Saskatchewan Rate Review Panel

Report to the Minister Responsible for Crown Investments Corporation of Saskatchewan

regarding

Saskatchewan Auto Fund Rate Application Effective date August 31, 2013

Report submitted June 11, 2013

Introduction

On February 15, 2013, SGI's Saskatchewan Auto Fund (SAF) submitted a rate Application requesting an overall rate increase of 1.03%, with rate rebalancing, to take effect August 31, 2013. The application also requested a rate surcharge of 1.23% to be applied to all vehicles after rebalancing, to help replenish the Auto Fund's Rate Stabilization Reserve. The proposed surcharge would be applied in each of the next three years, beginning in August 2013.

The proposed 1.03% increase and the proposed 1.23% rate surcharge represent an overall rate increase of 2.27%. However, rate rebalancing in more than 30 vehicle classes would mean that some customers would experience a rate adjustment significantly different than 2.27%. To mitigate possible rate shock caused by rate rebalancing, the Auto Fund proposed that caps be applied to rate adjustments, with dollar amounts applied to annual premiums of $1,000 or less, and a 15% cap applied where premiums are over $1,000.

Two Controversial Provisions

Two exceptions to the Auto Fund's rate capping proposal immediately drew public interest – and stirred considerable controversy. The Application proposed that the rate for small city taxis be capped at 30% and that all motorcycle rates be increased to cover the full cost of their claims and expenses. The proposed average rate increase on motorcycles would be 72.6%, or $964 per year, although some rate adjustments would be significantly lower or higher than the average.

The proposed increases affecting motorcycles touched off the heaviest volume of public comment that the Panel has ever experienced in any review, through its website, social media channels, phone messages and the regular news media. The volume of comments did not begin to abate until the provincial government announced on March 1st that it would ask the Auto Fund to reconsider its rate request and impose a rate cap on all motorcycle and taxi classes.

A Revised Application Submitted

On March 14, 2013, the Auto Fund submitted a revised rate Application that also capped rate increases for small city taxis and motorcycles at 15%, while maintaining the proposed overall rate increase at 1.03%, and the Rate Stabilization Reserve surcharge of 1.23%. While the volume of public comment declined after the revised rate proposal was submitted, public interest in the review remained strong. This was evident in the significant number of people present at the Panel's public meetings in Regina and Saskatoon in April and in the number of presentations made and questions raised during those meetings.

Other Relevant Reviews

The Panel notes that this Auto Fund Review is taking place while other important initiatives are underway, including:

1) Three-Phase Product Review

In October 2012, the Auto Fund launched a three-phase product review, with stakeholder input. The first phase includes a review of the Safe Driver Recognition and Business Recognition programs. The planned second and third phases will review injury coverage and then physical damage coverage provided by basic plate insurance, respectively.

Recommendations from the Auto Fund's product review regarding the Safe Driver Recognition and Business Recognition programs will be ready in Fall 2013, after which key stakeholder groups will be consulted before any changes are implemented. Any changes would likely be implemented in 2014 at the earliest.

2) Motorcycle Review Committee

In May of this year, the provincial government asked the Auto Fund to establish a Motorcycle Review Committee to examine the key factors affecting motorcycle insurance rates in Saskatchewan. The Committee is to prepare a discussion paper that will be the basis for public consultations this summer. The Auto Fund expects that recommendations resulting from this review will be presented to the provincial government in Fall 2013.

3) Traffic Safety Committee

In Spring 2013, a special committee of the Legislature began conducting an inquiry into traffic safety in Saskatchewan. As this Report is being tabled, the special committee is just completing its public consultation process. The committee is to present its recommendations on various aspects of traffic safety by the end of August 2013.

The Panel was mindful of the work of these various reviews and the possible impacts as it developed its own recommendations on the Auto Fund rate application.

Finding Fairness

The Panel's mandate for the review included assessing the fairness and reasonableness of the rate proposal in relation to several factors detailed in Section 1 of this report, and taking into account the interests of the customer, the Crown corporation and the public.

The question then became: "How do you define fairness?" The answer, more often than not, is that fairness depends on one's personal perspective. The question is further complicated in the case of the Auto Fund because members of "the public" are also its customers, and because the Auto Fund ultimately answers to "the public" through elected members in the Legislature.

The Panel focused its efforts on finding a balance of fairness and reasonableness during this review. To assist it in fulfilling its mandate, the Panel engaged external, expert Consultants who conducted a thorough technical review of the application and submitted an impartial assessment of the rate application in an independent report, which is attached as Appendix D of this report.

