.6 million for work zone photo radar program expansion.

8.7.1 Observations on External Services

The most significant expenditures for external services relate to the promotion of Traffic Safety programs. Of the $9.5 million expenditure increase for 2014, $4.0 million is directly related to the increased funding for additional police officers to enhance traffic enforcement. SAF is obligated to fund this initiative, but any incremental revenue associated with issuance of tickets does not flow to SAF. As well an additional $2.5 million is necessary to fund other SCOTS recommendations. As further discussed under Traffic Safety, on balance, the expenditures for external services are reasonable and reflect initiatives designed to ultimately reduce claims costs and provide enhanced societal benefits.

8.8 WAGES & SALARIES, BENEFITS, AND PENSIONS

SAF's FTEs are calculated as being the sum of the number of paid hours for unionized employees, including overtime divided by 1,872 (based on a 36 hour work week) and the number of paid hours for out-of-scope employees divided by 2080 (based on a 40 hour work week). SAF submits that this follows the methodology prescribed by CIC.

The 2013 actual amount for Wages & Salaries was $74.2 million, which was comprised of $62.2 million for unionized positions and $12.0 million for Out of Scope positions. The 2014 budgeted amount for Wages & Salaries is $77.0 million, which is an overall increase of $2.8 million or 3.7%. SAF reports that this increase is expected due to economic increases of 1.5% for $1.1 million, in scope step unionized increments of 1.2% for $0.8 million, out of scope merit (management) increases of 2.04% for $0.2 million and FTE growth of $0.7 million.

In 2013, SAF had a total of 1,503 FTEs. Of this amount, 1,260 or 83.8% were In Scope and 243 or 16.2% were Out of Scope. In 2014, an increase of 40 FTEs or 2.7% for a total of 1,543 has been budgeted. This growth is primarily from a hiring lag and vacancies in 2013 being filled in 2014, as there are only four new positions currently planned for 2014. Approximately 90% of the 40 FTE increase in 2014 is comprised of the following:

- 16 FTE increase in Human Resources - largely the result of temporary months in the internship program;
- 10 FTE increase in Product Management - the result of new positions added in 2013 and positions planned for 2014;

- 5.746 FTE increase in Corporate Affairs and Planning - the result of new positions added in 2013 and a hiring lag; and
- 4.513 FTE increase in Legal - the result of new positions added in 2013 as well as position turnover and a hiring lag experienced in 2013.

In regards to Benefits and Pensions, they generally increase relatively close to the growth in Wages & Salaries. Benefits are expected to increase by $291,000 or 2.3%, from $12.9 million in 2013 to $13.2 million in 2014. Pensions are expected to increase by $199,000 or 4.7%, from $4.2 million in 2013 to $4.4 million in 2014. There are no significant new benefits or pension increases proposed or currently expected in the budget for the next five years. However, SGI is currently negotiating a new collective agreement which could impact both Benefits and Pensions. SGI is currently renegotiating its collective bargaining agreement (CBA) with the Canadian Office and Professional Employees Union Local 397. The existing CBA expired on December 31, 2013. SAF expects to conclude the new CBA by June 30, 2014.

8.8.1 Observations on Wages & Salaries, Benefits and Pensions

The estimated increase for wages & salaries is $2.4 million, an increase of approximately 3.7% over 2013 expenditures, while the benefits and pension expenses are forecast to increase by 2.3 and 4.7%, respectively. Pension liabilities are as determined by an independent actuarial valuation conducted annually. This incorporates an allowance for the new CBA expected to be settled in June. Compensation for Out of Scope employees generally is based on CBA agreed to compensation, but constrained, from time to time, by CIC Board approved directives. Additionally In-Scope employees are progressed through their pay ranges in annual increments of approximately 5%, while a variable performance compensation package is in place for Out of Scope personnel. SAF undertook a number of reviews in 2013 and some of these, as well as others will carry on in 2014. There are only 4 new actual positions contemplated for 2014, with the balance of FTEs resulting from an expected filling of 2013 positions that were vacant as at 31 December 2013.

SAF stated that its average compensation package per unionized employee is $135,000 per year, while the Out of Scope annual compensation is $156,000. As provided by a third party, the industry norms are $168,000 and $175,000, respectively.

We consider that, on balance, the proposed 2014 wages & salaries, benefits and pensions forecast is reasonable.

8.9 BUILDING REHABILITATION AND CAPITAL COSTS

Building Rehabilitation relates to expenses incurred to maintain and service SAF buildings throughout the province. The 2012 and 2013 actual amount for Building Rehabilitation was $2.3 million and it is again expected to be the same in 2014. While Building Rehabilitation is expected to increase in the future due to inflation, it is not expected to change materially over the next five years.

The 2013 actual amount for Amortization was $2.8 million. The 2014 budgeted amount for Amortization is $3.1 million, which is an overall increase of about $300,000 or 10.7%. SAF reports that about two-thirds (2/3) of this increase relates to capital building projects concluded in 2013, which are now being amortized. The renewal and infrastructure upgrades in Swift Current and Saskatoon are the most significant of these projects. The remaining variance (1/3) relates largely to capitalized furniture purchases in 2013. It is noted here that the Amortization expense does not include amortization of system hardware and software, which is included within the Data Processing category.

SAF capital improvements' spending was budgeted to be just over $8 million in 2013. The actual amount was just under $6 million. The following table lists the 2013 actual, budgeted and variance amounts for capital improvements spending in 2013:

2013 SAF Capital Purchases			
Building	**Actual**	**Budget**	**Variance**
North Battleford Claims	16,067	-	16,067
Regina NW Claims	4,161	-	4,161
Regina Operations Centre (ROC)	30,995	-	30,995
Prince Albert Claims	-	-	-
Swift Current Claims	805,278	1,100,000	-294,722
Weyburn Claims	-	-	-
Lloydminster Claims	-	-	-
Saskatoon Salvage	-	-	-
Yorkton Claims	-	-	-
Saskatoon East Claims	819,642	1,600,000	-780,358
Saskatoon West Claims	836,791	1,400,000	-563,209
Tisdale Claims	24,982	-	24,982
Regina East Claims	-	-	-
Weyburn Claims	-	-	-
Meadow Lake Claims	-	-	-
Saskatoon Central Claims	-	-	-
Estevan Claims Centre	26,395	1,000,000	-973,605
Fleet Street Salvage	-3,250	-	-3,250
Saskatoon Salvage	-	-	-
North Battleford Salvage	-	-	-
Yorkton Salvage	-	-	-
Regina South Claims	-	60,000	-60,000
Saskatoon North	224,380	-	224,380
Sub Total	**$2,785,441**	**$5,160,000**	**-$2,374,559**
Information Technology	**$1,696,835**	**$2,153,400**	**-$456,565**
Other Equipment & Vehicles	**$1,484,011**	**$721,000**	**$763,011**
Total	**$5,966,287**	**$8,034,400**	**-$2,068,113**

Capital improvements' spending is expected to increase by nearly $3.3 million or 54.8%, for a total of just over $9.2 million in 2014. The following table shows the capital spending forecast from 2014 to 2018:

2014-2018 SAF Capital Purchases					
	2014	**2015**	**2016**	**2017**	**2018**
Buildings:					
Regina Operations Centre	90,000	-	-	-	-
Saskatoon Central Claims	300,000	-	-	-	-
Estevan Claims Centre / Branch	2,000,000	2,750,000	-	-	-
North Battleford Salvage	460,000	-	-	-	-
Yorkton Salvage	1,000,000	1,300,000	-	-	-
Regina South Claims Renewal	-	-	-	5,000,000	-
Saskatoon Salvage Branch Renewal	-	-	-	400,000	-
Sub Total	**$3,850,000**	**$4,050,000**	**-**	**$5,400,000**	**-**
Information Technology & Other	**$5,387,050**	**$1,270,000**	**$525,000**	**$750,000**	**$900,000**
Total	**$9,237,050**	**$5,320,000**	**$525,000**	**$6,150,000**	**$900,000**

All capital expenditures, except for the Auto Fund Redevelopment Project which was funded through the RSR, are funded by cash from operations and the amortization is recovered from annual rates. SAF has never borrowed funds for its capital program.

8.9.1 Observations on Capital Program Costs

SAF's capital program includes building rehabilitation, additions, energy efficiency retrofits, and replacement, as well as IT projects. Needs are established internally by SAF's Systems and Facilities and consultants are retained on an as required basis for design and project management services. All capital costs are funded by operating profits, as it is more economic than borrowing funds, given that interest on debt is generally higher than interest on investments that would have to be foregone. Projects that were included in the 2013 budget, but were not completed for various reasons, are carried over to 2014. SAF expects all major building related capital projects to be completed by 2017. Long term budgets beyond 2014 are forecast to be $5.3 million in 2015, $0.5 million in 2016, $6.2 million in 2017 and $0.9 million in 2018. Currently there are no plans for new buildings or major building renovations beyond 2019. Capital program associated costs normally account for about 0.5% of the total annual rate requirement.

8.10 DATA PROCESSING

The 2013 actual amount for Data Processing was $11.2 million. The 2014 budgeted amount for Data Processing is $10.1 million, which is an overall decrease of $1.1 million or 10.2%. SAF reports that this decrease is expected as a result of the system redevelopment project being fully amortized by May 2014. Also, Data Processing included one-time upgrades to computers at issuing offices across the province in 2013.

8.11 TRAFFIC SAFETY

8.11.1 Safety Awareness

Safety Awareness is expected to increase by almost 450% or $2.1 million in 2014. The increase from $0.5 million in 2013 to $2.6 million in 2014 is due to: drinking & driving multi-

media awareness programming involving reinstatement of the Report Impaired Driving (RID) program ($0.7 million); new Motorcycle advertising ($0.5 million); expanding photo radar ($0.5 million); driver distraction multi-media campaign ($0.3 million); and child restraint awareness and clinic advertising ($0.1 million).

8.11.2 Driver Education

Driver Education is expected to increase by $2.1 million or 30.9%, from $6.8 million in 2013 to $8.9 million in 2014. SAF reports that this increase is due to additional First Nations funding of $1.5 million and increased costs in High School funding of $0.6 million.

8.11.3 Programs

Safety is a key component in SAF's corporate strategy. As the lead Saskatchewan agency in Traffic Safety programming, public awareness and education, SAF fosters relationships with key Traffic Safety organizations and stakeholders.

In January 2011, SAF Directors approved a 5 year Traffic Safety program for 2011 through 2015 with an increased funding goal in the range of 2% to 3% of premiums written. In 2013, Traffic Safety program costs were approximately 3.0% of net premiums written. In 2014, Traffic Safety program costs are expected to increase to 3.9% of net premiums written.

The approved Traffic Safety program focuses on using a combination of education, engineering, and enforcement to reduce the amount of vehicle accidents occurring. Each of the following areas is considered within Traffic Safety and each has a cost benefit analysis conducted to determine which programs are selected and implemented.

The 2011-2015 Traffic Safety program focused on 7 primary areas:

1) Impaired Driving – including drugs as well as alcohol;
2) Vehicle Collisions – involving wildlife;
3) Distracted Driving – including cell phone usage and text messaging;
4) Seatbelt Education, Use, and Enforcement – in both urban and rural areas;
5) Speed Management;
6) Intersection Safety; and
7) New Driver Accidents.

Each of the primary areas consists of a number of specific programs. The specific programs are reviewed and evaluated annually and are normally modified by expanding certain programs, eliminating others and implementing new initiatives.

8.11.4 Traffic Safety Costs

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 as mid-term, while initiatives that require implementation over many months or years are considered to be long-term. Amounts budgeted for each of these initiatives are based on previous budget experience and cost estimates.

