

Saskatchewan Auto Fund

Proposal for Rate Adjustment – Effective August 31, 2014

Second Round Information Requests – April 22, 2014

Prepared on Behalf of the Saskatchewan Rate Review Panel

GENERAL

Reference: 1st Round IR #4

1. Please list those traffic safety initiatives that constitute the traffic safety cost of \$13,689,337 for 2013 and discuss why they are considered to be beyond Auto Fund's control.
2. Please confirm that SAF is required to fund the STARS initiative in the amount of \$400,000 for each of the next five years, commencing in 2014.
3. Please confirm that the 2013 cost considered to be beyond the control of SAF as provided in this response are \$95,588,356 and indicate where these amounts are included in the expenditures shown for 2013 in Tab 6 Part 1 Appendix B of the Application.
4. Please expand the table to provide estimated amounts and percentages for 2014 and identify where these are reflected in Tab 6 Part 1 Appendix B of the Application.
5. Please discuss why issuer fees are not included in these responses, given that they have been previously negotiated and are a function of premiums written in every year.

Reference: 1st Round IR #5

6. Please discuss to what extent compensation for "out-of-scope" personnel parallels CBA settlements, and indicate any other considerations for remuneration for such personnel, such as merit pay, etc.

RATES AND RATE REBALANCING

Reference: 1st Round IR #10

7. Please discuss whether the SAF commitment to recommend delay of a Motorcycle rate increase was for only 2014, or if it extended beyond 2014, depending on the status of the implementation of the changes recommended by the Motorcycle Review Committee.

8. Please discuss whether the methodology used to determine the required rate for Motorcycles is consistent with that used for all other vehicle classes, and that the result of the application of this methodology yields an indicated rate increase for the Motorcycle class of 46.8% (before capital margin).
9. Please confirm that the capping rules for Motorcycles would have remained the same as for other vehicle classes had the current Motorcycle review not been initiated.
10. Please confirm that all estimates for required rates for all vehicle classes for 2014 are actuarially driven and reflect existing benefit levels, vehicle classifications, and program incentives. Please also confirm that changes to benefit levels, vehicle classifications or program incentives require legislative or regulatory change before being implemented.
11. The Terms of Reference cite "the objective of ensuring stability and fairness in vehicle insurance rating such that each vehicle class pays sufficient premiums to cover its anticipated claims costs to minimize cross subsidization". In this context, please discuss the proposed treatment of rates for the Motorcycle class in the 2014 Application.
12. Subject to the results of the implementation of the Motorcycle Review Committee's recommendations in 2014, please confirm future SAF rate Applications will be more closely aligned to follow the basic objective stated in the preceding question.
13. Please discuss the status of the review of Motorcycle vehicle classifications, including any changes proposed by SAF for the near future.

Reference: 1st Round IR #14

14. Please provide a tabular summary comparing the proposed rate level changes by vehicle class and overall (a) from the Application as filed, (b) restated with capping limited to 10% and capping / rebalancing applied to all vehicle classes other than Motorcycles, and (c) restated with capping limited to 10% and capping / rebalancing applied to all vehicle classes.

MOTORCYCLE REVIEW COMMITTEE/TAXI CAB CONSULTATIONS

Reference: 1st Round IR #17

15. Please detail what aspects of the Motorcycle review, not related to the implementation of the traffic safety recommendations, have been incorporated into the required rate analysis for 2014.
16. Please discuss and if possible please quantify the potential savings (if any) for Motorcycles and other vehicle classes of the pending changes arising from the Motorcycle Review Committee.

17. Please discuss the issue of Tort coverage and the possible financial or other impacts as well as public policy considerations of opting out of no fault coverage injury benefits for Motorcycles and for other vehicle classes.

Reference: 1st Round IR #19

18. Please provide an update of the recent dialogue undertaken with the taxi cab industry, including the status of the Registration Changes (process, timing) and the Voluntary Telematics/Technology Pilot Project.

RATEMAKING MODEL

Reference: Tab 6 Part 2 Pages 176 to 179

19. Please provide additional supporting rationale for the selected “Light Vehicles” Damage to Own Vehicle coverage annual frequency and severity trends of 1.00% and 1.50%, respectively, including details of the considerations made by the Actuarial team and the Claims Forecasting Committee in making these selections.
20. To illustrate the sensitivity of the rate indications to a change in these specific assumptions, please provide a table summarizing the “indicated required rate change” by vehicle class and overall (a) as filed and shown in Tab 6 Part 1 Appendix A, and (b) restated such that the “Light Vehicles” Damage to Own Vehicle coverage annual frequency and severity trends combined is reduced by 0.50 percentage points (i.e., from about 2.51% to about 2.01% per annum).

