

# **Saskatchewan Auto Fund**

# Presentation Outline

- Auto Fund Mandate
- Rate Proposal Overview
- Financial Overview
- Investment Income
- Efficiencies
- Auto Fund Rate Proposal
- Timeline

# Saskatchewan Auto Fund Mandate

- Universal, fair and affordable automobile insurance
- Operates as public fund for Saskatchewan motorists
- Self-sustaining and operates on a break-even basis

# Rate Proposal Overview

- Overall net revenue increase of 5.2% to the Auto Fund effective Aug. 31, 2014
  - 2.7% overall rate increase
    - Required to cover expected claim costs and expenses
    - Due to rebalancing, some rates will go up, some will go down and some will stay the same
  - 3.7% capital amount
    - Will bring the capital amount from 1.23% to 3.7%
    - The capital amount is applied on top of everyone's rebalanced rate

# Rate Proposal Overview

The proposed revenue increase and rebalancing effective Aug. 31, 2014 includes:

- Increases for about 84% of Saskatchewan vehicles with an average annual increase of \$49;
- Decreases for about 16% of Saskatchewan vehicles with an average annual reduction of \$12; and,
- No premium change for about 3,000 Saskatchewan vehicles.

# Financial Overview

# Financial Overview

	2013	2012	2011	2010	2009
		(thousands of Canadian \$)			
Net premiums earned		767,226	726,282	684,821	630,559
Total claims and expenses		<u>891,050</u>	<u>954,962</u>	<u>742,930</u>	<u>727,178</u>
Underwriting loss		-123,824	-228,680	-58,109	-96,619
Investment income		74,838	51,668	119,367	31,050
Other income		<u>37,490</u>	<u>34,088</u>	<u>31,489</u>	<u>24,834</u>
Increase/(Decrease) to RSR		-11,496	-142,924	92,747	-40,754
RSR Balance, end of year		127,122	134,261	271,856	67,211



# Forecasts in Prior Application vs. Actual

(thousands of \$)	2013 Forecast	2012 Actual	2012 Forecast	Variance
<b>Net Earned Premiums</b>	<b>828,452</b>	<b>767,226</b>	<b>765,071</b>	<b>2,155</b>
Claims Incurred and LAE	758,091	740,527	737,174	3,353
Issuer Fees and Prem Taxes	85,290	76,350	79,138	(2,788)
Administrative Expenses	55,434	51,546	52,671	(1,125)
Traffic Safety Programs	28,722	22,627	23,157	(530)
<b>Total Claims and Expenses</b>	<b>927,537</b>	<b>891,050</b>	<b>892,140</b>	<b>(1,090)</b>
<b>Underwriting Loss</b>	<b>(99,085)</b>	<b>(123,824)</b>	<b>(127,069)</b>	<b>3,245</b>
Investment Earnings	44,087	74,838	72,393	2,445
Other Income	38,159	37,490	35,059	2,431
<b>Increase (Decrease) to RSR</b>	<b>(16,839)</b>	<b>(11,496)</b>	<b>(19,617)</b>	<b>8,121</b>





# Forecast including 2.7% Rate Increase and 3.7% Capital Margin

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<b>Net Premiums Earned</b>	<b>872,986</b>	<b>967,115</b>	<b>1,036,749</b>	<b>1,098,617</b>	<b>1,164,088</b>
Claims Incurred and LAE	797,056	816,366	900,464	979,589	1,046,696
Issuer Fees and Prem Taxes	86,930	95,851	102,157	108,244	114,688
Administrative Expenses	58,611	59,712	62,331	64,909	67,410
Traffic Safety Programs	35,231	39,936	44,854	49,991	50,991
<b>Total Claims and Expenses</b>	<b>977,828</b>	<b>1,011,865</b>	<b>1,109,806</b>	<b>1,202,733</b>	<b>1,279,785</b>
<b>Underwriting Loss</b>	<b>(104,842)</b>	<b>(44,750)</b>	<b>(73,057)</b>	<b>(104,116)</b>	<b>(115,697)</b>
Investment Earnings	46,787	26,966	61,843	95,623	107,594
Other Income	44,549	47,719	50,877	54,246	57,843
<b>Increase (Decrease) to RSR</b>	<b>(13,506)</b>	<b>29,935</b>	<b>39,663</b>	<b>45,753</b>	<b>49,740</b>
<b>RSR Balance, End of Year</b>	<b>161,747</b>	<b>191,682</b>	<b>231,345</b>	<b>277,098</b>	<b>326,838</b>
<b>MCT</b>	<b>57%</b>	<b>65%</b>	<b>73%</b>	<b>81%</b>	<b>89%</b>

