

Saskatchewan Auto Fund

Proposal for Rate Adjustment – Effective August 31, 2014

First Round Information Requests - March 12, 2014

Prepared on Behalf of the Saskatchewan Rate Review Panel

GENERAL

1. Please discuss what, if any, requests in this Application are not consistent with the “Crown Corporation’s mandate, objectives and methodologies”.
2. Please discuss the criteria used to establish vehicle classes and indicate whether changes may be made by SAF administration, by the SAF Board, by regulation or by legislation.
3. Please confirm that SAF’s accounting policies are in compliance with IFRS, or in the alternative discuss any deficiencies.
4. Please provide, in tabular form, for each year from 2009 to 2013 expenses over which SAF has no control, specifically taxes, components of legislated programs that SAF is required to fund and other such payments, indicating the annual dollar amounts, percentage of total expenses, and portion of rates these expenditures represent. Please also provide similar information for auto body repair and medical costs.
5. Please provide an update respecting collective agreement(s) that were to expire on 31 December 2013.
6. Please undertake to file a copy of the 2013 Annual Report as soon as SAF is able to release it and please indicate when this may occur.

CERTIFICATE OF THE OFFICER

Reference: Tab 1

7. Please clarify or correct the reference to “paragraph 6” made within paragraph 6.

RATES AND RATE REBALANCING

8. Please confirm that the required increase in rate level to enable SAF to cover the expected increase in costs over and above expected growth in premium and investment income is 3.4%.
9. Please also confirm that because the Motorcycle class is proposed to receive only a 2.7% rate increase, SAF expects to recover the resulting revenue shortfall arising from the Motorcycle class by depleting the RSR by the equivalent of a 0.7% rate increase for all vehicle classes.
10. Please provide the dollar amount of this revenue shortfall and discuss why SAF does not consider this treatment to be a subsidization of the Motorcycle class by other vehicle classes and whether this is contrary to the stated purpose for the RSR to allow for unexpected unusual events.

11. Please provide the estimated dollar amount of revenue that the other classes will contribute to the RSR as a result of this treatment of the Motorcycle class.
12. Please indicate whether the 34 vehicle and driver profiles, and the 22 cities used in the cross-Canada rate comparison, as well as the methods to prepare and analyze the underlying data are the same as were used in the last Application. Alternatively, please discuss any changes as well as any changes in coverage's or benefits in other jurisdictions used in the analyses.
13. Please confirm that rate rebalancing is contemplated for all vehicle classes other than the Motorcycle class and indicate the number of vehicles in each class that are subject to capping, as well as the amount of premium (+/-) being capped away.
14. Please provide a tabular summary comparing the proposed rate level changes by vehicle class and overall (a) from the Application filed, and (b) restated to extend the capping and rebalancing process to include Motorcycles.
15. Please document the basis for the "Average % Change" shown for Motorcycles (+6.5%) in Tab 6 Part 1 Appendix A Page 90.
16. Please discuss the significance and any further potential future premium impacts related to the fact that "An anticipated additional 1.4% in rate to cover increased body labour rates for the August 31, 2015 to August 30, 2016 rating year has not been factored into these estimates" (Tab 8).

MOTORCYCLE REVIEW COMMITTEE/TAXI CAB CONSULTATIONS

17. Please file the Motorcycle Review Committee Report on Findings – January 2014.
18. Please summarize the Committee's recommendations, SAF's position on these recommendations and indicate which of these can be implemented by regulation and which require legislative amendments and
 - a) Please discuss the potential (financial & other) impacts on the Motorcycle class for each of the recommendations that will be submitted for consideration by government, including supporting analysis where available and how these may affect other vehicle classes.
 - b) Please indicate the proposed schedule for implementation of each of the recommendations, and discuss when the impacts are expected to be realized after implementation.
19. Please update the response to last year's information request related to the discussions held with the Taxi Cab Industry.
 - a) Please provide a schedule on future proposed meetings and/or discussions, and indicate the topics that these are expected to canvass, when these are expected to be concluded and when resulting changes are expected to be implemented.
 - b) Please discuss any changes in the treatment of determining indicated and requested rates of Urban and Rural Taxi Cabs from that used in last year's Application and whether any changes have resulted from recent dialogue with the industry.