MCT RATIOS AND CAPITAL MANAGEMENT POLICY

Reference: 1st Round IRs #29 to #48

21. Please discuss the management / policy considerations behind the decision to create the return-seeking portfolio to back the tail (20+ years) of the long tailed portion of the policy liabilities.
22. Please discuss the nature of the risk being addressed in general by the Interest Rate Risk Margin in the MCT, and how this margin is manifested for SAF as at 31 December 2013. [IR #42 Page 30.70.38]
23. Please provide supporting documentation for the derivation of the “Modified or Effective Durations” shown for each of the net claim liabilities and the net premium liabilities for SAF as at 31 December 2013. [IR #42 Page 30.70.38]

24. Please provide a description of and support for, the amount appearing in Row 13 of Capital Available in the MCT calculation for SAF as at 31 December 2013, and discuss the expected stability of this amount and its impact on the MCT ratio over time. [IR #42 Page 30.70]
25. Please provide SAF's definition of SAF meeting all its future obligations for purposes of determining if SAF's financial condition is satisfactory. [IR #29 Page 7]
26. Please provide SAF's definition of SAF meeting minimum regulatory capital requirements for purposes of determining if SAF's financial condition is satisfactory. [IR #29 Page 7]
27. Please provide the supporting documentation for the estimation of the 20.1% runoff assumption used in the Misestimation of Policy Liabilities adverse scenario, and discuss why this data source is deemed more relevant than SAF's own experience. [IR #29 Page 11]
28. Please estimate, with supporting documentation, corresponding runoff assumptions for a 95th percentile outcome and a 97.5th percentile outcome in the Misestimation of Policy Liabilities adverse scenario. [IR #29 page 11]
29. Please provide as much history as is available on the SAF one year runoff for Personal Accident Benefits undiscounted unpaid claims, including calculation of a mean and standard deviation for the history of one year % runoff values. [IR #29 Page 11]
30. What consideration has been given to using stochastic reserve variability modeling tools using SAF experience as a basis for parameterizing the Misestimation of Policy Liabilities adverse scenario? [IR #29 Page 11]
31. Please discuss the rationale for increasing forecasted injury losses for future accident years by the full 20.1% considering the 20.1% runoff assumption only relates to the unpaid portion of historical accident year experience. [IR #29 Page 11]
32. Please provide basic financial statement information and MCT documentation for the DCAT base scenario and each adverse scenario provided. [IR #29]
33. Please provide basic financial statement information and MCT documentation for a modified base scenario which is the same as the DCAT base scenario except with the addition of hypothetical capital injections / surplus dividends (invested and disinvested as you deem reasonable) in 2013, 2014 and 2015 such that the resulting MCT ratio at each year end is 100%. [IR #29 Page 11]
34. Please provide basic financial statement information and MCT documentation for a modified Misestimation of Policy Liabilities adverse scenario run against the modified base scenario from the preceding question. [IR #29 Page 11]

35. Please provide basic financial statement information and MCT documentation for a second modified base scenario and a second modified Misestimation of Policy Liabilities adverse scenario similar to those of the two preceding questions such that these meet the constraints that (a) the hypothetical capital injections / surplus dividends are determined to maintain a constant second modified base scenario MCT ratio at each year end from 2013 to 2015 and (b) Total Equity in the second modified Misestimation of Policy Liabilities adverse scenario approximates \$0 at its lowest point over year ends 2013 to 2015. [IR #29 Page 11]
36. Please provide the supporting documentation for the estimation of the 45.5% equity investment decline and the coinciding 30% real estate investment decline used in the Investment Market Deterioration adverse scenario, including the analysis and treatment of correlation between the returns on these two investment classes. [IR #29 Page 20]
37. Please provide the supporting documentation for the estimation of the 0.2 percentage point decline in equity investment total returns used in the Investment Market Deterioration adverse scenario. [IR #29 Page 20]
38. Please estimate, with supporting documentation, corresponding adverse assumptions for a 95th percentile outcome and a 97.5th percentile outcome in the Investment Market Deterioration adverse scenario. [IR #29 page 20]
39. Please discuss the rationale, and provide supporting documentation, for assuming no correlation between returns on equity investments and returns on fixed income investments in the Investment Market Deterioration adverse scenario. [IR #29 Page 20]
40. Please provide basic financial statement information and MCT documentation for a modified Investment Market Deterioration adverse scenario (run against the original DCAT base scenario) which removes the assumed coinciding 30% real estate investment decline used in the original Investment Market Deterioration adverse scenario. [IR #29 Page 20]
41. Please provide basic financial statement information and MCT documentation for a second modified Investment Market Deterioration adverse scenario (run against the original DCAT base scenario) which assumes a 31% decline in equity investments compounded with a 50 bps upward parallel shift in the bond yield curve and no impact on real estate investments or the ensuing total return on equity investments. [IR #29 Page 20]
42. Please specify the expected duration (i.e., length of period) of the “sustained increase in the general rate of inflation” modeled in the General Inflation Risk adverse scenario, and discuss how this is reflected in the derivation of the forecasted balance sheet unpaid claim balances. [IR #29 Page 15]