Public consultations are also an important part of each review process. The Panel is encouraged by the strong interest in this review, and the thorough research and thoughtful ideas provided in many of the presentations made at the public meetings in Regina and Saskatoon. The results of the public consultation process are reported in Section 3 of this Report.

Working within its mandate, the Panel did its utmost to weigh and balance all of these considerations in arriving at its recommendations.

Executive Summary

The Review Process

At this point, it is important for the public to have some background information regarding the preparation and presentation of rate applications. Before a rate application comes to the Rate Review Panel, it has been proposed by management to the Board of the Crown. It is then reviewed by the Board of Crown Investments Corporation before the Minister of Crown Investments Corporation releases it, together with specific Terms of Reference, to the Panel.

There was immediate and outspoken public reaction to the original Auto Fund rate Application. Many believed the proposal was not thought through as carefully as it should have been before being released. In was in this volatile atmosphere that the Panel sought to achieve an appropriate balance of fairness and reasonableness, while working with an Application that some members of the public perceived to be inherently unfair or punitive. The subsequent revised Application lessened the financial impact for today's motorcyclists, but did not address a longer, more permanent solution that would be recognized by everyone as being of benefit to not only motorcyclists, but also to all customers of the Auto Fund.

Public consultation is important. SGI's review of the Business Recognition/Safe Driver Recognition programs and the Motorcycle Review Committee are positive steps that may provide for greater public consultation in the immediate future.

> Because the Auto Fund operates as a monopoly, part of the Panel's mandate is to provide a check on the Auto Fund by taking the place of the conditions it would face if it were operating in a competitive business environment.

Limitations of Terms of Reference

The Panel emphasizes that its purpose is not to manage the Saskatchewan Auto Fund. The Panel is mandated to provide an opinion on the fairness and reasonableness of SGI's proposed Auto Fund rate change as defined by the specific Terms of Reference for this review as issued by the Minister of Crown Investments Corporation.

To carry out its mandate, the Panel needs appropriate tools to do its job effectively for the benefit of the Auto Fund, its customers and the shareholder (the government, and ultimately, the people of Saskatchewan). The tools at the Panel's disposal are determined in part by the Terms of Reference. In the case of this Application, the Panel would have benefited by a consideration of information that was outside the Terms of Reference, especially:

- Analysis of the Capital Management Policy and the Minimum Capital Test
- The Safe Driver Recognition and Business Recognition programs
- The existing vehicle risk groups
- The SAF's accounting and operating policies and procedures.

These provisions all have a direct or indirect impact on the rates charged to Auto Fund customers. The opportunity to consider this information would optimize the Panel's ability to assess the Application. A brief discussion of each follows:

1) Capital Management Policy and Minimum Capital Test

The Panel is caught between two conditions of its mandate in this part of its review. On the one hand, it is to assess the adequacy of the Rate Stabilization Reserve surcharge and to make a recommendation to the Minister of Crown Investments Corporation, but it does not have the ability to review or examine the merits of the Capital Management Policy, nor the Minimum Capital Test Ratio, and their application.

The Rate Stabilization Reserve was established to act as a cushion to protect Auto Fund customers against significant rate changes due to much higher than expected claims costs or much lower than expected investment income. For practical purposes, the Auto Fund can draw from the Rate Stabilization Reserve to help alleviate "rate shock" where customers might otherwise face a significant rate increase.

In order to ensure that the Rate Stabilization Reserve maintains the appropriate amount on hand to moderate the need for large rate increases, the Auto Fund has developed a Capital Management Policy and uses the Minimum Capital Test to measure the adequacy of funds in the Rate Stabilization Reserve. In its Capital Management Policy, the Auto Fund's acceptable range for the Minimum Capital Test will be 75% to 150%. If the Minimum Capital Test exceeds 150%, then customers may receive a rebate that recognizes their overpayment. If, as is the case in this

Application, the Minimum Capital Test falls below 75%, customers may be required to pay higher premiums to bring the Rate Stabilization Reserve back to an acceptable level.