- c) Please discuss and quantify the impacts on Taxi Cab rates resulting from the change in grouping small and large cities for rating purposes.

RATEMAKING MODEL

Reference: Tab 6 Parts 2, 3 and 4

20. Please provide a tabular summary comparing the selected past and future premium trend assumptions by class of vehicle from the current and prior Applications, and provide supporting rationale for any increases or decreases in excess of 0.50 percentage points.
21. Please provide a tabular summary comparing the selected past and future exposure trend assumptions by class of vehicle from the current and prior Applications, and provide supporting rationale for any increases or decreases in excess of 0.50 percentage points.
22. Please provide a tabular summary comparing the selected past and future claim frequency trend assumptions by class of vehicle from the current and prior Applications, and provide supporting rationale for any increases or decreases in excess of 1.00 percentage points.
23. Please provide a tabular summary comparing the selected past and future claim severity trend assumptions by class of vehicle from the current and prior Applications, and provide supporting rationale for any increases or decreases in excess of 1.00 percentage points.
24. Please provide a tabular summary comparing the selected past and future pure premium trend assumptions by class of vehicle from the current and prior Applications, and provide supporting rationale for any increases or decreases in excess of 1.00 percentage points.
25. With reference to the Relativity Analysis for CLEAR-Rated Vehicles provided in Tab 6 Part 3, please provide explanatory narrative for the analysis, including discussion of the basis for underlying assumptions and identification of changes in approach, if any, since the last Application.
26. Please discuss and estimate the impact of any changes made in valuation methodologies and/or basis of selection of assumptions for the valuation as at May 31, 2013 (with reference to Tab 6 Part 4 Appendix G) in the context of any significant impact these changes have had on the estimated rate requirement in the current Application.
27. Please discuss any changes made in valuation methodologies and/or basis of selection of assumptions for the valuation as at December 31, 2013.
28. Please provide an illustrative derivation of the provisions by coverage for “Investment Income on Forecasted RSR”.

MCT RATIOS AND CAPITAL MANAGEMENT POLICY

Reference: Tab 6 Part 1; Tab 15; Tab 16

29. Please provide a copy of the Dynamic Capital Adequacy Testing (DCAT) report and the related internal target capital analysis report underlying the new target MCT ratio of 100%.
30. Please confirm that the financial model used in the DCAT and the related internal target capital analysis was created internally by SAF, and identify the principal authors of this model, including their respective qualifications for this work.

31. Please summarize the testing done of this financial model, and identify the principal parties responsible for this testing, including their respective qualifications for this work.
32. Please confirm that this Application requests an overall RSR surcharge of 3.7% for 2014 and that this amount will remain in base rates for future years.
33. Please discuss what the necessary RSR surcharge (dollar and percentage) would be on an annual basis for the next four years beyond 2014, all else remaining equal.
34. Assuming the current Application is approved, please describe the process of determining the size of the Capital Build and Release provision needed as of August 31, 2015 relative to the rates that would already include the currently proposed 3.7% RSR surcharge.
35. Please discuss the RSR loading that would have been required in the current Application if the Capital Management Policy had not been changed.
36. Please provide a schedule displaying the financial expectations and results had the proposed new Capital Management Policy been in place for the last six years 2008-2013.
37. Please provide a mock-up of a sample renewal notice advising of the RSR surcharge.
38. Why is it that Tab 6 Part 1 Appendix B does not show separately the revenue contribution of the actual and proposed RSR surcharges starting August 31, 2013?
39. Please provide an alternate version of Appendix B showing separately the revenue contribution of the 1.23% RSR surcharge in place for the year ending August 30, 2014 and the proposed loadings for Capital Build and Release provision and Capital Maintenance provision (separately) starting August 31, 2014.
40. Please discuss the implications for premium on-leveling in future rate applications (i.e., bringing historical premiums to current approved rate levels) if the Capital Build and Release provisions and Capital Maintenance provisions over successive years are embedded in approved rates.
41. Please provide the actual month-end MCT ratios underlying the chart provided in Tab 15, extended to the latest available month, and estimate the impact of this most recent MCT information of the Application's Capital Build provision of 2.7%.
42. Please provide the derivation of the December 2013 MCT ratio (58%) shown in Tab 16, including supporting schedules.
43. Please identify and discuss the main causes of the movement in the MCT ratio over calendar year 2013.
44. Please summarize the currently proposed changes to OSFI's MCT ratio taking effect in 2015, including where available the expected relative significance of each such change in the MCT ratio calculated for SAF if applied as at December 2013.
45. Please confirm that SAF's Capital Management Policy is intended to use the MCT ratio as periodically revised by OSFI, and describe SAF's process for assessing the need for changes to its Capital Management Policy in response to changes in the MCT.
46. Please discuss how SAF's Capital Management Policy may be affected by OSFI's new Guideline A-4 taking effect January 2014.
47. Please discuss the rationale for the Capital Management Policy's approach to build or release the RSR in five equal steps, rather than some number of graduated steps up and down to further mitigate rate shock.