# Other Financial Impacts

- IFRS Impact
  - No changes for 2014
  
- MCT Changes
  - No changes for 2014

# **Investment Income**

# Investment Approach

- Matching portfolio using actual portfolio yield
- Return seeking portfolio using assumed long-term yield
- Return on RSR using overall investment yield

# Investment Approach

Two Portfolios:

- Matching portfolio used to back first 20 years of future claim payments
  - Bonds, short-term investments & mortgages
  
- Return seeking portfolio used to back 21+ years of future claim payments and RSR
  - Equities, real-estate and Infrastructure

Approach designed to mitigate interest rate risk

# Results of Matching

	<b>2013</b>	<b>2012</b>
	<b>(\$000)</b>	<b>(\$000)</b>
Impact on claims from change in discount rate	60,710	(7,123)
Matching portfolio capital gain (loss)	(45,588)	4,826
<b>Difference</b>	<b>15,122</b>	<b>(2,297)</b>

# **Efficiencies**

# Productivity Initiatives

- SGI recognizes that controlling costs for a monopoly program is important
- Must also be balanced with customer service initiatives
- Efficiencies
  - Internal Build of Test Drive
  - Auto Fund Application Support Model Review
  - Consolidation of Vehicle Renewals
  - No Show Policy



# **Auto Fund Rate Proposal**

# Auto Fund Rate Program

➤ Three components to consider:

1. Adequate premiums to break even
2. Fairness in rating
3. Maintain adequate capital

## Indicated vs. Proposed Rate Change

- The overall indicated rate increase to break even is 3.4%
- Requesting a 2.7% overall rate increase
  - Motorcycles getting 2.7% flat rate increase; no rebalancing
  - \$6.8M motorcycle shortfall will not be picked up by other vehicle classes

## **Why the Auto Fund requires a 3.4% increase**

- This year, the primary reason for the increase is the 2014-2016 year over year 10% increase to auto body labour rates.
- The other component is changes to premium drift assumptions
- Offset by other changes

# Example of Changes to Premium Drift

CLEAR-Rated Vehicles

Rate-making date as of: 31/05/2013

Rating year: 31/08/2014

<b>Policy Year</b>	<b>Written Premium Per Vehicle*</b>	<b>Increase Over Previous Year</b>
June 2003 to May 2004	741.26	
June 2004 to May 2005	784.79	5.9%
June 2005 to May 2006	822.87	4.9%
June 2006 to May 2007	864.13	5.0%
June 2007 to May 2008	892.01	3.2%
June 2008 to May 2009	933.86	4.7%
June 2009 to May 2010	971.00	4.0%
June 2010 to May 2011	1,008.50	3.9%
June 2011 to May 2012	1,031.30	2.3%
June 2012 to May 2013	1,057.30	2.5%

\*Adjusted to remove the effect of past rate changes, measured as per year of vehicle insurance written

# Rate Indication Improvements

## ➤ Traffic Safety Initiative Factor

- Based on estimates from other jurisdictions
- 1% impact on damage, 2% on injury, 4.4% on death benefits

# Credibility Example

## ➤ 2013 Rate Program

- Ambulance: 2% increase indicated and proposed
- LV-Bus (Restricted): 21% increase indicated and proposed

## ➤ 2014 Rate Program

- Ambulance: 12% class-specific indication; 3% credibility-weighted indication
- LV-Bus (Restricted): -9% class-specific indication; -1% credibility-weighted indication

# Rate Rebalancing

- Over 30 different vehicle classes
- Rebalancing: rates for vehicles within a class
- Rate changes are capped to reduce rate shock