The SCOTS made a total of 26 recommendations of which one is no longer being implemented, 14 are anticipated to be implemented in 2014, with 9 anticipated for the mid-term future, while the remaining 2 related to rest stops on major highways and establishing protocols for highway closure are considered to be long-term. At the time of preparation of the Application, a budgeted allowance of $7.2 million for photo radar ($0. 5million), Rural Traffic enforcement ($4.0 million), and an allowance for other (not yet known) of $2.7 million

Traffic Safety program costs consist of programs, sponsorship and advertising associated with promoting Traffic Safety. All Traffic Safety costs are funded by SAF and the Traffic Safety program evaluation group within SAF is responsible for evaluating the loss-reduction and cost-effectiveness of current and prospective safety programs. The following table summarizes actual and projected Traffic Safety costs for 2012, 2013, and 2014:

Total Traffic Safety Costs (in $000's)			
Description	**2012 Actual**	**2013 Actual**	**2014 Budget**
Traffic Safety Promotion	1,811.5	2,517.8	8,192.0
Traffic Safety Program Evaluation	21.5	-	90.0
Traffic Safety Advertising	600.0	801.3	2,571.0
Driver Programs	2,291.5	2,461.0	2,470.6
Driver Development	7,415.0	6,803.9	8,977.2
Carrier Safety Services	-	12.0	18.0
Total Traffic Safety Initiatives	**$12,139.5**	**$12,596.0**	**$22,318.8**
Regulatory Program Administration (this is based on my calculation)	**$10,536.1**	**$12,024.0**	**$12,912.2**
Total Traffic Safety Program Costs	**$22,627.0**	**$24,620.0**	**$35,231.0**

Traffic Safety programs are being continuously monitored and effectiveness measured, albeit sometimes, by necessity, on a qualitative bases. As a result, individual programs change year over year. Traffic Safety program costs totaled $24.6 million in 2013 (approximately 2.7% of the total budgeted operating costs). In 2014, Traffic Safety program costs are expected to increase by $10.6 million or 43.1%, to $35.2 million (approximately 3.6% of the total budgeted operating costs). Costs related to the implementation of new initiatives based on 26 recommendations made by the all-party committee on Traffic Safety have contributed to the 2014 increase.

The following table shows major Traffic Safety initiative budgets and actual results for 2012 and 2013 and projected costs for 2014, by category:

Traffic Safety Costs and Variances (in $000's)						
Initiative	**2012 Budget**	**2012 Actual**	**Variance**	**2013 Budget**	**2013 Actual**	**Variance**
Promotion	$4,177	$1,811	($2,365)	$4,046	$2,518	($1,529)
Evaluation	70	21	(49)	70	0	(70)
Driver Programs	2.301	2.291	(10)	2,373	2,461	88
Driver Development	7,570	7,415	(155)	8,416	6,803	(1,612)
Carrier Safety	18	0	(18)	18	12	(6)
Advertising	1,326	600	(726)	1,319	801	(518)
Total	**$15,462**	**$12,138**	**($3,324)**	**$16,242**	**$12,595**	**($3,647)**

SAF cited 20 reasons for the significant variances that occurred in 2012 and 2013, in both years the budget was considerably in excess of the actual results.

With respect to 2014, the following programs were eliminated from or added to the 2014 Traffic Safety initiatives, from the 2013 program:

1) Traffic Safety Promotion: Winter Road Maintenance ($25,000), Pedestrian Safety Project ($10,000), Wildlife Solutions ($500,000), Traffic Safety All-Party Committee Programs ($232,400), Policing Pilot ($4 million) and Road Side Alcohol Screening Devices ($75,000) were added while DDCATS ($34,000), Distracted Driving Simulator ($14,830) and Saskatchewan Snowmobile Association ($25,000) were deleted.

2) Traffic Safety program Evaluation: Motorcycle Safety ($60,000) and GIS Development ($30,000) were added while none were deleted.

3) Driver Programs: None were added or deleted.

4) Driver Development: None were added or deleted.

5) Carrier Safety Services: None were added or deleted.

6) Traffic Safety Advertising: Expansion of Photo Radar ($500,000) was added and Long Weekend ($89,224) was deleted.

8.11.5 Program Monitoring

SAF's overall objective for evaluating, implementing and monitoring safety programs is to provide social and economic benefits through safe driving, thus reducing the number of accidents and resulting costs, injuries and deaths occurring.

In January 2011, SAF Board of Directors approved a Traffic Safety Strategy (TSS) with the goal of reducing the number and severity of traffic crashes and resultant claims costs, by creating a new environment respecting Traffic Safety, including social welfare change. The TSS proposed a decision-making framework for assessment of safety measures developed as part of the TSS. Evaluation factors considered include comparison of alternative measures, accounting for

duration / analysis times for initiatives, geographic scope of analysis, and societal viewpoint.

Programs under evaluation in 2013 included Enforcement Overdrive, Report Impaired Drivers, and Motorcycle graduated Licensing.

A Cost Benefit Analysis is used to estimate the economic welfare effects of the safety measures. Two metrics of a safety measure, Net Present Value (NPV) and Benefit-Cost ratio, are used to determine the efficiency of any Cost Benefit Analysis. NPV is defined as the present value of all benefits minus the present value of all costs. The Benefit-Cost ratio is defined as the present value of all benefits divided by the present value of implementation costs. When the project benefits exceed costs, the NPV is positive and the Benefit-Cost ratio is greater than one. Not all projects can be evaluated by the use of a Cost Benefit Analysis, as some benefits clearly cannot be quantified.

SAF has previously cited two examples where a Cost Benefit Analysis was used to estimate the effectiveness of a proposed program. One was a program of intersection improvements in Regina, which was to be jointly funded and used for an analysis period of 10 years. The analysis assumed a 50/50 funding arrangement between Regina and SAF. Numerous factors and considerations were necessary to estimate the potential benefits. After an evaluation, the Benefit-Cost ratio was estimated to fall within a range of 3.97 to 5.95, indicating an economically viable program.

Another program analysed was investment in photo radar as a speed management solution. This involved an NPV analysis from both a societal (impacts on all Saskatchewan residents) and SAF perspective (impacts on claims costs). Assumptions were made related to the NPV discount rate with various direct and indirect costs being estimated. The analysis concluded that the total NPV for costs to be $294.6 million and NPV for benefits of $821.3 million.

In response to the first round IR #114, SAF provided the following information related to the measurement of the effectiveness of safety initiatives since 2007.

Impaired Driving Program: Vehicle Impoundment

Drivers whose vehicles were impounded once within a two-year evaluation period had a 25% lower risk of subsequent driving while disqualified and a 17% lower risk of committing traffic violations (relative to similar drivers who were driving while disqualified prior to implementation of the program and whose vehicles were not impounded). First-time offenders in the program experienced 45% fewer collisions after impoundment compared to 34% fewer for similar drivers who did not experience impoundment.

Impaired Driving Program: Ignition Interlock

Compared to offenders not in the program, individuals in the Ignition Interlock Program experienced an 81% reduction in alcohol-related convictions from the time of conviction to removal of the device. For the three-year period following removal of the device, those who had been in the program experienced a risk of re-offending that was 21% lower than those who didn't install a device.

Impaired Driving Program: Addictions Screening

About 75% of drivers who go through the addiction screening process are referred to the Driving Without Impairment (DWI) program, while 25% are screened into the recovery program. Between 1996 and 2009, about 26,025 drivers were referred to DWI. Among first-time offenders who participated in DWI, 92% did not re-offend three years following program participation. For those who did not attend the screening or did not participate in any program, only 73% did not re-offend. With respect to repeat offenders, 86% did not re-offend three years after participating in DWI compared to 64% of those who neither screened nor participated in any remedial program.

Driver Improvement Program (DIP)

The Driver Improvement Program monitors the records of all Saskatchewan drivers for traffic convictions and at-fault collisions. Drivers are assigned demerit points every time they are convicted of a traffic offence or are responsible for a vehicle collision. A number of sanctions will be applied depending on the number of demerit points the driver has incurred. A sample of 18,380 drivers was examined that included those in the DIP between 1 January 2003 and 31 December 2005. They were followed for a two year period after sanction to examine the proportion that progressed into the next step of the DIP (due to additional convictions or at-fault collisions).

Overall, drivers who participated in the DIP had a 42.2% reduction in the risk of subsequent convictions during the two-year period. The warning letter had the greatest impact on reducing subsequent conviction risk (43.6%). Drivers who participated in the DIP had a 21.7% reduction in at-fault collision involvement during the two year period. The one month suspension had the greatest impact on reducing subsequent at-fault collision involvement (36.2%). Following this evaluation, modifications to the DIP structure and sanctions were made and are yet to be re-evaluated.

Graduated Driver Licensing (GDL) Program - Initial Assessment

The GDL program was evaluated in 2008 to extend a previous study to cover the first full cycle of the program. Results indicated that compared with the pre-GDL drivers, post-GDL drivers had a 40% reduction in their overall crash rate over the full cycle of the program. The major contributing component to the program's success has been the extended Learner stage. Relative to the pre-GDL Learner stage, post-GDL Learners experienced a 67% reduction in crash involvement. Drivers in the Novice Stage of the program on the other hand, experienced a 10% increase in crash rate over the period of evaluation.

Program restrictions appeared to be effective, posting reductions in associated crashes. Night crashes reduced by 11%, single-vehicle night crashes (which is a proxy for alcohol-related crashes) decreased by 38%, while crashes involving more than one passenger on the vehicle reduced 37%. The greatest reduction in risk for the GDL drivers occurred among casualty crashes with a 49% reduction. The Property-Damage-Only (PDO) crash rate also declined by 40%. A comparison according to age groups between pre- and post-GDL revealed that 15 year-old GDL drivers seemed to be most impacted by the program, showing a reduction in their

crash involvement up to 28%. GDL drivers over the age of 19 showed very little changes in their overall crash rate (2%).

The results in this study validate the findings from the initial 2007 program evaluation, which was that the extended Learner stage provides safety benefits. The Learner stage is a major contributor to the overall safety effectiveness of the program. A long-term evaluation of the GDL program was undertaken in 2013, the results of which are currently under review.

Intersection Improvements

In 1996, 1997 and 1998, SAF launched a collaborative program with the cities of Prince Albert, Regina and Saskatoon, respectively, to improve intersection safety. This initiative formed part of a long-term safety strategy in which SAF continues to identify other critical intersections for improvement and monitor their safety benefits. Eight urban intersections were selected to receive improved signalizing and were evaluated by comparing the three year pre-improvement period to the two year post-improvement period.

Over the two year period, six out of the eight treated sites had a reduction in PDO crashes, ranging from 19% to 42%. Meanwhile, the number of casualty crashes had also gone down for six out of eight treated sites, posting reductions ranging from 7% to 41%. Overall, treated sites in the Regina region had a decrease of 9% in total crashes for a combined savings of 20 crashes two years after the improvements. Saskatoon had an overall reduction of 10%. That is, a total of 30 crashes were prevented as a result of the program impact. A reduction of 13% was reported for Prince Albert, which is equivalent to a total savings of 10 crashes.

Distracted Driving

In 2012, SAF and Students Against Drinking and Driving collaborated to conduct an observational study of cell phone use while driving in eight Saskatchewan communities (Regina, Assiniboia, Canora, Estevan, Nipawin, North Battleford, Saskatoon and Swift Current). Canora did not return any survey data. Students observed vehicles and recorded the number of drivers using cell phones in the morning and in the afternoon. Drivers in Regina and Saskatoon were found to have a higher tendency to use cell phones while driving in the morning (7% and 8%, respectively). During the afternoon hours, however, the proportion of cell phone usage was very high in Estevan (10%). Overall, Regina, Estevan, Saskatoon, and Assiniboia are the top four risky communities in terms of high proportions of cell phone usage (6%, 5%, 4% and 4%, respectively).

Observations from pre-law 2009 and post-law 2010, 2011 and 2012 were also examined to estimate the effect of the cell phone legislation. The table below shows a summary of the changes in observed cell phone use over the study period. The data indicates that overall, after an initial drop in cell phone usage immediately following the enactment of legislation banning the use of handheld devices while driving, there has been a reversal in the use pattern and the proportion of drivers using cell phones is increasing. In 2012, cell phone use increased beyond the baseline use point, an indication that the level of enforcement needs to be increased.

Observed Cell Phone Use				
Community Name	**Pre-Law 2009**	**Post-Law 2010**	**Post-Law 2011**	**Post-Law 2012**
Regina	2.49%	1.09%	3.72%	5.62%
Assiniboia	0.90%	0.68%	1.71%	3.54%
Canora	12.58%	3.16%	2.80%	-
Estevan	1.56%	0.37%	1.47%	4.80%
Nipawin	0.67%	-	2.68%	0.38%
North Battleford	1.35%	0.65%	0.74%	2.03%
Saskatoon	1.33%	3.07%	2.27%	4.43%
Swift Current	1.95%	-	1.75%	1.93%
No observations were received from Nipawin and Swift Current in 2010 and from Canora in 2012.				

Seatbelt Challenge

The Seatbelt Challenge is a community-driven project designed to improve seatbelt use in the Province. By partnering with communities across Saskatchewan, SAF intends to raise awareness about buckling up through roadside activities and community-based events. The Seatbelt Challenge ran from 2008 to 2011 with various communities participating at different times. Seatbelt use in each community was measured by observation prior to the challenge, after the challenge and again a year following the challenge.