Following is a review of the Panel's recent history on this issue:

a) In its 2009 Report, due to limitations it detected, the Panel recommended "*that the Saskatchewan Auto Fund test the appropriateness of the currently prescribed Minimum Capital Test (MCT) target range for the Rate Stabilization Reserve (RSR). Once the target range is determined, the Panel recommends that a formal policy on an action plan be developed to address situations where the MCT for the RSR falls significantly above or below the target range*."

b) A new Capital Management Policy was developed, changing the limits to the current range of 75% - 150%, and the requested Policy was approved by the SGI Board effective January 2010 and Crown Investments Corporation Board on February 8, 2010.

c) In its 2012 Report, the Panel expressed concern that one of SGI's stated purposes of the Rate Stabilization Reserve was to fund large capital projects. The Panel recommended that the Auto Fund include an officially defined and stated purpose for the Rate Stabilization Reserve (i.e. not to fund capital projects) and the Capital Management Policy be included in the Panel's Terms of Reference in future Applications.

d) SGI responded that it has the required experience and expertise to make decisions on the Capital Management Policy, which is outside the Panel's mandate.

e) On page 31 of the Consultant's independent report on the 2013 Application, it states that although the Capital Management Policy (CMP) is a given, *"…the Panel is to conduct its review with specific consideration to the CMP."*

f) In its 2012 Report, the Panel believed that it was crucial for the Auto Fund to take action then to begin replenishing the Rate Stabilization Reserve, due to concerns it shared with its Consultants about the health of the Rate Stabilization Reserve at that particular time, and then recommended a 1% surcharge as part of its overall rate increase.

g) In August 2012, the Auto Fund implemented a 1.6% overall rate increase, using the Panel's recommended 1.0% Rate Stabilization Reserve (RSR) surcharge as part of the overall rate increase. In its response to the Panel's recommendation, the Auto Fund stated that, *"Based on the Capital Management Policy, the RSR did not require a surcharge on premium rates."*

The Panel notes that even with the 1.6% rate increase, according to First Round Information Request # 41 and Second Round Information Request #13, the 12-month moving average Minimum Capital Test ratio in January 2013 was at 59%, in February 2013, it was at 58% and in March, it was at 57%, all well below the low end of the target range of 75%. In response to First Round Information Request # 40, the Auto Fund stated that a Rate Stabilization Reserve surcharge of 6.31% for 2013 and each of the two following years would be needed to raise the Minimum Capital Test to the mid-point or target of the range, 112.5%, by the end of 2016.

The Panel is satisfied that the information presented here confirms that its concerns and those of its Consultants were justified. The Panel reiterates that the review process would be better served and more effective if the Capital Management Policy was within its mandate to review.

2) Safe Driver Recognition and Business Recognition programs

The Panel observes that even in the current state of the Safe Driver Recognition and Business Recognition programs, the amount offered in discounts to safe drivers represents a significant amount that is only modestly offset by penalty surcharges and therefore, is factored in when calculating the Auto Fund's overall rate need. Because these programs are an important component in the ratemaking process, the Panel believes bringing these two programs within its Terms of Reference would assist it in fulfilling its mandate to provide an opinion that the rates charged to Auto Fund customers are fair and reasonable.

Both programs are designed to reward safe driving records with discounts and penalize poor driving records with surcharges. In both 2012 and 2013, discounts in the Safe Driver Recognition Program exceeded penalties by approximately $90 million. Under the Business Recognition Program, discounts exceeded surcharges by just under $10 million.

The revenue required to offset the discounts to good drivers through the Safe Driver and Business Recognition programs must come primarily from an additional revenue requirement and, therefore, forms part of the requested rate increase of 1.03%. In the case of both programs, the penalties only modestly offset the revenue requirements resulting from the discounts to good drivers. One common theme the Panel heard from the public during the consultation process was *"…make the bad drivers pay"*.

Auto Fund consultations with Business Recognition Program stakeholders – mostly taxi companies -- have been going on since 2009. During this time period, taxi companies have told the Panel that the program was not a good fit for their business, and that it imposed harsh penalties on the companies, rather than the individual drivers who are responsible for accidents. Taxi owners repeated the same concerns at the public meetings during the 2013 review, and argued that lack of follow-up by SGI made their consultation meaningless.

The Panel notes that both programs are currently under review as part of the Auto Fund's stakeholder product review launched in October 2012, with any proposed changes not likely to be implemented before 2014.

3) Vehicle Classifications

Under its current mandate, the Panel does not have the level of comfort it would like to have that the current classification system completely fulfills the needs of the Saskatchewan driving public. Because Vehicle Classifications are "givens" in this review, the Panel is not empowered to explore them in depth.

The Panel was unable to explore fully the issues raised during the public consultations around vehicle classifications because this is a given in the Terms of Reference. The Panel heard that the current classification system is *"unfair"*, *"misguided"*, and does not properly recognize various vehicles. For example, the Auto Fund assigns motorcycles to three sub-classes, and the question is posed: Are they the right ones?