# Rate Rebalancing

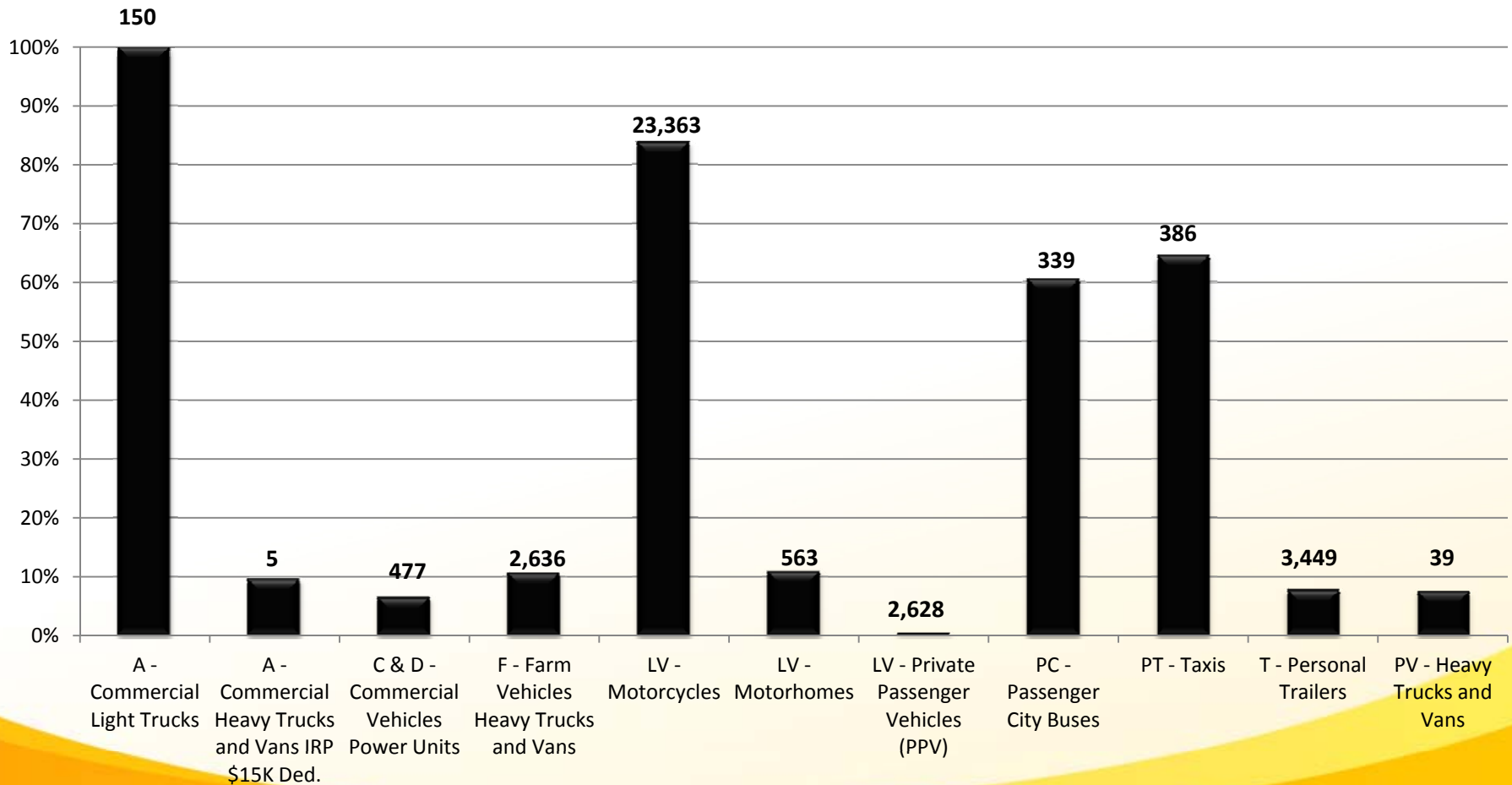
- The following capping table is the same as last rate program's

Current Annual Rate	Maximum Cap
\$1 – 50	\$25
\$51 – 100	\$50
\$101 – 250	\$75
\$251 – 500	\$100
\$501 – 750	\$125
\$751 – 1000	\$150
\$1001 or greater	15%

# Taxis

- Review of taxi rating structure completed
- Damage and injury rates now vary by location
- Prince Albert split from other large cities
- PA, Regina and Saskatoon now credibility-weighted against the pool of all three cities
- Small and large cities combined for analysis
  - Nearly identical claims histories
  - Due to capping, rates remain different

# Proportion of Class Still Outside of 5% Adequate Target Range After 2014 RP



# Motorcycles

- Government moving forward on Motorcycle Review Committee proposals, including:
  - Increased requirements for acquiring a motorcycle learner's licence
  - Incentives for new riders to take training
  - Additional mandatory gear for new riders and their passengers
  - Changes to the Safe Driver Recognition programs
  - Stiffer penalties in SGI's driver improvement programs for all drivers and riders

# Motorcycles

- Recommendations will take time to have an impact on claim costs
- All motorcycle rates will be increased by a flat 2.7% rate change with no rebalancing
  - Based on the average required rate change for all vehicles excluding motorcycles
  - 3.7% capital amount will also apply to motorcycles