48. Please confirm that SAF's target MCT ratio of 100% is predicated on modeling of 99th percentile outcome adverse scenarios, and discuss the rationale for the selection of this likelihood level as being appropriate for the setting of an RSR target level for a crown corporation provider of compulsory basic insurance.

BREAK EVEN MARGIN

Reference: Tab 6 Part 1 Page 14; Tab 6 Part 2 Page 89

49. Please confirm that this Application requests the inclusion of a break even margin of 0.48%.
50. Please describe the main reasons for the decrease from last year's break-even margin of 0.81%.

STRATEGIC PLAN & PERFORMANCE MEASURES

Reference: Tab 5

51. Please provide a copy of the consultant's report concerning the review of the effectiveness of SGI's Strategic Plan.
52. Please provide the number of FTEs in 2010, 2011, 2012, 2013 and proposed for 2014 for each of the operating divisions shown on the Chart on Page 4 of Tab 5.
53. Tab 5, references Auto Fund priorities for 2014 - Please discuss what specific organizational or strategic changes, initiatives or programs SAF is proposing or has currently undertaken to enable the corporation to accomplish the identified priorities in 2014.
54. The Balanced Scorecard table shows the value index for 2012 and forecasts for 2013 and 2014. Please explain the events or changes, which in your opinion, moved the value index during that period.
55. Please provide further details and describe what actions or initiatives are being contemplated by Auto Fund to strengthen the main focuses identified.
56. Relative to business growth discussion on productivity, please provide further explanations on new initiatives being proposed and shared services productivity metric target. Please provide a similar productivity metric for SAF alone.
57. Please discuss the differences in the make-up of the administrative expense ratio between SGI and SAF.
58. Please confirm that the MCT target for SGI and for SAF alone. Please list and discuss the varying factors that drive each target.
59. With regard to the 2014 Balanced Scorecard, please provide a summary of any significant changes from the 2013 Balanced Scorecard.

PRODUCTIVITY AND EFFICIENCIES SAVINGS

Reference: Tab 23

60. Please explain the monitoring and tracking systems used to determine cost savings for each of the initiatives listed in the table in Tab 23.
61. Please indicate the total amount of actual savings for 2013 and forecasted savings for 2014 attributed to this table that are included in the test period of this Application.

62. Please discuss whether these are the only savings reflected in the financial information (actual and forecast) contained in this Application.
63. Please provide a summary of the savings and efficiencies that were originally estimated resulting from the implementation of the Auto Fund Renewal Project Initiatives for each year from 2013 to 2017 for each identified initiative and discuss any changes in the savings, indicating where these are shown in this Application.