The data presented in the table below shows that the sustainability of increased seatbelt use is somewhat mixed. The general pattern is a dramatic increase in seatbelt use rates immediately following the challenge and a decrease in usage rates in the following year. Of the eight communities surveyed in 2012, only Kindersley appeared to sustain its initial use rate. In five communities (Keeseekoose, Muscowpetung, Onion Lake, Wadena, and Whitewood), the follow up results were still higher than the baseline use rates. Only in Island Lake and Mistawasis was a seat belt use rate observed that was lower than the baseline measure, an indication that more needs to be done to improve upon the belt use rates in these two communities.

Seatbelt Use			
Community Name	**Pre-Challenge**	**Post-Challenge**	**Follow-Up**
Island Lake	44.9%	98.0%	33.1%
Keeseekoose	66.2%	93.2%	76.3%
Mistawasis	63.1%	97.4%	44.4%
Muscowpetung	40.0%	92.9%	57.2%
Onion Lake	37.0%	65.2%	57.1%
Wadena	60.8%	96.4%	91.8%
Whitewood	74.2%	93.0%	83.6%
Kindersley	71.6%	85.3%	93.1%

Deer Fencing

In October 2007, SAF in collaboration with the Department of Highways fenced a 5 kilometer section of Highway 7, starting from the town of Harris in a southwest direction to manage wildlife collisions. An evaluation of the effectiveness of the fence 23 months following installation indicates that the fenced section saw a 40.7% decline in the frequency of wildlife crashes compared with reductions of 39.1% and 20.4% for the east and west unfenced sections, respectively. An economic analysis of associated claims costs indicated a savings of $59,526 per year over the entire stretch of highway from Rosetown to 10 kilometers east of the fenced section. Of the $59,526 savings identified for the entire highway segment, $32,943 could be attributed to the fenced area, representing 55% of the total savings. On a per kilometer basis, the fence was estimated to have saved $6,589 per kilometer per year in claims costs compared to $121 and $617 per kilometer for the west and east sections, respectively.

8.11.6 Observations on Traffic Safety

This Application includes a refinement to budgeting and evaluating Traffic Safety initiatives and programs. The SCOTS made 26 recommendations in this regard, of which 15 are included for 2014, although budget estimates are preliminary and could well change, perhaps materially. The more detailed Cost Benefit Analyses, supplied in confidence to the Consultants, appear to take a more pragmatic approach to program initiation and subsequent analysis. It remains difficult, however, to quantify and evaluate the direct benefits on any initiative, especially in the short term. It is not possible to accurately predict what would have transpired had certain initiatives not been implemented. Over the long term it is hoped that the ultimate objective of reduced claims costs and other societal benefits flowing from these initiatives will, at a minimum, be evaluated as indicated by year over year trends.

We note that in both 2012 and 2013, Traffic Safety Budgets have been overestimated by over 20%. While there are 20 reasons cited for these significant variances, the proposed budget for 2014 appears to be based on the 2013 budget, and seems to give little consideration to what has actually transpired in the prior years. SAF assumes that events will unfold in 2014 that will enable projects not implemented in 2013 to be implemented in 2014. We cannot dispute the merits of the initiatives, and also recognize the inherent difficulty in assembling a Traffic Safety budget that contains many unknowns and initiatives that are not entirely within the authority or control of SAF. This is further exacerbated by the fact that SAF is reliant on other partners in the development and implementation of Traffic Safety programs and initiatives, and must attempt to predict the readiness of these partners to proceed with the various initiatives. However, the variances are significant and we would recommend that in the future, SAF prepare a budget that carefully considers actual past experience and strikes a balance between conservatism and underestimation of the requirements to implement the various programs.

8.12 ISSUER BANK CHARGES

In 2006 SAF started allowing customers to pay for transactions with credit cards. SAF reimburses issuers for credit card charges. Bank charges in 2006 were approximately $1.6 million and have increased annually to a 2013 total of just over $4.8 million and are anticipated to be just under $5.8 million in 2014. The increase for 2014 is projected to be near $1.0 million

or approximately 19.3%. This growth in issuer bank fees is related to the increasing use of credit card by SAF customers, and most specifically related to the enhanced use of MySGI.

8.13 HTB APPEAL PROCESS AND OTHER COSTS

Appeal commission costs, which are funded by SAF, are approximately $1 million per year and include costs associated with the Automobile Injury Appeal Commission such as Board member salaries, administrative expenses, and legal fees. These costs are assigned to vehicle classes based on appeal claim costs for each class. Appeals are decided by the Highway Traffic Board (HTB), which is independent of SGI. The HTB budget for 2014 is about $1.1 million, an increase of nearly $80,000 or 7.7% from 2013.

SAF also provides several other customer products and services and charges an administration fee, prescribed by regulation, to assist in recovering some of the costs incurred. Products and services include driver testing, driver abstracts, driver licence & vehicle registration changes, and several others. Fees for these miscellaneous services have not been revised for at least the last 10 years, while costs have escalated and services offered have expanded. An internal review of all these regulated fees, conducted by SAF in 2013 revealed that the approximate 70 fees for different products/services charged are insufficient to cover costs incurred. In 2012, SAF collected approximately $31.1 million in fees while expending approximately $38.2 million, leaving a deficit of $7.2 million.

8.13.1 Observations on HTB Costs

HTB costs, net of business application fees to transport passengers for compensation, have increased from $879,300 in 2010 to an estimated $1,111,594 in 2014, while customer appeal revenues were $76,807 in 2010, with $64,075 estimated for 2014. A comparison to fees charged for similar services in Manitoba and British Columbia reveals that, by and large, Saskatchewan fees are not unreasonable, but obviously are not nearly adequate enough to cover HTB costs.

We recommend that the Panel urge SAF to review the fees charged for services rendered by the HTB and the fee structure for all of the other products and services it offers to its customers. The review should examine the fairness of providing services to specific customers at below cost, thus resulting in all other customers subsidizing those receiving these services. The amount of the shortfall is significant, and if amended to recover a greater portion of the costs, would mitigate otherwise required rate increases.

8.14 PREMIUM TAXES

Premium taxes continue to be collected as 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. In 2013, the premium taxes were $41.6 million, based on gross premiums of $830.7 million. Gross premiums are expected to increase to $862.9 million in 2014, with a resulting premium tax of $43.1 million. 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. The 4% levy was last increased from 3% in 2000, while the 1% levy has remained unchanged since 1979.

This tax is enshrined in legislation and is beyond the control of SAF. While amounts may vary, premium tax is generally imposed on Canada's other public insurers.

The following table indicates the actual Premium Taxes paid to the Province from 2007 to 2013 and estimated for 2014.

Premium Taxes (in $000's)								
	Actual	**Actual**	**Actual**	**Actual**	**Actual**	**Actual**	**Actual**	**Budget**
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Gross Premiums Written	$561,568	$612,743	$653,637	$711,277	$748,961	$785,680	$830,731	$862,866
Taxes @ 5%	$28,078	$30,637	$32,684	$35,564	$37,448	$39,284	$41,587	$43,143
Year over year increase	N/A	9.1%	6.7%	8.8%	5.3%	4.8%	5.9%	3.7%

It is noted here that SAF also collects and remits the following to the Saskatchewan Ministry of Finance: vehicle registration, driver's license, administration and the GRF's portion of financing fees; provincial sales tax, prorated vehicle tax and fuel tax; and Snowmobile trail fees. SAF does receive not receive commissions on vehicle registrations, driver license and other fees collected on behalf of the province but does receive commissions on prorated vehicle fuel taxes and provincial sales tax (the first round IR #105).

8.15 ISSUER FEES

After negotiations and the subsequent Issuer Accord Agreement with the Insurance Brokers Association of Saskatchewan, issuers 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 4.7% of total SAF costs in 2013 and are expected to fall to 4.4% in 2014. Issuer operation costs, for which there is no cost recovery, was reported to be almost $3.1 million in 2013, which is $7,748 per issuer (397 total issuers).

The Issuer Accord Agreement stipulates that existing commission rates and flat fees would not be subject to negotiation unless there was a substantive change in the nature of work associated with the transactions. This should bring certainty and stability to issuer fees on an annual basis, and the projections are consistent with the expected growth in the business.

Actual issuer fees for 2013 and forecasted fees for 2014 to 2018 are shown below:

Issuer Fees (in $000's)						
	Actual	Forecast				
Year Ended December 31	2013	2014	2015	2016	2017	2018
Premiums Written – Net	$824,513	$912,850	$1,004,428	$1,064,288	$1,127,712	$1,194,914
Total Expenses	$900,162	$977,828	$1,011,865	$1,109,806	$1,202,733	$1,279,785
Issuer Fees	$42,629	$43,281	$47,495	$50,320	$53,313	$56,484
% of Premiums Written - Net	**5.2%**	**4.7%**	**4.7%**	**4.7%**	**4.7%**	**4.7%**
% of Total Expenses	**4.7%**	**4.4%**	**4.7%**	**4.5%**	**4.4%**	**4.4%**

Projected issuer fees after 2013 range from 4.4% to 4.7% of total SAF operating costs, while remaining a constant 4.7% of net premiums written.

8.16 OTHER OM&A EXPENSES

Advertising is expected to increase by almost $87,000 or 16.3%, from $533,000 in 2013 to $620,000 in 2014. The major items included in the Advertising budget are promotions related to e-claim and MySGI, which are expected to increase the use of SAF's self-serve, online functionality and produce lower overall administration costs over the mid- to long-term.

Employee Training is expected to increase by almost $0.7 million or 38.5%, from $1.7 million in 2013 to $2.4 million in 2014. SAF reports that this increase is due to the timing of training programs deferred to 2014 combined with new customer communication and service training.

In addition to those OM&A category increases already described above, increases are also expected in 2014 for: Insurance by $21,000 or 5.2%; License Plates by $84,000 or 12.2%; Material & Supplies by $47,000 or 6.0%; Postage by $510,000 or 14.7%; and Tools & Equipment by $16,000 or 8.6%.

In addition to Data Processing, decreases from 2013 to 2014 were also seen in Drinking & Driving Awareness, Travel and Other Expenses. Drinking & Driving Awareness is expected to decrease by $19,000 or 0.7%. Travel is expected to decrease by $77,000 or 3.6% in 2014. Other Expenses is expected to decrease by almost $1.0 million or 68.5%.

9.0 COST ALLOCATION

SAF filed, on a confidential basis, the SGI Cost Allocation Methodology including the assignment and allocation of inter and intra common costs. The methodology for allocating costs between the SGI group of companies and within each company to their product lines remains unchanged from the previous Application.

The SGI group of companies consists of SGI CANADA, parent company for SGI CANADA Insurance Services Ltd., the Coachman Insurance Company, and the Insurance Company of Prince Edward Island. This group incurs well over $200 million in total costs annually. Total costs were about $215.9 million in 2013 and are expected to grow to $241.1 million in 2014. SAF accounts for around 65% of these costs.

The current cost allocation methodology was introduced in 2007. The first priority in allocating the costs is to ensure they are charged to the appropriate company. The second priority is to properly charge the costs within the company to its products. The purpose of allocating expenses to the companies and products is to accurately determine the total cost of each product and ensure the products are priced appropriately. More specifically, proper cost allocation assists SAF in monitoring its rates to ensure they are sufficient to cover anticipated claim costs and other expenses so that they can break even.

There are three steps in the cost allocation process: direct cost allocation; step down allocation of indirect costs; and remaining indirect cost allocation. Expenses are allocated each month according to cost allocation formulas (cost drivers). SGI allocates two types of expenses: administrative and loss adjustment. Administrative expenses (either direct or indirect) are expenditures 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. Approximately 70% of administrative expenses are direct costs of a specific company / product and are assigned directly to that company with a high degree of certainty. The remaining 30%, representing less than 5% of the annual combined premiums of the SGI group of companies, is the cost allocation focus for SGI.

Loss adjustment expenses are costs directly related to the evaluation, processing, and settlement of claims. This includes costs to operate claims centers, salaries and benefits for claims staff, travel and system costs. LAE are allocated to SGIC based on general claims adjustment time and to the SAF based on auto claims adjustment time. Once the LAE has been determined for SAF, a further allocation is made between damage, injury, tort, and pre-Personal Injury Protection Plan (pre-PIPP).

The cost allocation process is very detailed and considers year over year changing priorities, but within the existing methodology respecting cost driver factors. These factors are reviewed annually to ensure proper allocation of all costs for all departments. During the last quarter of every year, the cost drivers undergo a departmental review and cost allocation formulas are updated accordingly. Original and updated cost allocations are run in parallel allowing the Finance Department to analyze these on a department by department basis to ensure new allocations are reasonable and consistent with annual business priorities.