# Taxis

- Also have a large gap between the cost of claims and expenses, and what they pay
  - Proposing to increase rates by 14.5%, (after the application of the capital amount, becomes 17.3%)
  - SGI is working with taxi companies, operators, cities and other stakeholders on a comprehensive strategy to address issues
  - Currently consulting with the taxi industry about insurance rates, recognition programs, and other options to improve safety, and bring down claim costs

# Why the Auto Fund requires a 3.7% Capital Margin

- The Rate Stabilization Reserve (RSR) acts like a savings account for emergencies
  - Protects customers from large rate increases
  - Ensures the Auto Fund can cover claim obligations
- Revised Capital Management Policy

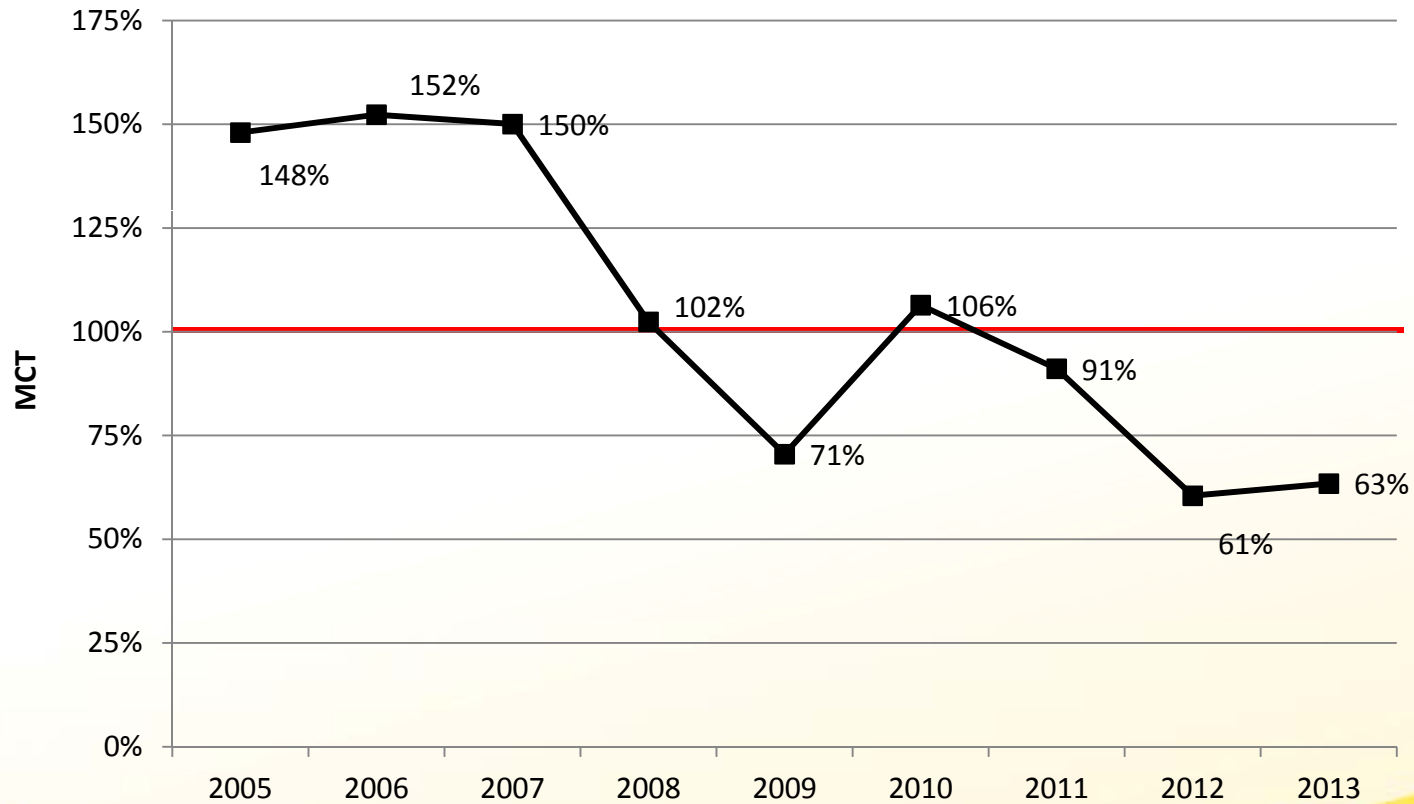
# Capital Management Policy

- Target – Minimum Capital Test of 100%
- Two-part policy
  - Capital Build/Release – amount to move the RSR 20% closer to target; plus
  - Capital Maintenance – amount to grow capital to account for Auto Fund growth
- Overall 3.7% capital amount
  - 2.7% Build + 0.9% Maintenance + rounding