With regard to taxis, the Panel recognizes the difficulty of classifying taxis, since there are fewer than 600 registered in the entire province. However, the Panel heard much public criticism for those who perceive a lack of action from the Auto Fund on issues that have arisen from consultations with the taxi industry since at least 2009.

4) Accounting and Operating Policies and Procedures

The Panel heard a variety of presentations during the public consultation process that questioned the validity of SGI's numbers and statistics. Since the entire area of Auto Fund operating policies and procedures are a "given" in this review's Terms of Reference, the Panel was unable to gather all of the information available and assess impacts there might be on the fairness of the rate proposal.

The Panel notes that in prior Auto Fund reviews, accounting policies were not a given in the Terms of Reference, and the Panel was able to analyze these as part of the rate review process to help determine fairness and reasonableness of rate adjustments.

Several policy issues were raised by the public during consultations. Greater emphasis on driver behaviour as a rating factor and the penalties imposed on drivers at fault in accidents were common themes mentioned by both taxi industry representatives and motorcyclists.

In summary, the Panel reiterates that its purpose is not to manage the Saskatchewan Auto Fund, but to seek as much information as is needed to adequately explore issues at sufficient depth and to provide factual responses to public observations or questions put before the Panel. **Therefore, the Panel recommends that its Terms of Reference be expanded to include these four areas in particular.**

Proposed Rate Change

The Panel supports including a Break-Even Margin of 0.81%, as part of the proposed overall increase of 1.03%. The Panel also concurs that calculations for any future requested Break-Even Margin should be part of the Minimum Filing Requirements for future applications.

In their report on the Saskatchewan Auto Fund 2012 application, the Consultants recommended the Auto Fund stay focused on the development of best estimate rate indications, and enhance the level of support and documentation for judgmental overrides of experience-driven assumptions. The Consultants add that in the 2013 Application, the Auto Fund has provided considerable detail related to the analysis leading to the selection of frequency and severity trends, including future trends. They consider that the process for selecting future trends has improved considerably in this Application, as has the accompanying documentation. They also state that no significant concerns arose from their comprehensive review of the methodologies and underlying assumptions used by the Auto Fund in its ratemaking process.

The Panel welcomes these improvements to the ratemaking process, which lead to greater fairness in the rates charged to Auto Fund customers. **Therefore, the Panel recommends that an overall rate increase of 1.03% (before the Rate Stabilization Reserve surcharge) be approved and further, that calculations for any future requested break-even margin be part of the Minimum Filing Requirements for future applications.**

Rate Stabilization Reserve Surcharge

As noted earlier in this section, the 12-month moving average Minimum Capital Test has been well below the low end of the range of 75% - 150% for several months. The last figures provided by the Auto Fund to the Panel during this Application indicated that it was at 57% in March 2013, with little change from the previous months.

The Panel notes there is much evidence showing that various factors could affect the Minimum Capital Test ratio positively or negatively between now and 2016, which in turn could affect the health of the Rate Stabilization Reserve. For example, at the beginning of 2013, the Office of the Superintendent for Financial Institutions issued a revised guideline for the Minimum Capital Test that reduced the Auto Fund’s Minimum Capital Test ratio by approximately 2%.

Further evidence of potential volatility affecting the Rate Stabilization Reserve was provided by the Auto Fund at the request of the Consultants. Two tables prepared by the Auto Fund, included on page 26 of this Report, show the effects of eight negative and eight positive factors that could affect the Rate Stabilization Reserve from now until 2016.

It is highly unlikely that all of the factors would be entirely negative or entirely positive, but it is very likely that some will affect the Auto Fund's forecasted projections. To illustrate the volatility, a change in the Cost of Claims Incurred expense can move the Minimum Capital Test ratio from the current forecast of 38% to 12% should claims cost increase 10%, or to 64% if claims costs are 10% less than forecast.

The Panel believes that due to the current health of the Rate Stabilization Reserve and the potential volatility affecting its recovery, that it is prudent to review this issue on an annual basis. There are many other factors that could potentially impact rates, and subsequently the Rate Stabilization Reserve, that will arise from implementation of recommendations from the various reviews currently ongoing (in particular, expected outcomes from the Motorcycle Review Committee and potential changes with the Safe Driver Recognition and Business Recognition programs).

Therefore, the Panel supports the proposed Rate Stabilization Reserve surcharge of 1.23%, but for one year only. As noted in the sensitivity tables, a significant variation in the Rate Stabilization Fund could occur with the actual financial results being significantly off side with the current financial forecasts, resulting in a need to change the replenishment plan and resulting rate rider.