The following tables summarize the cost allocation results for 2011, 2012, and 2013, as well as those forecasted for 2014:

Overall Cost Allocation (in $000's)				
	2011	2012	2013	2014
Company	%	%	%	%
SAF	64.8	64.6	64.0	64.6
Other	35.2	35.4	36.0	35.4
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

SAF Cost Allocation (in $000's)								
	2011		2012		2013		2014	
Expense	$	%	$	%	$	%	$	%
Admin. Direct	26,260	21.2	25,237	19.3	24,374	17.7	29,357	18.9
Admin. Indirect	26,518	21.4	26,309	20.1	28,772	20.8	29,254	18.8
LAE	50,792	40.9	56,571	43.3	60,433	43.7	61,820	39.7
Traffic Safety	20,547	16.5	22,627	17.3	24,620	17.8	35,231	22.6
Total	**$124,117**	**100.0%**	**$130,744**	**100.0%**	**$138,199**	**100.0%**	**$155,662**	**100.0%**

9.1 OBSERVATIONS ON COST ALLOCATION

The cost allocation methodology remains unchanged from that used in the prior Application. Since 2011 costs either directly assigned or allocated to the various entities have increase by about $49.5 million, or 25.8%, while SAF's allocated costs have risen by $30.9 million, or 24.9%. Of the SAF amount, approximately $15 million is for increased Traffic Safety costs, all of which are required to be funded by SAF. LAE costs, reflective of increased claims allocated to SAF increased by just over $11.0 million. The balance of costs were related to Administration, either directly assigned or allocated in accordance with unchanged allocation formulae, which increased by $5.8 million, or 10.9% over the 3 years.

Costs allocated to SAF have remained at about 64% to 65% of total incurred costs since 2011. During this period, Traffic Safety costs, all of which are directly assigned to SAF, have significantly increased and are anticipated to account for 22.6% of all costs allocated. In 2011 Traffic Safety costs accounted for 16.5% of all SAF allocated costs.

We are of the view that the existing methodology is adequate and, with the continuous reviews undertaken to endure proper application of the cost formulae, ensures that no undue subsidization of any of the entities exists.

10.0 PROGRAM REVENUE

SAF net premium revenues are anticipated to increase by $88.4 million, from $824.5 million in 2013 to $912.9 million in 2014. This represents a 10.7% increase, which takes into account the 5.2% SAF proposed rate change (which is comprised of the 2.7% rate increase and 3.7% capital margin less the 1.23% RSR surcharge). As well, the increase in premiums is as a result of the impacts of vehicle drift and growth as well as the net surcharges and discounts from the Safe Driver Recognition and the Business Recognition programs. Thus, the increase in premium revenues is greater than what would be generated by the requested 5.2% overall increase alone.

SAF states that the overall growth trend over the past 10 years has been near 2.0% per year in the number of vehicles excluding Trailers, while changes in vehicle fleet mix has resulted in recent annual increases between 2.0% and 3.0% in premium revenues. The combined premium increase for mix and volume is projected to be 5.9% in 2014.

The Safe Driver Recognition program has provided over $815 million in discounts to qualifying drivers since its inception in 2002 to the end of 2013. Discounts for 2013 were $105.1 million and are estimated to be $118.5 million in 2014 and $130.0 million in 2015. This program also collects revenues from drivers who are in the penalty zone. The rating rules and discounts are governed by the Minister's Order and are unchanged from 2009. As such, they are to be considered a given factor for the Panel when analyzing the request for a rate increase. Drivers in the penalty zone are penalized according to a pre-determined scale (SDR malus). The surcharges for 2013 were $12.2 million and are projected to be $13.0 million in 2014 and $14.2 million in 2015.

The Business Recognition program has rewarded safe driving Saskatchewan businesses with discounts of up to 10% on their insurance fees. Since its inception in 2004 and up to the end of 2013, discounts provided to businesses have amounted to approximately $58 million. Discounts for 2013 were $9.0 million. SAF estimates that businesses will receive discounts of $9.7 million in 2014 and $10.3 million in 2015. As with the SDR program, the BR program is also to be considered as a given factor by the Panel in its review.

10.1 REINSURANCE CEDED PROGRAM

SAF continues to maintain two catastrophe excess of loss reinsurance programs which are designed to mitigate adverse RSR effects from catastrophic losses due to either severe weather events or multiple serious injuries caused by automobile collisions (auto physical damage and auto personal injury). Future expected ceded reinsurance premiums are projected by inflating current reinsurance contract premiums by 5% per year, but do not take into account increases resulting from adverse experiences to the programs. If there are losses the projections are adjusted. Due to recent catastrophic weather losses in Saskatchewan and the industry in general, reinsurance costs have increased even further. The reinsurance ceded premium for the two catastrophe programs was about $4.3 million for 2012/133 and is forecast to be about $7.3 million for 2013/14, an increase of approximately $3 million or 70%.

The auto physical damage catastrophe reinsurance program provides coverage for physical

damage in the amount of $100 million, excluding collision, upset, theft, fire, lightning, explosion, and road hazard glass. The $100 million was increased from $55 million in 2010. The coverage provided by this program is for a 12 month period, commencing May 1st of each year. Since 2005/06, this reinsurance program has had $5 million retention and an annual $5 million aggregate deductible. The primary reason for this is to prevent significant rate increases that result from consecutive high claim years. It is primarily used to provide protection for weather related events. Premiums paid are based on a flat premium and the cost of future premiums are influenced by claims experience, which are difficult to forecast. From 2002/03 to 2013/14, premiums paid for this program amounted to approximately $29.4 million, while claim recoveries amounted to approximately $59.6 million.

Annual premiums paid and claim recoveries made since 2002/03 are shown below:

Auto Physical Damage Catastrophe Reinsurance Program		
Treaty Term	**Premium Paid**	**Claim Recovery Made**
2002-2003	2,091,650	1,706,851
2003-2004	1,921,288	882,058
2004-2005	1,977,064	-
2005-2006	1,334,986	-
2006-2007	1,626,320	-
2007-2008	1,616,500	-
2008-2009	1,551,000	-
2009-2010	1,552,600	-
2010-2011	2,459,878	5,637,400
2011-2012	3,074,769	17,525,422
2012-2013	3,586,006	-
2013-2014	6,585,991	33,887,788

The auto personal injury catastrophe reinsurance program provides coverage of $30 million in excess of the $20 million dollar retention. This program was terminated in 2001 as a result of drastic premium increases in response to the 11 September 2001 terrorist event. In 2001 the annual premium for this program was $100,000. SAF's current program was re-instituted in 2005 and was adjusted to a $20 million retention from the previous $5 million retention in order to mitigate premium increases. To date there have been no claims made to this program since its inception. Premiums paid since the program was reinstituted in 2005 amount to almost $6.0 million in total. SAF anticipates that premiums should increase by the rate of inflation given the claims free trends of past years.

Annual premiums paid since 2005 are shown below:

Personal Auto Injury Insurance Excess of Loss Cover Reinsurance Program	
Treaty Term	**Premium Paid**
1 Jul 2001 - 30 Jun 2002	$100,000
15 Oct 2005 - 31 Mar 2007	$984,375*
1 Apr 2007 - 31 Mar 2008	$705,360
1 Apr 2008 - 31 Mar 2009	$700,000
1 Apr 2009 - 31 Mar 2010	$700,000
1 Apr 2010 - 31 Mar 2011	$700,000
1 Apr 2011 - 31 Mar 2012	$715,000
1 Apr 2012 - 31 Mar 2013	$725,000
1 Apr 2013 - 31 Mar 2014	$735,000
*This rate is for 17.5 months. The amount charged for 12 months would translate to $675,000.	

10.2 INVESTMENT INCOME

SAF's investment income flows from its $1.7 billion portfolio available for investment. Approximately $160 million of the portfolio comes from the Rate Stabilization Reserve. The remaining money is set aside to meet future liabilities, which are mostly claims related in the amount of $1.4 billion. These funds are also invested.

SAF uses any investment income gains to reduce rates charged to customers. Over the 10 years ended 31 December 2013, investment income has been equal to about 10.9% of premiums annually and has resulted in customer rates being lower than they would have otherwise been. This income is highly dependent on investment market returns, which is highly variable on an annual basis.

The Automobile Accident Insurance Act authorizes the types of investments in which SAF is permitted to invest, subject to the restrictions and limitations outlined in *The Insurance Companies Act* of Canada. In order to meet future claim obligations, legislation requires that a substantial amount be invested in fixed income investments.

The framework for the prudent investment and administration of SAF's investment portfolio is articulated in its Statement of Investment Policies and Goals. This is a comprehensive document that contains the details of permissible investments including asset mix parameters as well as specific quality, quantity, and rate of return standards for the portfolio. A major goal of the statement is to establish ongoing communication between SAF and its investment managers. The statement is open to review at any time, but must be reviewed and approved annually by SAF's Board of Directors.

Section 1 of the statement describes its purpose and goals as well as allowing authorities, the nature of the Auto Fund, liability characteristics, investment beliefs, investment philosophy and risk philosophy. Section 2 explains the asset mix policy. Section 3 outlines investment guidelines, stipulates permitted investments, details minimum quality and quantity guidelines, lists prior permissions required for specific investments, lists prohibited investments and stipulates securities lending guidelines. Section 4 details the various components related to the monitoring and control of the investment portfolio. This includes investment manager responsibilities, compliance reporting and performance management. It also addresses several

other topics in the area of control, including standards of professional conduct and causes for investment manager dismissal. Section 5 deals with administration and covers conflicts of interest, related party transactions, investment manager selection and monitoring, voting rights, valuation of investments not regularly traded, and the requirements for an annual review.

SAF's investment strategy consists of a Matching Portfolio (accounting for about 75% of SAF's total investment assets) for all fixed income investments, including mortgages, and a Return Seeking Portfolio for all equity, real estate and infrastructure investments. The Matching Portfolio matches asset cash flows with estimated liability payments between 0 and 20 years while the Return Seeking Portfolio backs all liabilities over 20 years.

SAF implemented changes in the Return Seeking Portfolio during 2012 and 2013. The changes were intended to reduce volatility and improve the risk-return relationship. This included the addition of global small capitalization equities as of April 2012 and infrastructure as of November 2013. Following poor relative performance and personnel changes with the Canadian Equity Growth mandate, the Canadian equity manager was changed in July 2013. Two new managers, a growth manager and a value manager, were engaged. The combination of the two new managers showed enhanced returns and better downside protection. The resulting increased cost to SAF for 2014, relative to 2013, is from $150,000 to $750,000. For 2014 the fees represent approximately 0.3% of the assets under Management. The following table illustrates the asset investment allocation percentage for the Return Seeking portfolio.

Return Seeking Portfolio Composition		
Asset Class	**Long-Term Target**	**Current Target**
Canadian Equities	28.0%	38.0%
U.S. Equities	15.5%	15.5%
Non-North American Equities	13.0%	13.0%
Global Small Cap Equities	13.0%	13.0%
Real Estate	20.5%	20.5%
Infrastructure	10.0%	0.0%

SAF uses professional investment managers who have been successful in providing above average returns. The investment manager's performance is measured against similar size portfolios for benchmarking purposes.

Investment earnings are derived from the cash flow of fixed assets and from realized and unrealized gains on investments. Using asset class return forecasts prepared as at 31 August 2013, the following table summarizes the 2013 to 2016 expected returns for SAF's investment portfolio:

SAF Return Forecast				
	2013	**2014**	**2015**	**2016**
Expected Return (Net of Fees)	2.77%	2.89%	1.56%	3.40%

In response to a request SAF provided information related to the size of the investment portfolio,

budgeted and actual investment rates of return and income, from 2008 to 2013, and an expected rate of return for 2014, shown in the following table.

Budgeted and Actual Investment Income (in $000's)						
Year	**Portfolio - $**	**Forecast- $**	**Actual - $**	**Variance-$**	**Forecast Return**	**Actual Return**
2008	$ 1,100,566	$ 62,733	$ 29,405	($ 33,328)	6.1%	(4.9%)
2009	$ 1,225,422	$ 50,603	$ 31,050	($ 19,553)	4.5%	10.5%
2010	$ 1,384,751	$ 42,471	$ 99,973	$ 57,502	3.7%	9.7%
2011	$ 1,432,555	$ 26,610	$ 51,668	$ 25,058	2.0%	3.9%
2012	$ 1,539,674	$ 44,274	$74,838	$30,564	3.1%	5.2%
2013	$ 1,669,446	$44,087	$ 86,713	$ 42,626	2.9%	5.7%
2014					2.9%	
Total		**$ 270,778**	**$ 373,647**	**$ 102,869**		

10.2.1 Observations on Investment Income

We are satisfied that SAF has adhered to the SAF Board approved Investment Policy that dictates the respective proportions of type of investment for each of the Matching and Return Seeking Portfolios. We are of the view that the fees for the new investment manager, although considerably higher than that previously paid (which had not been recently updated and reflected a long standing relationship with SAF), reflect fees in current market conditions.