# Available Capital

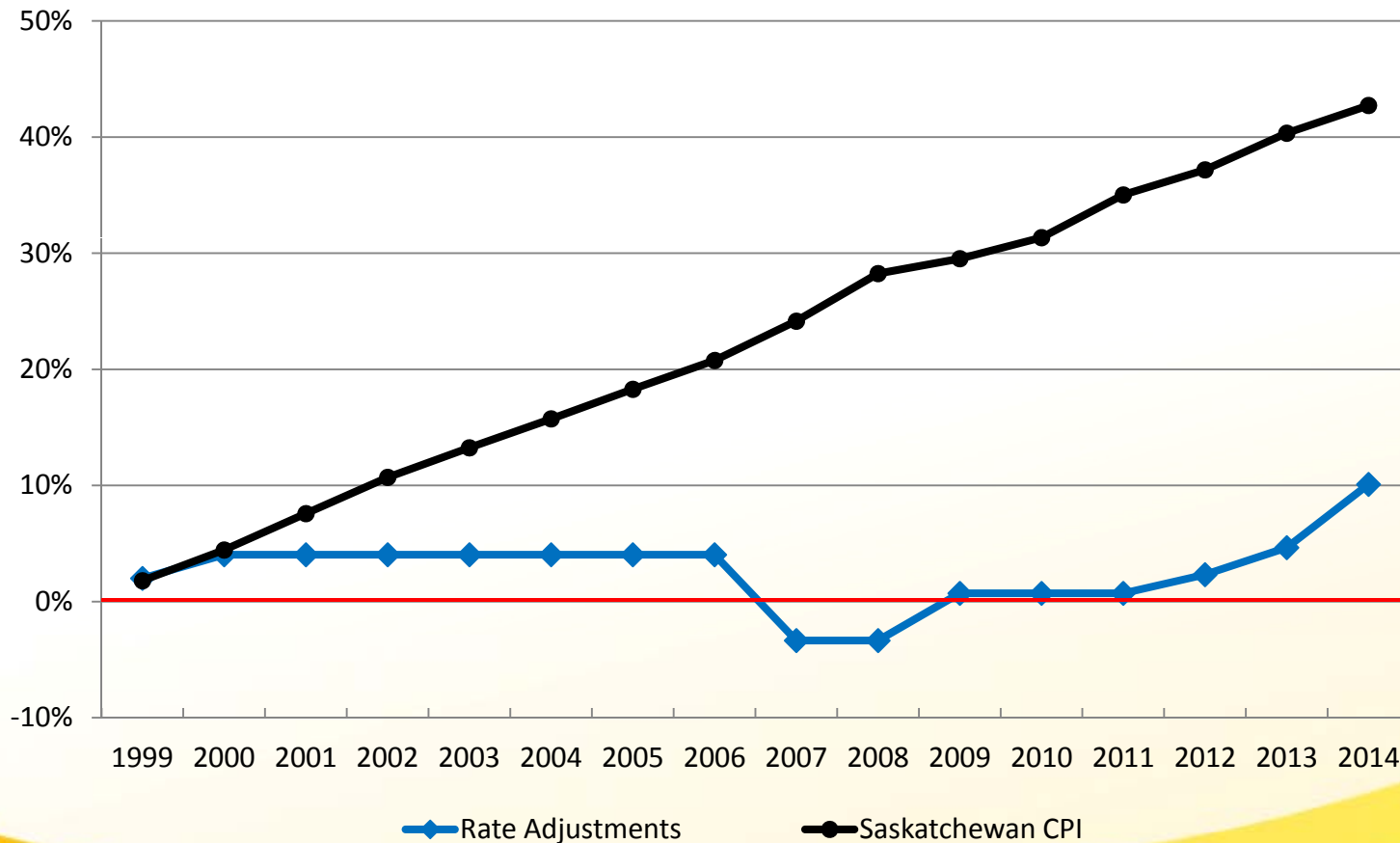
12-Month Rolling Average MCT



2013 is as of November 31, 2013

# Commitment to Low Rates

Rate Increases versus Saskatchewan CPI



**QUESTIONS?**