EXTERNAL STUDIES

Reference: Tab 25

64. Please provide, for the record, a summary of the Ward Group Study.
65. Please discuss what, if any, changes have been made in code functions analyzed or Benchmarking groups since the last Application.
66. Please confirm that the Key Performance Metrics listed relate to the 2012 year.
67. Please provide similar data for 2013.
68. Please discuss and explain the components of "Net Premiums Written to Surplus Ratio", "Net Investment Yield" and "Return on Total Revenue".
69. Please provide in tabular form, the Key Performance Metrics for each year since the Ward Group analysis was first implemented and provide narrative to explain any changes or significant variances in the year over year results.
70. With regard to the Ward Group Study, please explain the high expenses and headcount for the Operational Heat Index for the following functions: Claims Reporting & Support; Adjusting & Appraising; Human Resources; and Occupancy.
71. Please update the data regarding SAF's average compensation per employee for both salaried and hourly personnel, and indicate how this compares with the industry averages.

REINSURANCE

Reference: Tab 6 Part 1 Page 13

72. Please confirm that there have been no changes in how the ceded premiums are determined and/or estimated.
73. Please update the data provided in last year's information respecting reinsurance premiums paid and recoveries received explaining any significant change for each of the 2 programs.
74. Please confirm that there have been no changes in the treatment of ceded premiums and claims recoveries for rate making and in the process used to select reinsurers for the 2 programs since the last Application.

REVENUE

Reference: Tab 6 Part 1; Tab 18

75. Please provide an update of the breakdown of net premiums written showing each year's increment due to rate changes, vehicle drift, and fleet growth, including budgeted amounts compared to actual results, as provided last year.

CLAIMS

Reference: Tab 6

76. For each year from 2006 to 2013, provide a breakdown of claims incurred by coverage, including a separation into frequency and severity components, showing budgeted and actual values as well as the forecasted values from 2014 to 2018.
77. Please discuss any changes in the process used to determine the indexing of annual benefits since the last Application.

Injury Claims

78. Please describe any changes in the claims interaction processes between SAF and Workers Compensation.

No-Fault vs. Tort

79. Please confirm that there have been no changes in coverage or determination of premiums between the No-Fault and Tort options, and in how the claim settlement process functions within and between the two options.
80. Please provide an update of the historical perspective of the No-Fault vs. Tort option, indicating the number of drivers opting for each option, since inception to the end of 2013, similar to that provided in last year's Application, and including the corresponding number of drivers choosing the No Fault option, the total number of drivers, the % of drivers choosing the Tort option and the % of drivers choosing the No Fault option.
81. Please confirm that once a driver chooses either the Tort or No Fault coverage, the choice remains the same regardless of vehicle type operated, and that the option can only be exercised once per year.

COST ALLOCATION

Reference: Tab 21

82. Please confirm that there have been no changes to the cost allocation methodology since the last Application, and how time is tracked and allocated to different lines of business where time is used as an allocator for LAE and average time per claim.
83. For 2009 to 2012 actual, 2013 projected, and 2014 forecasted, please provide a summary of the results of SGI's cost allocation to SGI, SAF, SGIC, SCISL, Coachman, and ICPEI in terms of dollars and percentage of total for the following:
 - a) Admin direct costs,
 - b) Admin indirect costs, and
 - c) Loss adjustment expenses.

As well, please provide the total cost amounts that were assigned directly and that were allocated for each entity.

84. Please summarize, and explain, as necessary, those controls in place that can assure the Panel that there is no subsidization of SGI Canada operational costs by SAF. In the response please address the matter of any advantages flowing from SAF operations to SGI Canada related to use

of SAF computer/information systems, product recognition, market share and any other matters.

85. In last year's Application SAF included the 2012 consolidated financial Statements for SGI Canada as well as for SAF, on a confidential basis. Please provide similar statements for 2013.
86. The financial statements included in Tab 6 show SAF actual investment income for 2013 and forecast amounts for 2014 through to 2017. Recognizing this information to be confidential, please provide the total investment income, overall rates of return for SCISL and for SAF and explanations for the variances on a confidential basis.
87. Please discuss what if any changes have been or contemplated to maintain the integrity of the system in a more efficient manner, including periodic "checks and balances" to ensure that there is no cross-subsidization between the companies.