Somewhat disconcerting is that since 2010 investment income has been considerably underestimated, at times actual being more than double that estimated. SAF provided a number of scenarios calculating the impacts on RSR balances and MCT ratios, one of which related to the impacts of an increase in investment income of 10%.

The 2014 Application which was filed in February of 2014, showed projected 2013 investment income of $77.2 million and a 2014 estimate of $46.8 million. The 2013 Annual Report was released in April 2014 and showed 2013 investment income of $86.7 million, as reported by SAF in the response to the information request and depicted in the above table. A 10% increase in investment income would increase the RSR from the originally estimated 2014 balance of $161.7 million to $168.1 million, and the investment income would increase from $46.8 million to $53.1 million. As well under this scenario the 2014 MCT would increase to 60% from 57%. The impact on the 2014 MCT would further increase due to the greater than anticipated 2013 investment earnings, and considerably more, if the actual 2014 investment income were again to be 30% higher than estimated.

We understand that SAF uses Conference Board of Canada forecasts for economic indicators, but more research indicates that interest rates are no longer expected to increase as quickly as earlier forecast. The Panel may wish to provide SAF with the opportunity to update its forecasts in this regard and provide Application amendments during the course of a review, as is done by the other Crown Corporations.

10.3 OTHER INCOME

The table below lists the elements of Other Income (Short Term Registration Income, Auto Pay Income, and Salvage Net Profit) from 2013 to 2018:

Other Income (in $000's)						
	Actual	Forecast				
Description	2013	2014	2015	2016	2017	2018
Short Term Registration Income	10,063	11,109	11,499	12,183	12,907	13,675
Auto Pay Income	15,024	16,521	17,998	19,069	20,203	21,404
Salvage Net Profit	13,662	16,919	18,222	19,625	21,136	22,764
Total	**$38,749**	**$44,549**	**$47,719**	**$50,877**	**$54,246**	**$57,843**

Short Term Registration Income consists of charges for administration and lost investment income for short-term financing. Increases in income from short-term financing are a reflection of increased customer usage and higher vehicle premiums. Short-term financing income increased by approximately $243,000 from 2012 to 2013. For 2014, the income generated from short-term financing is expected to be $11.1 million, which is a 10.4% increase from 2013.

Auto Pay Income consists of charges for administration and lost investment income for monthly payment financing. Increases in income from the Auto Pay program are a reflection of increased customer usage and higher vehicle premiums. Income from Auto Pay financing increased by approximately $967,000 from 2012 to 2013. For 2014, the expected income is $16.5 million, which is a 10.0% increase from 2013.

Salvage net profit results from salvage operations, which consists of salvage recovery from total loss vehicles through sales of whole vehicles and vehicle parts. The net profit from salvage operations increased by approximately $49,000 from 2012 to 2013. For 2014, salvage net profit is budgeted to be $16.9 million, which is a 23.8% increase from 2013.

The following table details the results and budgets for salvage operations.

	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Budget
Sales:						
Whole Vehicles	$ 15,782	$ 18,117	$ 22,695	$ 24,744	$ 26,686	$ 32,573
Parts	10,747	12,020	12,450	12,848	13,356	14,135
Other	2,434	2,809	3,292	3,353	2,459	2,180
Total Sales	$ 28,963	$ 32,946	$ 38,437	$ 40,845	$ 42,501	$ 48,888
Costs:						
Whole Vehicles	$ 6,624	$ 8,286	$ 10,267	$ 11,316	$ 12,072	$ 15,017
Parts	2,308	1,893	2,166	2,272	2,569	2,180
Other	1,186	872	1,087	1,002	1,490	1,286
Indirect	7,258	7,409	8,325	8,241	8,148	8,277
Total Costs	$ 17,376	$ 18,460	$ 21,845	$ 22,831	$ 24,279	$ 27,287
Admin Expense	4,133	4,662	4,337	4,502	4,560	4,682
Total Expense	21,509	23,122	26,182	27,333	28,839	31,969
Net Income	**$ 7,454**	**$ 9,824**	**$ 12,255**	**$ 13,612**	**$ 13,662**	**$ 16,919**

10.3.1 Observations on Salvage Income

The 2014 budget for salvage operations was set in May 2013. At that time SAF was expecting a continued upward trend in sales and prices, however budget targets were not met in 2013. Since the 2014 budget was built around the 2013 budget sales and price trend lines, it is anticipated that the salvage budget of $16.9 million for 2014 will not be achieved.

11.0 FIVE YEAR FINANCIAL FORECAST

The following table shows actual financial information for 2013 as well as forecasted financial information for 2014 to 2018 with the proposed 2.7% rate increase and 3.7% capital margin less the 1.23% RSR surcharge effective 31 August 2014:

SAF Five Year Financial Forecast from 2014 to 2018 (in $000's) (Includes 2.7% Rate Increase & 3.7% Capital Margin less 1.23% RSR Surcharge)						
	Actual	Forecast				
Year Ended December 31	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Net Premiums Written before Discounts	926,436	1,028,043	1,130,507	1,197,865	1,269,234	1,344,853
Safe Driver Recognition Bonus	(105,133)	(118,454)	(129,988)	(137,718)	(145,909)	(154,587)
Safe Driver Recognition Malus	12,163	12,984	14,249	15,096	15,994	16,945
Business Recognition Bonus	(8,953)	(9,723)	(10,340)	(10,955)	(11,607)	(12,297)
Premiums Written - Net	**$824,513**	**$912,850**	**$1,004,428**	**$1,064,288**	**$1,127,712**	**$1,194,914**
Premiums Earned	**$806,965**	**$872,986**	**$967,115**	**$1,036,749**	**$1,098,617**	**$1,164,088**
Claims Incurred	656,928	726,706	740,488	818,706	892,779	953,898
Loss Adjusting Expense	82,175	70,350	75,878	81,758	86,810	92,798
Premium Taxes	40,664	43,649	48,356	51,837	54,931	58,204
Issuer Fees	42,629	43,281	47,495	50,320	53,313	56,484
Administrative Expenses	53,146	58,611	59,712	62,331	64,909	67,410
Traffic Safety Programs	24,620	35,231	39,936	44,854	49,991	50,991
Total Expenses	**$900,162**	**$977,828**	**$1,011,865**	**$1,109,806**	**$1,202,733**	**$1,279,785**
Underwriting Loss	**$(93,197)**	**$(104,842)**	**$(44,750)**	**$(73,057)**	**$(104,116)**	**$(115,697)**
Investment Earnings	86,713	46,787	26,966	61,843	95,623	107,594
Short Term Registration Income	10,063	11,109	11,499	12,183	12,907	13,675
Auto Pay Income	15,024	16,521	17,998	19,069	20,203	21,404
Salvage Net Profit	13,662	16,919	18,222	19,625	21,136	22,764
Increase (Decrease) to RSR	**$32,265**	**$(13,506)**	**$29,935**	**$39,663**	**$45,753**	**$49,740**
RDR	3,427	1,540	-	-	-	-
RSR Year End Balance	**$162,814**	**$150,848**	**$180,783**	**$220,446**	**$266,199**	**$315,939**
MCT Year End Ratio	**58%**	**57%**	**65%**	**73%**	**81%**	**89%**

The following table shows the variances between the actual and projected financials for 2013.

2013 Actual & Projected Financial Variances (in $000's)				
Year Ended December 31	**Actual**	**Projected**	**$ Variance**	**% Variance**
Net Premiums Written before Discounts	938,599	943,395	(4,796)	-0.5%
Safe Driver Discounts	(105,133)	(107,603)	2,470	-2.3%
Business Recognition Discounts	(8,953)	(8,711)	(242)	2.7%
Premiums Written - Net	**$824,513**	**$827,081**	**$(2,568)**	**-0.3%**
Premiums Earned	**$806,965**	**$804,111**	**$2,854**	**0.4%**
Claims Incurred	739,103	716,987	22,116	3.0%
Premium Taxes	40,664	40,206	458	1.1%
Issuer Fees	42,629	39,316	3,313	7.8%
Administrative Expenses	53,146	52,588	558	1.0%
Traffic Safety Programs	24,620	28,236	(3,616)	-14.7%
Total Expenses	**$900,162**	**$877,333**	**$22,829**	**2.5%**
Underwriting Loss	**$(93,197)**	**$(73,222)**	**$(19,975)**	**21.4%**
Investment Earnings	86,713	77,246	9,467	10.9%
Other Income	38,749	39,140	(391)	-1.0%
Increase (Decrease) to RSR	**$32,265**	**$43,164**	**$(10,899)**	**-33.8%**
RDR	3,427	3,447	(20)	-0.6%
RSR Year End Balance	**$162,814**	**$173,733**	**$(10,919)**	**-6.7%**
MCT Year End Ratio	**58%**	**66%**		**-8%**

In 2013, the variances between the actual and projected financials ranged from -2.3% to 3.0%, with the exception of Issuer Fees, Traffic Safety programs and Investment Earnings. The $3.3 million or 7.8% variance in Issuer Fees is that the 2013 actuals reflect a premium deficiency of $1.8 million which was not included in the budget. The reason for the Traffic Safety programs variance of -$3.6 million or -14.7% is that Traffic Safety expenditures were lower than projected primarily due to timing of programs and lower advertising costs.

The reason for the $9.5 million or 10.9% variance in Investment Earnings is that the earnings reflect strong returns for equity investments in 2013.

12.0 PERFORMANCE MANAGEMENT AND MEASURES

A long-term Strategic Plan for 2011-2015 was approved in 2010 by the Board of Directors in a manner that would align it with the Balanced Scorecard. The Strategic Plan identified key areas of focus, around which the scorecard was structured. The drawback of closely aligning the scorecard to the Strategic Plan was that it required the scorecard to be changed every year, sometimes substantially.

Based on a consultant's review of the Strategic Plan in 2012, a decision was made to return to a classic Balanced Scorecard structure with measures that give clear visibility into overall company performance at a corporate level. Corporate goals are intended to show the end state SAF plans to reach by identifying specific numerical goals to achieve and years in which these are to be achieved. These "stretch" targets are set five years out and are intended to be achievable while still pushing the company to excel. Although new targets have been set this year, the performance indicators remain unchanged from last year. Essentially the 2014 Balanced Scorecard, which was filed in confidence, is the same as the 2013 Balanced Scorecard.

The 2014 SAF Strategic Plan is incorporated in the 2014 Performance Management Plan, also filed in confidence. The 2014 Strategic Plan is focussed on three critical priorities: evolving to a strongly customer-centric business model; ensuring financial sustainability; and ensuring staff culture supports the priorities.

The major initiatives supporting the customer centricity priority are: build customer centric framework; one view of the customer; customer analysis; build cross channel collaboration; and build self-serve capabilities.

The major initiatives supporting the financial stability priority are: Auto Fund rate program; Traffic Safety review recommendation implementation; Motorcycle review recommendation implementation; injury coverage review; and focus on enhancements to efficiency.

The major initiatives supporting the staff / culture priority are: evolving culture; organizational structure; resource alignment; and collective bargaining.

12.1 WARD GROUP STUDY

In 2011, SAF first retained the services of the Ward Group to conduct a study related to the benchmarking of SAF’s operation against the results of a peer group of insurance companies. As part of this Application, SAF filed in confidence the most recent Ward Group report from 2013.

The benchmarking framework analyzed 27 core functional areas for property-casualty companies in the most recent report (compared to 31 in the last report). These core functional areas were grouped into 5 categories (compared to 7 in the last report). The 5 categories were: Acquisition; Personal Lines; Commercial Lines; Loss Adjustment; and Corporate Support.

SAF's performance was once again rated according to 12 key performance metrics. In the most

recent report, SAF continued to not rate well on the Personal Lines Loss Ratio, Personal Lines Retention Ratio, Commercial Lines Retention Ratio, Net Premiums Written to Surplus Ratio, and Return on Total Revenue. SAF's not-for-profit and monopoly status contributed to these unfavourable ratings. As with the last report, SAF was once again rated favourably on measures related to gross expenses as a percentage of gross premiums written, Commercial Lines Loss Ratio, net paid LAE as a percentage of net premiums earned, and Staff to Management Ratio. Unlike the last report, SAF was rated favourably this time on net investment yield.