43. Please provide supporting documentation for the derivation of the forecasted balance sheet unpaid claim balances and the forecasted income statement incurred claim amounts in the General Inflation Risk adverse scenario. [IR #29 Page 15]
44. Please provide basic financial statement information and MCT documentation for a modified General Inflation Risk adverse scenario (run against the original DCAT base scenario) in which the modeling recognizes the full extent of the future sustained increase in the general rate of inflation on unpaid claim balances at each point throughout the forecast period. [IR #29 Page 15]
45. Please confirm that in future Applications, the information equivalent to that provided in Tab 6 Part 1 Appendix B of the current Application will be presented as provided in response to 1st round IR #39. [IR #39]
46. Please elaborate on the justification for requiring Saskatchewan ratepayers to fund the SAF RSR to a level sufficient to protect against insolvency arising from a 1-in-100-year adverse event.

BREAK EVEN MARGIN

Reference: Tab 6 Part 2 Page 89

47. Please describe in detail the timing assumptions made with respect to the estimation of Rating Year Expected Premium, Calculated Rating Year Unallocated Premium Amount and Projected Provision for Adverse Development Growth.

STRATEGIC PLAN & PERFORMANCE MEASURES

Reference: 1st Round IR #52

48. Please confirm that of the 1,262 Auto Fund FTE positions for 2013, 20 were actually vacant positions, and that for 2014 the FTE positions are budgeted to increase by 4 to 1,266.

CLAIMS

Reference: Tab 6 Part 1 Appendix A

49. Please provide a tabular summary comparing the indicated and proposed rate level changes by vehicle class and overall (a) from the Application as filed, (b) restated subject to increases in the damage deductible of each of \$100, \$200 and \$300 and otherwise assuming capping and rebalancing from the Application as filed, and (c) restated subject to increases in the damage deductible of each of \$100, \$200 and \$300, and capping and rebalancing from the Application extended to include Motorcycles .

COST ALLOCATION

Reference: 1st Round IR #83

50. Please confirm that, of the approximate \$17.5 million increase in anticipated SAF costs for 2014 about \$10.6 million are related to traffic safety initiatives that SAF is required to fully fund.
51. Please discuss why there has been a significant shift in the relative amount of direct costs and indirect costs assigned and allocated for SGI Canada.

Reference 1st Round IR #85

52. Please file the December 31, 2013 valuation report on the defined benefit pension plan when it is completed.

CAPITAL, OPERATING AND ADMINISTRATIVE EXPENSES

Reference 1st Round IR #88, Tab 21 Last Page

53. Please describe the make-up of the Issuer Bank Charges and discuss how the anticipated 2014 increase from 2013 was determined, as well as indicating if any benefits accrue to SAF from credit card use.
54. Please discuss the reasons for the significant decrease in "Other Expenses" from 2013 actual results.
55. Please discuss whether there are any fees imposed by SAF on individuals accessing the Driver Education Program.

Reference: 1st Round IR #89

56. Please confirm, or otherwise discuss, whether the major elements of the current capital program budget beyond 2014 consist only of buildings at Estevan, Yorkton, Regina and Saskatoon, and indicate if any additional major expenditure is anticipated beyond 2018.

Reference: 1st Round IR #98, IR #102

57. Please provide a narrative related to the proposed body shop labour increases of 10% per year for three years commencing in 2014. Please include a discussion of the related background, the conclusions and findings of the MNP report, SAF anticipated improvements in customer service, future claims handling efficiencies and possible future avoided costs, potential additional costs that will be required by body shop operators to meet SAF's accreditation criteria, and any other factors that were considered in negotiating this increase.

58. Please indicate the total number of body shops conducting business in Saskatchewan in 2013, anticipated for 2014, and how many of these are accredited.
59. Please also confirm that the 10% three year labour rate increase is restricted to the accredited shops.
60. For each year since 2007 please provide the total cost for damage claims, and indicate the proportions of labour, material and other costs.
61. Please describe all components, such as shop materials and/or like supplies, which are included in hourly rate for body shop labour.
62. Please explain the factors that result in an anticipated increase of over 15% for salvage operations sales in 2014, as compared to actual result for 2013.