CAPITAL, OPERATING AND ADMINISTRATIVE EXPENSES

Administrative, Capital and Budgeting

Reference: Tab 6 Part 1 Appendix B; Tabs 21, 24

88. Please indicate when the table on the last page of Tab 21 can be publicly released.
89. Please discuss whether the 2013 capital program that was anticipated in the 2013 budget was actually carried out in full and indicate all related expenses, including depreciation in dollars that flowed into the 2014 forecast. Please also provide the five year capital expenditure program commencing in 2015.
90. Please discuss any changes in the capital project budgeting process including the accounting treatment, funding arrangements, amortization rates and annual expenses since the last application.
91. Please discuss whether SAF has ever investigated the potential for savings by borrowing funds for capital projects, as opposed to funding these from operations.
92. Please discuss the general nature of the proposed improvements or enhancements for the Saskatoon and Estevan Claims Centres and the North Battleford and Yorkton Salvage Centre.
93. Please provide a breakdown of the estimated increase in 2014 Wages and Salaries relative to 2013 into: Inflation, Increased Numbers of FTEs, Merit and Other, for each of unionized and salaried employees.
94. With regard to SAF Administrative Expenses in the table in Tab 21:
 - a) Please discuss changes in accounting treatment for each of the line items in this table that preclude direct year over year comparisons.
 - b) Please elaborate on the reasons and provide further details for the variances in the following:
 - i. Advertising
 - ii. Amortization
 - iii. Data Processing
 - iv. Driver Education
 - v. Employee Training

- vi. External Services
 - vii. Safety Awareness.
- c) Please also provide a general commentary on the reasons for the variances in other line items listed on this table and indicate any significant changes expected in any of the items for the next five years.
95. Please provide a continuity schedule of FTEs for each of the units shown in the chart in Tab 19 from 2009 to 2013 and expected for 2014, including explanations of variances from budgeted FTEs in 2013 and the justification for all staff increases proposed for 2014. Please also discuss any organizational changes since 2009 that result in "anomalies" in the FTE count.
96. Please provide SAF's definition of an FTE, including whether overtime is a consideration in that definition.
97. Please indicate whether the calculation of SAF's average compensation per employee for both salaried and hourly personnel uses the Ward Group or SGI definition of Salaried and Management positions.

Repair Costs and Rehabilitation Costs

Reference: Tab 6 Part 1

98. Please provide details and discuss the changes in determining labour and repair remuneration rates that lead to "... 2014-2016 year-over-year 10% increase to auto body labour rates" as mentioned in Tab 6 Part 1 Page 1.
99. Please provide a schedule of SGI's auto body labour repair rates from 2010 to 2013 and proposed for 2014, 2015 and 2016, and provide explanations for variances.
100. Please discuss any expected cost savings to SAF to arise from the "2014-2016 year-over-year 10% increase to auto body labour rates, and how these are reflected in the Application, with supporting documentation as appropriate.
101. Please discuss any changes in medical/rehabilitation rates or controls respecting re-registration of written-off vehicles since the last Application.
102. Respecting net salvage profits, please provide the revenues realized as well as the associated costs, by type, to generate the net values. Also, please describe how and where the net salvage profits are reflected in Tab 6 Part 1 Appendix B of the Application.
103. Please provide an update showing a break-down of the amounts (approximately \$30 million per year currently) that SAF reimburses the Ministry of Health, as well as the amounts paid to medical providers.
104. Please provide the total number of vehicles registered and indicate what percentage TLV represents of the total registered vehicle, as well as data respecting total loss vehicles.

Taxes, Other Payments to Government

Reference: Tab 20

105. Please confirm that, outside of normal routine business operations, SAF continues to collect and remit to the Province all registration fees and GFR's portion of short-term financing fees, provincial sales tax, prorated vehicle fuel tax, and snowmobile trail fees. Please confirm SAF

does not receive any commissions or administrative rebate for the collection and remission of these fees.