As with the last report, an additional assessment was done again that examined the efficiency of 26 functions by comparing headcount and expenses to premium. SAF results were then compared to the benchmark group averages, which were based upon the normal distribution of performance within 3 standard deviations of the mean. Of the 26 functions examined, Claims Reporting and Support, Adjusting and Appraising, Human Resources, and Occupancy were still above the benchmark group averages for both headcount and expense on the Operational Heat Index chart. SAF's not-for-profit status and classification differences impact these unfavourable ratings. Other factors having an impact are use of in-house staff, unionization, and geographic area. Most other functions were significantly below the average for either headcount or expense or for both, indicating operational efficiency.

13.0 EFFICIENCY AND EFFECTIVENESS OF OPERATION

As part of this Application's Minimum Filing Requirements, SAF provided information related to savings from productivity and efficiency initiatives implemented in 2013. A list of those initiatives including savings amounts can be found in the table below. In summary, the 2013 initiatives had actual "hard" dollar savings of almost $290,000 in 2013 along with projected savings, without inflation factored in, of just over $260,000 per year from 2014 to 2018. It is noted that several other productivity and efficiency initiatives were implemented in 2013 that resulted in "soft" savings (i.e. hours saved, improved customer service, etc.) which are not listed in the table below.

Initiative / Savings Area	2013	2014	2015	2016	2017	2018
New West Partnership / Salaries	$1,400	$2,100	$2,100	$2,100	$2,100	$2,100
No Show Policy / Admin Fee Revenue	$64,000	$77,000	$77,000	$77,000	$77,000	$77,000
Eliminate Sat Svce Scheduling / Salaries	$200	$2,400	$2,400	$2,400	$2,400	$2,400
Int Build of Test Drive / Special Svce Exp	$85,000					
Veh Renew Consolid / Postage & Supplies	$37,500	$75,000	$75,000	$75,000	$75,000	$75,000
New Paper / Supplies	$1,840	$5,257	$5,257	$5,257	$5,257	$5,257
Ap Support Model Review / Salaries & OT	$100,000	$100,000	$100,000	$100,000	$100,000	$100,000
Total	**$289,940**	**$261,757**	**$261,757**	**$261,757**	**$261,757**	**$261,757**

13.1 OPERATIONAL EFFICIENCY GAINS

The Auto Fund Redevelopment Project (AFRP) was commenced in 2005 and implementation was completed in 2011, at a total cost of approximately $36 million which was funded by the RSR. The remaining Redevelopment Reserve payment to the RSR is projected to be just over $1.5 million in 2014, after which the Redevelopment Reserve will be fully repaid to the RSR.

The AFRP system allowed SAF to integrate all customer activities into a single system and provide web-based applications, which are also used for law enforcement and driver examinations. This system included the MySGI application, the Vehicle Inspection Station Management System, scheduling for driver licensing examinations, and the introduction of mobile issuing services. The single system integration of these functions supports real time processing for transactions as the information is recorded and logged immediately.

This system now provides customers with more choices and ease of access to more readily available information. In addition to enhanced customer service, the new system has reduced its costs and improved SAF's position respecting the provisioning of its products in the future.

13.1.1 Observations on Operational Efficiency Gains

The above estimated efficiencies are direct in that they are able to be tracked. There are other efficiencies that are considered to be "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.

As noted from the foregoing table, no new operational savings are projected into years 2015-2018. The Panel may wish to challenge or urge the corporation to stretch their efforts or operational targets in this regard.

Finally it also needs to be recognized that SAF is not like the other crown corporations the Panel examines in that its service delivery requirements are not built around large capital infrastructures which require constant operational and maintenance commitments.

14.0 SENSITIVITY ANALYSIS

In response to the first round IR #126, SAF assessed the impact of eight positive scenarios and eight negative scenarios on the overall rate requirement, RSR levels and MCT ratios for 2014 to 2018. 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 sixteen scenarios (eight positive and eight negative) and specifically looks at the financial impact they each would have on 2014, which includes the proposed rate change of 5.2% and assumes all else to be equal.

Sensitivity Analysis on the 2014 Proposed Rate Change of 5.2% (Comprised of 2.7% Rate Increase & 3.7% Capital Margin less 1.23% RSR Surcharge)				
Scenario (in $000's)	**Net Premiums Earned**	**Total Claims & Expenses**	**Year End RSR Balance**	**MCT Ratio**
2013 Forecast	$804,111	$877,333	$173,733	66%
2014 Forecast	$872,986	$977,828	$161,747	57%
Positive (Favorable) Scenarios & Impact				
1) Claims Incurred Cost - 10% Decrease	872,986	899,913	239,662	84%
2) Vehicle Drift - 0.5% Increase	875,556	978,168	164,111	58%
3) Vehicle Volume - 0.5% Decrease	875,543	980,544	161,721	57%
4) Investment Income - 10% Increase	872,986	977,828	168,102	60%
5) LAE - 10% Decrease	872,986	970,793	168,782	60%
6) Administrative Expense - 10% Decrease	872,986	971,967	167,608	60%
7) Traffic Safety Cost - 10% Decrease	872,986	974,305	165,270	59%
8) Other Income - 10% Increase	872,986	977,828	166,202	59%
Negative (Adverse) Scenarios & Impact				
1) Claims Incurred Cost - 10% Increase	872,986	1,055,743	83,832	30%
2) Vehicle Drift - 0.5% Decrease	870,417	977,489	159,382	57%
3) Vehicle Volume - 0.5% Increase	870,430	975,111	161,774	58%
4) Investment Income - 10% Decrease	872,986	977,828	155,392	55%
5) LAE - 10% Increase	872,986	984,863	154,712	55%
6) Administrative Expense - 10% Increase	872,986	983,689	155,886	55%
7) Traffic Safety Cost - 10% Increase	872,986	981,351	158,224	56%
8) Other Income - 10% Decrease	872,986	977,828	157,292	56%

Although not shown in the above table, it is noted that investment income is affected in all sixteen scenarios from 2015 and on as the size of the RSR is changed in each scenario. In regards to the above table, it should be noted that the following scenarios have other specific impacts in 2014, which are as follows:

a) Claims Incurred Cost increase and decrease by 10% (excluding the discounting impact of the change in discount rates since they are offset by changes in bond gains/losses). The loss adjusting expense, which is proportional to the claims incurred cost, is also increased or decreased by 10%. Future claims incurred costs are impacted only through changes to the size of the claims reserve PfAD and the impact of discounting.

b) Vehicle Drift increase and decrease by 0.5%. Issuer Fees, Premium Taxes and Other Income are also affected as they are proportional to premiums written/earned. Future

year premiums are affected as well since each year's premium is based on changes from the premium of the year before.

c) Vehicle Volume increase and decrease by 0.5%. Premiums, losses and all expense amounts are also affected as they are proportional to either premiums or losses. Future years are affected as well as a larger or smaller number of vehicles will continue to be insured beyond 2014.

d) Investment Income increase and decrease by 10%. Bond gains/losses are excluded since they are offset by changes in the discounting impact of changes in discount rates.

In response to an information request, SAF provided their rough estimation of the ranking relative likelihood of the various scenarios from most to least likely 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

All of the remaining four scenarios are considered to be approximately equally likely and less likely than the above four described. As well SAF provided their view of areas where there could be significant correlations between the various scenarios. As an example, a 10% change in investment income would be influence, but only marginally by other changes in LAE, Administration expenses, Traffic Safety costs, and other income. Traffic Safety costs would not be influenced by any changes to the other scenarios

14.1 OBSERVATIONS ON SENSITIVITY ANALYSIS

Claims incurred variances of 10% would have the most dramatic impact on the RSR balances and MCT ratios, and are influenced to some degree by all other scenarios. In and of itself, a 10% decrease in claims incurred would result in an increase of the RSR of approximately $78.0 million, from $161.7 million to $239.7 million, and a resulting MCT ratio of 80%, up from 57%. Alternatively, a 10% increase in claims incurred would erode the RSR to a level of $83.8 million and a resulting MCT ratio of 30%. SAF considers this to be one of the least likely scenarios, although some variance will occur from estimates, be it up or down.

Of all scenarios analysed, changes in investment income, as discussed in Section 10 of this report, are considered by SAF to be the most likely to occur. However, the impact of a 10% increase in investment income would increase the RSR balance by about $7.0 million and the MCT ratio would increase from 57% to 60%, while a 10% decrease would result in a $6.5 million decrease in the RSR balance and a decrease in the MCT ratio from 57% to 55%.

Based on a 2013 investment portfolio of $1.67 billion, SAF had budgeted for an overall return of $44.1 million but actually earned $86.7 million. The budgeted overall rate of return was 2.9%

and the earnings actually produced a yield of 5.7%. The budgeted variance was related primarily to the fact that expected interest rate increases did not materialize (similar to the prior year's expectations). While this represents a variance of almost 100% (double) in investment earnings, it only represents an increase of about 2.5% based on the total amounts invested.

15.0 PUBLIC PRESENTATIONS

15.1 PUBLIC MEETINGS

Public meetings occurred in Regina on 7 April 2014 and in Saskatoon on 9 April 2014. Each meeting started with an introduction by the SRRP including a description of their role in the review of the 2014 SAF Application. As noted at the public meetings, 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 2014 Application. A summary of SAF's formal presentation is provided in Section 15.2.

Presentations were also made by private citizens at each of the public meetings as was a formal presentation and proposal submission from Riders Against Government Exploitation (RAGE) on 7 April 2014 in Regina. A summary of the RAGE presentation / proposal is provided in Section 15.3 and SAF's response to it is provided in Section 15.4.

In addition to the formal presentations made at the public meetings, questions were asked, concerns were expressed and comments were made by the public about the 2014 SAF Application. Much of the focus at the meetings was on Motorcycles. The prevailing opinion was that another Motorcycle rate increase was unacceptable, excessive, unaffordable and that should be denied. Many felt that more attention should be given to correcting the problem facing Motorcycles through more and better Traffic Safety initiatives instead of continuing to raise rates. A predominant theme at the meetings was that good drivers were not being sufficiently rewarded while bad drivers were not being penalized appropriately. More specifically, vehicles were being targeted instead of the bad drivers.

There were many other topics discussed at the public meetings, some of which included the following:

- Apply stiffer fines and penalties to bad drivers;
- Provide better and/or mandatory education and training for all drivers;
- Focus more on Motorcycle awareness;
- Step up Traffic Safety enforcement with a focus on distracted drivers;
- Improve accident reporting and how fault is determined / assigned;
- Actual accidents examples and how they were dealt with;
- Offer optional benefits;
- SAF's monopoly position and its impact;
- Concerns over the rate review process and results;
- Review and correct how Motorcycles are classified.

15.2 2014 AUTO FUND APPLICATION PUBLIC PRESENTATION

SAF's public presentation on the 2014 Auto Fund Application was broken down into the following two parts: (1) Auto Fund & Financial Overview and (2) Auto Fund Rate Program Overview.

The (1) Auto Fund & Financial Overview began with a review of SGI's corporate structure and SAF's mandate, which was to:

- provide universal, fair and affordable automobile insurance;
- operate as a public fund for Saskatchewan motorists;
- be self-sustaining; and
- operate on a break even basis (not as a revenue generator for the government).

Current initiatives were then discussed, which included: implementation of Traffic Safety and Motorcycle Review Committee recommendations; injury coverage review; Taxi consultation; SDR program review; and BR program review.

A review of SAF's financial performance from 2009 to 2013 was provided. A breakdown of SAF total costs was also provided showing that claim costs represented 82.1% of total costs, administrative expenses were 5.9%, issuer fees were 4.7%, premium taxes were 4.5% and Traffic Safety programs were 2.7%.

The (2) Auto Fund Rate Program Overview advised of the overall net revenue increase of 5.2% effective 31 August 2014. The increase is comprised of a 2.7% overall rate increase and a 3.7% capital amount which replaces the 1.23% RSR surcharge. As a result of the revenue increase and rebalancing:

- 84% of Saskatchewan vehicles will see increases with an average of $49 annually;
- 16% of Saskatchewan vehicles will see decreases with an average of $12 annually; and
- 3,000 Saskatchewan vehicles will see no change.

The explanation for the 2.7% overall rate increase is that it is mainly due to the auto body labour rate increase. The explanation for the 3.7% capital amount is that it will help replenish the RSR. Other topics that were covered in the presentation included rate rebalancing, rate capping, the financial impact of bad driving incidents and the different treatment for Motorcycle rate increases.

In summary, SAF reviewed the 5.2% overall net revenue increase, the impact the increase would have on Saskatchewan vehicles and SAF's commitment to low rates.