PROGRAMS AND INITIATIVES

Reference: 1st Round IR #109

63. Please provide the current status of all 26 recommendations including anticipated implementation dates, and discuss the budgetary provisions included in 2014 for the applicable recommendations.

Reference: 1st Round IR #110

64. For each of 2012 and 2013, please provide the budgeted amounts, the actual expenditures and the variances for each of the safety initiatives/programs shown in the table attached to the response to IR #110. Please also explain any material variances between budgets and actual results. Initiatives or programs can be combined where they are closely inter-related and variances result from similar circumstances.
65. Please discuss the expenditures shown for the “First Nations Traffic Safety Positions” and the “Child Traffic Safety Position” shown on the table including number of positions, anticipated term, and confirm that these are not part of SAF’s FTE complement.
66. Please discuss the specific new considerations or programs anticipated by SAF in 2014 for the “Wildlife Solutions” expenditure of \$500,000, when a similar amount was budgeted for 2013, but no expenditures were made.
67. Please discuss whether the annual STARS expenditure of \$400,000 is included as a traffic safety initiative, and if so, in which program/initiative is it included.

Reference: 1st Round IR #113

68. Please confirm that SAF is required to fund all HTB costs associated with driver appeals, regulatory applications and compliance reviews.
69. Please provide a complete list of HTB-related fees and charges imposed on applicants and indicate when these fees and charges were last updated.
70. Please provide a comparative table summarizing current Saskatchewan HTB fees and charges with the current HTB-like fees and charges in Manitoba and British Columbia.
71. Please provide the annual cost of operation of the HTB and the total revenue received for each of the services provided to applicants from 2010 to 2014.
72. Please discuss whether there is any other like services provided by SAF for which service or applicant fees are imposed. If so, please indicate amount of total fees recovered by SAF, actual fees imposed on individuals and when the fees were last revised.

FINANCIAL STATEMENTS

Reference: 1st Round IR #118

73. Please provide the size of the investment portfolio for each year since 2008 and indicate the percentage return budgeted for and actually realized from 2008 to 2013, and the portfolio budgeted overall return for 2014.

Reference: 2013 Annual Report

74. Please discuss the Auto Fund rate adequacy measure index found on Page 9 of the report, indicating if the measure means that 94.6% of all vehicles were within 5% of the adequate rate in 2013, and that this is expected to increase to 97.8% if the 2014 rate Application is approved.
75. Please discuss what the long range Auto Fund value index target is expected to be, and what specific initiatives are in place or planned to improve this index. (Page 10)
76. Please discuss whether there are any actual 2013 results that were significantly different from expectations that cause SAF concern respecting 2014 and future forecasts.

APPLICATION SENSITIVITY TESTING

Reference: 1st Round IR #126

77. Please provide an approximate rough ranking by the relative likelihood of each of the scenarios provided.
78. Please discuss the extent of any correlations expected between these various scenarios.

PUBLIC MEETINGS

79. Please describe the basis of assignment of claim costs by vehicle class based on consideration of at fault status.
80. Please describe the basis of assignment of at fault status for any given accident.
81. Please provide a summary of claims experience involving motorcyclists by accident year and in total for the 10 most recent complete accident years, broken down by coverage (damage, injury, liability and in total), by body type (cruiser/touring, sport, dual purpose/other and in total) and by engine size range (100cc or less, 101-400cc, 401-750cc, 751-1100cc, 1101cc + and in total), and showing the current reported number and amount of claims, and the assignment of those claims amounts by vehicle class based on at fault status. [To be shown in a series of tables like the following, repeated as necessary for each coverage and for all coverage's combined within each accident year and for all accident years combined.]

Accident Year	Coverage	Body Type	Engine Size	Rep'd # of Claims	Rep'd \$ of Claims	Assignment of Rep'd \$ of Claims by Vehicle Class Based on At Fault Status			
						Class 1	Class 2	Class 3	...
2004	Damage	Cruiser / Touring	100cc or less						
			101-400cc						
			401-750cc						
			751-1100cc						
			1101cc +						
			Total						
		Sport	100cc or less						
			101-400cc						
			401-750cc						
			751-1100cc						
			1101cc +						
			Total						
		Dual Purpose / Other	100cc or less						
			101-400cc						
			401-750cc						
			751-1100cc						
			1101cc +						
			Total						
		Total	100cc or less						
			101-400cc						
			401-750cc						
751-1100cc									
1101cc +									
Total									