106. Please provide a record of premium taxes (and other payments, if applicable) made by SAF or SGI on behalf of SAF from 2007 to 2013 and forecasted for 2014.
107. Please confirm that there has been no change in the rate of premium tax since the last Application.

PROGRAMS AND INITIATIVES

SDR and BR Programs

Reference: Tab 12

108. Please provide an update of the status and proposed schedule for the review that is considering the SDR and BR Programs and confirm that there have been no changes in any elements of these programs since the last Application.

Traffic Safety

Reference: Tab 14

109. Please file the Traffic Safety Review Committee report and include a brief discussion of the background and future activities in this regard.
110. Please provide the budgeted and actual costs for each of SAF's seven major safety initiatives shown in this Tab, and discuss any variances.
111. Please discuss any changes to the budget process for safety initiatives and how these are determined for the near, mid and long-term, including the influence of the recent Traffic Safety Review Committee findings.
112. Tab 14 discusses evaluated initiatives for Distracted Driving and Seatbelt Use. Please discuss the status of the monitoring and evaluation of the other major safety Initiatives for 2013, including any new evaluation methods used, or to be used.
113. Please provide details of HTB costs paid by SAF from 2011 to 2013 and projected for 2014, and explain any major year-over-year increases.
114. Please provide any available statistics assembled by SGI that measure the success of its safety programs since 2007.

FINANCIAL STATEMENTS

Investment Strategy and Income

Reference: Tab 6 Part 1 Appendix B; Tab 17; Tab 18

115. Please describe any changes proposed or made in monitoring and control measures exercised by SGI's Management Board with respect to SAF's investment portfolio since last year.
116. Please also discuss the change in investment managers, related financial consequences to SAF if any and the manner used to select the new investment managers.

117. Please discuss occasions (if any) arising in 2013 where remedial action was recommended with respect to deviation from the asset mix policy.
118. Please provide the forecast and actual investment earnings from 2008 to 2013 and explain these variances.
119. Changes to the current targets for the Return Seeking Portfolio have been made. Please explain the reasons for these changes. Please also provide details and discuss whether SAF annually reviews the relative proportions of its Return Seeking and Investment Portfolios with a view of maximizing returns within an acceptable risk.
120. Please provide the overall actual and forecasted expected return (net of fees) for the SAF investment portfolio for 2009 to 2016 and the factors that are leading to the anticipated changes in returns over this period.
121. Please update current investments held with or within the Province of Saskatchewan.

Issuer Fees

Reference: Tab 6 Part 1 Page 14; Tab 18

122. Please provide an update of costs that are borne by SAF in respect of Issuer operations for which there is no cost recovery, on an annual and on a per issuer basis, from 2007 to 2013, as well as any changes in the structure or amount of Issuer fees over that period of time.

Financial Results

Reference: Tab 6 Part 1; Tab 18

123. Please provide a table indicating the variances between budgets and results from 2008 to 2013 actual, and 2013 currently projected and discuss the reasons for any major variances, especially related to 2013.
124. Please discuss whether SAF considers the recent unaudited 2013 results to require changes to the 2014 and beyond forecasts.

Other Income

125. Please provide a schedule showing the variance between budgeted amounts and actual results for the components of Other Income, and discuss all significant variances from 2008 to projected 2013.

APPLICATION SENSITIVITY TESTING

126. Please provide an estimate of the impact on the overall rate requirement, RSR levels and MCT ratios for each of the following shifts in 2014 (in each case all else being equal):
 - a) a 10% increase and a 10% decrease in Claims Incurred costs;
 - b) a 0.5% increase and a 0.5% decrease in vehicle drift;
 - c) a 0.5% increase and a 0.5% decrease in vehicle volume growth;
 - d) a 10% increase and a 10% decrease in investment income;
 - e) a 10% increase and a 10% decrease in LAE;
 - f) a 10% increase and a 10% decrease in Administrative expenses;
 - g) a 10% increase and a 10% decrease in Traffic Safety costs; and

h) a 10% increase and a 10% decrease in Other Income.