15.3 RAGE PUBLIC PRESENTATION / PROPOSAL

Riders Against Government Exploitation presented and submitted their 2014 Rate Action Counter Proposal on 7 April 2014. The proposal stated that strong public policy should shape public behaviour. The following recommendations were then made by RAGE:

- Reduce high-risk drivers behaviour;
- Target revenue requirement for accidents, injury and death appropriately;
- Eliminate chronic high-risk drivers;
- Enhance vehicular safety;
- Reduce human and vehicular costs associated with high-risk drivers behaviour;

- Reduce the requirement for general rate increases year after year;
- Personal insurance premiums paid by all drivers one time;
- A-La-Carte insurance for those not eligible for wage replacement coverage to opt out;
- Adhere to philosophy of the Auto Fund;
- Reject any 2014 rate proposal increase;
- Rebut SAF's rationale and proposed 2014 rate increase;
- Expose the flaws in SAF's same old - same old business plan;
- Provide an alternative to escalating costs related to accidents, injury and fatalities; and
- Demonstrate a reasonable responsible revenue stream supporting the Auto Fund.

The proposal noted that SAF indicated Auto Fund claims and expenses are expected to outpace growth in premiums and investments. RAGE then commented on several areas of the Auto Fund including challenges, escalating costs, philosophy, business practices, and ineffective business policies.

The Traffic Accident Information Systems Report, including trends and driver factors, was referenced in the proposal. RAGE suggested a driver improvement program for high-risk drivers be introduced instead of SAF's current approach of applying general vehicle rate increases as well as targeted vehicle rate increases.

The RAGE rebuttal to SAF's 2014 Rate Proposal included the following:

- Hold high-risk drivers fiscally responsible;
- Cease general rate increase tactics to cross subsidize high-risk drivers;
- Place financial demerits on high-risk drivers license;
- Impose financial demerits on driver's license for minimum three year period;
- Increase existing minimum demerit rates from $25 to $250;
- Implement more stringent license suspension policy;
- Implement demerit policy to include duration of suspension;
- Renew and enhance driving criminal code policy; and
- Migrate personal insurance to driver's license.

High-risk driver treatment information from British Columbia and Manitoba was referenced in the proposal as was incidents and convictions of high-risk drivers and potential high-risk behaviour revenues. RAGE concluded its presentation by reiterating many of its recommendations noted above and by asking the SRRP to reject SAF's 2014 Rate Proposal and recommend:

- Changes to get back to the philosophy of the Auto Fund - all drivers are treated equally unless their driving record shows they are a greater risk for causing a collision;

- Roll rates back to pre-2012 with no rate increases to Motorcycles until the results of the implemented changes are known; and

- All personal insurance to be paid for one time based on personal driving records and vehicles driven.

15.4 SAF RESPONSE TO RAGE

On 8 May 2014, SAF provided a formal written response to the RAGE presentation / proposal summarized in Section 16.3. Although SAF and RAGE agreed on a number of issues, there were still several differences of opinion. SAF's position is summarized below:

- SAF agreed that more needs to be done to reduce collisions, which is why the Traffic Safety Committee was established. As a result, numerous Traffic Safety initiatives are being implemented to better address distracted driving, impaired driving and speeding.

- SAF endeavors to rehabilitate high-risk drivers through the Auto Fund's Driver Improvement Program, which monitors high-risk drivers and imposes a progressive schedule of sanctions from warning letters up to and including suspensions.

- SAF attempts to balance getting tough on bad drivers with making penalties too costly where people will drive uninsured or unlicensed, which would place an even larger burden on both the insurance system and other social programs.

- In order to operate on a breakeven basis and ensure there is enough capital available to pay all claim obligations, the 2014 rate proposal is required. Otherwise the Auto Fund would operate at a loss and much larger rate increases would be required in the future.

- The Auto Fund has not raised rates year after year. SAF noted that the CPI has risen by 77% compared to compounded rate increases of 25% in the Auto Fund during the same period of time. The SDR and BR programs were also implemented during that period.

- The primary reason for the proposed rate increase is due to the negotiated increase in auto body labour rates as well as the need to increase the RSR capital amount. It has been necessary in the past to increase rates to keep up with increasing costs.

- SAF does adhere to the philosophy of treating drivers equally unless their driving record shows them to be a higher risk. The Auto Fund system strikes a balance between fairness by rating based on the risk a driver represents and not discriminating.

- RAGE's idea to charge injury insurance on individual driver licences would result in everyone paying for insurance regardless of accident injury risk or whether they even have a vehicle. No insurance schemes anywhere in North America follow such a model.

- Although some vehicle owners pay for benefits they can never collect, the accessibility to coverage must be looked at holistically.

- In regards to benefits available through other plans, any other disability coverage will not pay anything until the Auto Fund benefits are exhausted. The premiums for their disability insurance take this into account, so the customer is not paying twice.

- A-la-carte insurance is a much broader issue than for just the Motorcycle class. The concept will be looked at as part of the injury coverage review.

- Most vehicle owners will not see an actual rate increase of 2.7%. Due to rate rebalancing, some will see rate decreases and many others will see rate increases different than the overall rate increase of 2.7%.

- In order to break even, the Auto Fund needs to collect an additional $24.5 million in premiums. It is not an acceptable approach to or fiscally responsible for SAF to charge this amount to the bad drivers only, nor would it be sustainable.

- All vehicles (including Motorcycles, Taxis and Trailers) are within the Auto Fund shared risk pool. This process is similar to that in other jurisdictions. Costs are shared within groups, which SAF feels is a fair way to ensure each group pays its own costs.

- Rate changes are required to financially break even. They are not meant to reduce the number of collisions, injuries or fatalities. The Auto Fund's Traffic Safety programs address those issues.

- A review of the SDR program is currently underway. Financial penalties charged to high-risk drivers are being analyzed. A balance needs to be achieved between costs, suspensions and the ability for customers to insure their vehicle if they are driving.

- The Auto Fund has no control over the Criminal Code, which is a federal statute. However, SAF does impose an automatic $2,500 financial penalty through the SDR program on all driving related Criminal Code offences that result in injury or death.

- Customers that have been convicted of a driving infraction are fined and required to pay their fine to the Ministry of Justice. Depending on the conviction, their SDR rating may be affected.

As part of its 8 May 2014 response to the RAGE presentation / proposal, SAF also responded to comments arising from the online petition circulated by RAGE. Those comments and responses are not included in this summary.

16.0 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 2003 to 2013.

Year	Total Drivers	Tort Drivers	%	No Fault Drivers	%
2003	672,173	4,007	0.59	668,166	99.41
2004	676,164	4,668	0.69	671,496	99.31
2005	679,432	4,993	0.73	674,439	99.27
2006	681,180	5,061	0.74	676,119	99.26
2007	692,035	5,102	0.74	686,933	99.26
2008	704,000	5,181	0.74	698,819	99.26
2009	711,021	5,183	0.73	705,838	99.27
2010	721,062	5,184	0.72	715,878	99.28
2011	735,527	5,203	0.71	730,324	99.29
2012	761,859	5,240	0.69	756,619	99.31
2013	778,221	4,980	0.64	773,241	99.36

Premiums for Tort and No Fault coverage's 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.

17.0 2013 PANEL RECOMMENDATIONS

The Panel made four recommendations in its report to the Minister pursuant to SAF's 2013 rate adjustment Application. As part of the 2014 Application Minimum Filing Requirements (MFRs), SAF provided the current status of these recommendations as follows:

- **Recommendation 1:** Approve the proposed overall rate increase of 1.03% and include calculations for any future requested break-even margin as part of the Minimum Filing Requirements for future Applications.

  Status: SAF implemented a 1.03% overall rate increase effective 31 August 2013 upon cabinet approval. SAF also agreed to include break-even margin calculations as part of the Minimum Filing Requirements for all future Applications.

- **Recommendation 2:** Approve the proposed 1.23% Rate Stabilization Reserve surcharge for one year only.

  Status: SAF implemented a 1.23% Rate Stabilization Reserve surcharge effective from 31 August 2013 to 30 August 2014 upon cabinet approval.

- **Recommendation 3:** All vehicle classes should be subject to the same rate cap rules as set out in the revised Application and rate rebalancing should occur annually, regardless of whether or not a rate change is required.

  Status: SAF agreed with the Panel regarding the proposed capping levels. SAF indicated they would continue to submit rate adjustment Applications, with rate rebalancing, on an annual basis dependent upon corporate priorities at the time.

- **Recommendation 4:** The Panel's Terms of Reference should be expanded to include:
  - Analysis of the Capital Management Policy and the Minimum Capital Test;
  - The Safe Driver Recognition and Business Recognition programs;
  - The existing vehicle risk groups; and
  - SAF's accounting and operating policies and procedures.

  Status: SAF noted that the role of the Panel is to provide an opinion on the fairness and reasonableness of proposed SAF rate changes with consideration to 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 change of vehicle insurance rates on the competitiveness of the Crown Corporation related to other jurisdictions.

  SAF does not believe the Panel needs to assess the four recommended items in order to meet their mandate. SAF feels that these items are the responsibility of its Board and Management. However, SAF will continue to provide requested information related to its:

Capital Management Policy; Safe Driver Recognition and Business Recognition programs; vehicle risk groups; and financial reports.

18.0 2013 CONSULTANT RECOMMENDATIONS

The Consultants made the following nine recommendations in their 2013 report to the Panel:

- **Recommendation 1:** Include a Break Even Margin of 0.81% of the net written premium based on SAF's estimate for the 2013/14 rating year. Also, calculations for any future requested Break Even Margins should be included in the MFRs.

  Status: A Break Even Margin of 0.81%, to offset expected costs from the increased risk associated with setting reserves, was included in the 2013 rates. SAF agreed to include break-even margin calculations as part of the MFRs for all future Applications.

- **Recommendation 2:** Approve the proposed overall rate level change of 1.03% (before RSR surcharge).

  Status: SAF implemented a 1.03% overall rate increase effective 31 August 2013 upon cabinet approval.

- **Recommendation 3:** All vehicle classes, including Motorcycles and Taxis, should be subject to the same rate cap rules.

  Status: SAF agreed with the Panel regarding the proposed capping levels.

- **Recommendation 4:** SAF should complete its comprehensive review of the SDR and BR programs at the earliest opportunity as well as bring forward the results and actions taken in the earliest practical next Application.

  Status: SAF is currently undertaking a review of the SDR and BR programs to ensure fairness to customers and that discounts and penalties/surcharges are appropriate. Due to other priorities in 2013, both the SDR and BR program reviews were delayed. BR program recommendations are expected in the spring of 2014. Any BR program changes would not be implemented until at least May of 2015. SDR program recommendations are expected by the end of 2014. Any SDR program changes would not be implemented until at least 2016.

- **Recommendation 5:** SAF should provide explicit documentation regarding the monitoring of the Capital Management Policy as it is affected by any actual or known planned changes to the MCT, as a regular part of its Applications. Also, it would be appropriate to bring the review of the Capital Management Policy within the Terms of Reference for the Panel in reviewing future Applications.

  Status: SAF has noted that the role of the Panel is to provide an opinion on the fairness and reasonableness of proposed SAF rate changes with consideration to 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 change of vehicle insurance rates on the competitiveness of the Crown Corporation related to other jurisdictions.

SAF does not believe the Panel's Terms of Reference should be expanded to include analysis of the Capital Management Policy and the Minimum Capital Test. SAF feels that this is the responsibility of its Board and Management. However, SAF will continue to provide information related to its Capital Management Policy when requested.

- **Recommendation 6:** Approve the 1.23% RSR surcharge for one year only and include a discrete line on each renewal notice about it. Also, submit Applications on an annual basis in order to address rate rebalancing, regardless of whether or not a rate change is required.

  Status: SAF implemented a 1.23% RSR surcharge effective from 31 August 2013 to 30 August 2014 upon cabinet approval. SAF also indicated they would continue to submit rate adjustment Applications, with rate rebalancing, on an annual basis dependent upon corporate priorities at the time.

- **Recommendation 7:** The Investment Committee should continue to review its current portfolio mix recognizing the need for SAF to balance returns with risk.

  Status: SAF reviews its portfolio mix, including the asset mix, on an annual basis in accordance with the Investment Policy and Guidelines.

- **Recommendation 8:** SAF should file narrative and quantify year-over-year efficiencies on a line-by-line basis for all components of administrative expenses. Consideration should also be given to including all efficiencies flowing from the AFRP implementation in base year costs, against which future efficiencies can be measured.

  Status: While not specifically addressed, SAF reports administrative expenses on a line-by-line basis and provides narrative related to year-over-year changes and efficiencies, including those flowing from the AFRP project.

- **Recommendation 9:** Enhance the graphical presentation to show the diversity and concentration of the rates underlying the averages in each province. Also, add narrative to improve disclosure about the inherent limitations of the cross-Canada rate comparison.

  Status: The cross-Canada rate comparison information provided in the 2013 Application is substantially the same as that provided in the 2014 Application. There were no changes other than the updating of the 2012 results to reflect the 2013 results.

19.0 INDUSTRY NORMS

From an actuarial perspective, the rate analysis approach adopted by SAF is comparable to that typically used in other Canadian jurisdictions. In particular, SAF's pricing actuary declares the work underlying this Application to have been done in accordance with accepted actuarial practice in Canada, which holds him to a high standard of professionalism in carrying out this work, as is typically done in other Canadian jurisdictions.

In respect of other procedures, the cost allocation methodology generally conforms with industry practices, while recognizing that SAF, as a public insurer, has unique obligations, circumstances and operations resulting in individual cost drivers. SAF's monitoring and controls are adequate to ensure that no undue cross-subsidies are inherent in its cost allocation.

SAF also uses industry benchmarking parameters for comparing its operational efficiencies, and has most recently had an external review completed, the results of which show that, on balance, SAF compares relatively well with its peers, but also indicates areas for improvement, which SAF has undertaken to pursue, as detailed in Section 13.0 of this report.

Other policies and procedures, such as its investment policy, are consistent with the goals of other insurers.

20.0 CORE ISSUES AND RECOMMENDATIONS

20.1 GENERAL RATE INCREASE, CAPPING AND REBALANCING

As a basic principle, SAF sets it rates to cover the expected cost of claims, operating and other expenses, offset by expected sources of revenue, including investment income. This principle is consistent with the Minister's Terms of Reference that SAF's mandate is to operate on a self-sustaining basis over time. Over the course of our review, we explored a number of expense and revenue areas which have been subject to meaningful past deviations from forecast.

First, over the past two years, Traffic Safety costs have been over-estimated with actual expenditures being almost $7.0 million less than the two year budget of about $31.7 million. It is expected that the new approach to Traffic Safety initiatives (i.e., scheduling recommendations made by the SCOTS, and changes to enabling legislation and/or regulation) will improve the accuracy of Traffic Safety budgets.

Budgeted building rehabilitations and/or additions have not been completed and approximately $2 million that was previously funded through rates was not spent. However, not all circumstances leading to deferment of certain building projects was within the control of SAF. As well, the impact of annual costs associated with these projects has little impact on the overall rate requirement, and building expenditures have been larger than usual in recent years.

Investment income that was originally forecast to be $44.1 million in 2013 was updated to $77.2 million in the Application, after which the 2013 Annual Report shows the actual amount to be $86.7 million. However, the 2014 forecast for investment income remains near the original forecast for 2013 at $46.8 million even though interest rates have not changed significantly since 2013 or since the Application was filed.

SAF has stated one of the main drivers of the requested rate increase is the annual 10% increase in body shop labour rates over three years commencing in 2014. The increase appears to be offside with the conclusions of the MNP report. SAF stated that it does not anticipate any savings in collision repair costs, but rather that the increase is required to increase enrollment in body shop repair apprentices. While the negotiated settlement is not the total cause of the expected increase in collision labour costs from 2013 to 2014 of $14 million, the vast majority is as a result of the wage settlement. By way of comparison, there was no increase in 2012, and the 2013 labour component of collision repair costs increased by about 1.5%. We must point out that there have been limited or no labour rate increases since 2010, but on an annualized basis by 2016 the labour rates will have increased by over 5% per year.

In terms of efficiencies, SAF expects direct annual savings of approximately $290,000 or less over the next five years, with other efficiencies coming from cost avoidance.

The operating philosophy is for SAF to break even over time, neither receiving nor making payments to the Province. It is true that any excess earnings will flow to the RSR and mitigate the amount of the capital build/release provision. However, that is a separate issue, as addressed in another section of this report.

The only revenue source we expect to be short of their revenue target is net salvage revenues. We also recognize that expenditures for premium taxes and issuer fees are necessary and are non-discretionary. Aside from these costs, investment income and claims costs (including LAE), the remaining administrative expenses and Traffic Safety costs were forecasted to be about $93.8 million on a total claims and expenses budget of $977.8 million, or approximately 9.6%. Obviously these expenditures are not the main drivers for the requested increase in rates.

In addition, unforeseen conditions, such as extreme summer or winter weather, could also increase claims expenses by significant amounts.

On balance, we accept SAF's estimate that it requires a 3.4% overall rate level increase (before capital margin) effective 31 August 2014. The consequence of SAF's proposal of special treatment for Motorcycles is that the proposed overall rate level increase (before capital margin) falls short of this requirement, at 2.7%. This implies SAF is planning for an operating loss, which we believe is contrary to its basic operating philosophy.

Earlier in this report, based on a series of observations with respect to Motorcycles, we concluded that the Application for Motorcycle rates as filed failed to meet the test of being just and reasonable. Even after giving consideration to the special circumstances for Motorcycles, in particular the pending Motorcycle Review Committee initiatives, we believe fairness in rating considerations dictate reasonably uniform treatment across all vehicle classes.

From the response to the second round IR #74, SAF indicates that with the implementation of the approved 2013 rate changes, 94.6% of all SAF vehicles will be paying a rate that is within 5% of their 2013 indicated adequate rate, and that this will improve to 97.8% with the 2014 Application if approved as filed. The improvement in this statistic over the last several years is significant, and we applaud SAF's diligence with regular rate reviews and rebalancing to accomplish this.

The current Application proposes continued use of rate capping proposed in the prior Application (excluding Motorcycles), with larger premiums (over $1,000) capped at 15%, and smaller premiums capped at set dollar levels. Capping at 15% was originally deemed an appropriate level in order to address the significant gaps between actual and indicated rates for a large portion of the insured fleet in a timely manner. With the progress that has been made in this regard, as noted above, a lower cap may now be justified to mitigate rate shock more aggressively.

Accordingly, we recommend the Panel:

1) Recommend approval of a 3.4% overall rate level increase (before capital margin), which reflects SAF's estimate of its required overall rate level increase (before capital margin).

2) Consider recommending approval of general rate capping and rebalancing, applicable to all vehicle classes including Motorcycles, specifically based on reduced capping levels compared to that proposed in the Application (for example, scaled back by 1/3rd as reflected in the response to the second round IR #14).

3) Be explicit with respect to the principles on which it bases any recommendation for special treatment to be accorded to Motorcycles, including consideration of any deliberate cross-subsidization between vehicle classes either through rate or RSR rebuilding, the consequences of any deliberate planning for an operating loss, and the expectations for how any such special treatment will evolve in future Applications.

4) Recommend that any reviews undertaken by SAF of the Safe Driver Recognition and Business Recognition programs be included in the MFRs for future Applications.

20.2 TAXI RATING

We recommend the Panel accept the changes to the Taxi rating structures as proposed.

20.3 CAPITAL MANAGEMENT POLICY

Earlier in this report, we provided a number of observations with respect to the Capital Management Policy in general, and the use of the MCT and DCAT for this purpose.

Accordingly, we recommend the Panel:

1) Make explicit disclosure of its rationale for any suggestion it makes to SAF with respect to the appropriate percentile outcome level that should be used by SAF for purposes of setting its target MCT ratio for its Capital Management Policy.

2) Urge SAF to amend its Capital Management Policy so as to set its target MCT ratio based directly on the findings of its analysis in this regard, to avoid undue conservatism in the target RSR level.

3) Urge SAF to amend its Capital Management Policy to include an additional rule to limit the change (+ or -) in total capital margin from one Application to the next to a maximum of one (1) percentage point, to avoid adding to rate shock in the name of replenishing or releasing amounts from the RSR which is otherwise intended to mitigate the risk of rate shock.

4) Recommend approval of a total capital margin of 2.23% to take effect on 31 August 2014 (one percentage point greater than the capital margin or RSR surcharge in current rates), following upon the preceding point.

5) Recommend that rate adjustments based on the Capital Management Policy be brought forward annually by SAF regardless of whether or not this is accompanied by a full Application, so that the capital margin embedded in rates can be recalibrated to reflect new circumstances at that time.

6) Urge SAF to consider adoption of an approach similar to that currently favoured by OSFI for purposes of estimating the SAF indicated target MCT ratio, for example as provided in the response to the second round IR #35.

7) Urge SAF to consider use of stochastic reserve variability modeling tools using SAF experience for purposes of setting adverse scenario assumptions with respect to misestimation of policy liabilities, and perhaps also with respect to increased losses due to frequency.

8) Recommend that SAF include, as a part of the MFR in future Applications, discussion with respect to any recent, pending or proposed changes to the MCT and how these have affected or may affect SAF's calculated recent or forecasted MCT ratios and its Capital Management Policy.

20.4 OM&A EXPENSES

We recommend that the Panel accept the overall OM&A expenditures as filed.

20.5 ADMINISTRATIVE FEES

We recommend that the Panel urge SAF to review the fees charged for services rendered by the HTB and the fee structure for all of the other products and services it offers to its customers to examine the fairness of providing services to specific customers at below cost, thus resulting in all other customers subsidizing those receiving these services.

20.6 BODY SHOP LABOUR RATE INCREASES

We recommend that the Panel require SAF to file a report on the efficiencies and customer service enhancements that are anticipated to occur and to provide an updated status report respecting 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 of attracting body repair journeymen into the program, including how many of the successful candidates are employed in the rural areas.

20.7 TRAFFIC SAFETY

We recommend that the Panel require SAF to track and report budgeted and actual Traffic Safety initiatives on a line by line basis, and to provide specific detail respecting any actual over or under expenditures, as part of the MFRs. We further recommend that the evaluation of all programs against the anticipated benefits, both hard and soft, be conducted for each initiative on an annual basis. We recognize the management of Traffic Safety initiatives for SAF is no small undertaking, but with the significant amount of money invested and targeted annually for these initiatives, it is important to ensure value and benefits from those investments accrue to the ratepayers.

Over the past several years the actual Traffic Safety expenditures have been significantly below budget, on an overall basis. We recognize that funds not expended on these initiatives as well as for other expenditures will flow into the RSR and increase the balance, as will all revenue variances in excess of projections. In a similar fashion, if costs are exceeded, or revenues fall short, the additional requirements will deplete the RSR. Nonetheless, Saskatchewan motorists are being specifically asked to fund, through rates, safety initiatives that have not always been

implemented.

20.8 COST ALLOCATION

We recommend that the Panel accept the 2014 cost allocation methodology and results.

20.9 INVESTMENT INCOME

We recommend that the Panel accept that SAF has implemented its Board approved Investment Policy and that forecasts are based on third party future market forecasts. However, given the recent significantly greater incomes than forecast, we also recommend that the Panel request SAF to update its forecasts in this regard and provide mid-Application amendments during the course of a review, for this and other important Application elements, as is done by the other Crown Corporations.

20.10 DEDUCTIBLE LEVEL

While the matter of Basic deductibles is a given factor, we suggest that the Panel encourage SAF to give consideration to increasing the Basic deductible level as another means to mitigate future general rate increases.

20.11 CROSS-CANADA RATE COMPARISON

We recommend that, if rate comparisons with other Canadian jurisdictions are to continue, the graphical presentation of the comparisons be enhanced, to show the diversity and concentration of the rates underlying the averages in each province, and that accompanying narrative be added to improve disclosure about the inherent limitations of the comparison. This documentation should form part of the MFR.

20.12 SENSITIVITY TESTING

We recommend that the Panel request SAF to include, as part of the MFR, a Statement of Operations for the following potential scenarios, including separate line items for RSR components for the capital build/release and capital maintenance provisions, and also showing resulting MCT ratios.

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; and
4) 10% increase or decrease in Traffic Safety costs.

21.0 GLOSSARY OF ACRONYMS

AFRP	Auto Fund Redevelopment Project
BR	Business Recognition (Program)
CBA	Collective Bargaining Agreement
CIC	Crown Investments Corporation
CLEAR	Canadian Loss Experience Automobile Rating
CPI	Consumer Price Index
DIP	Driver Improvement Program
DWI	Driving Without Impairment
FTE	Full Time Equivalents
GDL	Graduated Driver Licensing
GRF	General Revenue Fund
GVW	Gross Vehicle Weight
HTB	Highway Traffic Board
ICPEI	Insurance Company of Prince Edward Island
IRP	International Registration Plan
IR	Information Request
IT	Information Technology
LAE	Loss Adjustment Expenses
MCT	Minimum Capital Test
MGDL	Motorcycle Graduated Driver License
MFR	Minimum Filing Requirement
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
RSR	Rate Stabilization Reserve
SAAR	Saskatchewan Association of Automobile Repairers
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
TSS	Traffic Safety Strategy

APPENDIX – CONSULTANT INFORMATION REQUEST INDEX

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