If the surcharge recommendation is approved, the Panel strongly encourages the Auto Fund to show the amount of the surcharge on each customer's renewal notices as a separate line item. This is an opportunity for SGI to demonstrate fairness and transparency in its dealings with its customers. The Panel believes the practical considerations stated by the Auto Fund for providing customers with a generic insert instead of showing the surcharge in this way are not compelling. Rather than being confused by the specific information relating to each customer's particular contribution to replenishing the Rate Stabilization Reserve, the Panel believes that customers will welcome it. The implication that this surcharge is "only temporary" may not seem reasonable to customers when the Auto Fund is estimating adding the surcharge to customer's bills for at least 3 years. In response to First Round Information Request # 40, the Auto Fund stated a Rate Stabilization Reserve surcharge of 6.31% for 2013 and each of the two following years would be needed to raise the Minimum Capital Test to the mid-point or target of the range, 112.5%, by the end of 2016.

Rate Rebalancing

The Panel wishes to go on record that it offers its recommendations on this rate Application only after extensive study and discussion. The issues are complex and the impacts are significant.

Rate rebalancing is necessary to ensure that drivers are paying rates that are reasonably in line with the loss experience for their vehicle class, so that cross-subsidization of vehicle classes is kept to a minimum. In other words, regular rate rebalancing promotes equity and fairness for all Auto Fund customers. Progress has been made on the rate rebalancing initiative with 50.5% of vehicle premiums being within 5% of adequate rates in 2012. This is expected to increase to 79.5% in 2013, and if annual rebalancing continues under current capping philosophies, it is possible to achieve 98% by 2016.

The original Application requested a rate cap of 15% on all vehicle classes, with the exception of Motorcycles and Small City Taxis. This was amended in the revised Application so that all vehicle classes would be subject to a rate cap of 15%, before the application of the Rate Stabilization Reserve surcharge.

The Panel has been made fully aware of the extent of public concern about this Application from the outset. The magnitude of the increase required in the original Application to bring all motorcycles to a break-even level, averaging 72.6%, but ranging far higher in some cases, produced a significant level of outrage, not only by the motorcycle community, but by the general public as well. During the public consultations the Panel received repeated requests to freeze rates.

The proposal to cap Small City Taxi rates at 30% elicited a lower-profile response, but was similar to that made by taxi owners over the last several reviews.

After receiving a request from the government, the Auto Fund established a Motorcycle Review Committee to examine the issues that led to the strong reaction against the proposed motorcycle rates in the original and revised Applications.

Despite widespread criticisms of the Application, there are two areas where the Panel notes that some progress has been made in mitigating rate increases. For example, by adopting a provision for Loss Transfer for all vehicle classes, the claims costs for the motorcycle class was reduced from $9.8 million to $5.9 million in 2011, a 40% reduction. For the portion of 2012 included in this Application, the reduction has been from $866,047 to $555,833, a 36% reduction. The Auto Fund introduced a Motorcycle Graduated Driver License program in 2011, but it is too early to develop meaningful statistics on the program's results.

In its independent report, the Panel's Consultants observed that motorcycles continue to show a very large rate need that has developed over a long time frame:

> *"Were it not for the ongoing Motorcycle Review process, we would recommend repeated application of the capping process from the last Application. The evenhandedness of the application of this capping across almost all classes of vehicles promotes fairness in rating, with exceptions made only in those instances of the most extreme rate inadequacy."* - Consultants' independent Report, p. 74.

Freezing motorcycle rates, while maintaining the same level of revenue to the Auto Fund, would require adjusting rates upwards by 0.3% from the proposed 1.6% to 1.9% increase for the 71% of vehicles in the province's vehicle fleet that are in the CLEAR-rated vehicle classes. Also, freezing motorcycle rates, within the given parameters that the Panel must work with, would likely mean significantly larger increases for motorcycles rates in the next rate Application.

The Panel expresses the hope that positive new options will result from the recommendation of the Motorcycle Review Committee currently underway, and that SGI will be able to move quickly to consider and implement the recommendations. The Panel is concerned that continued double-digit increases may have significant negative economic consequences for the motorcycle industry in Saskatchewan.

Thus, **the Panel recommends that all vehicle classes be subject to the same rate cap rules. The Panel suggests that the Auto Fund consider deferring the rebalancing provision on motorcycle rates until after the results of the Motorcycle Committee are known.**

Since the rate proposal, together with rate rebalancing, will not take effect until the end of August, 2013, very few motorcycle riders will be affected by rebalanced rates during this year's riding season. The additional time would enable the Motorcycle Review Committee to produce meaningful changes that could in the longer term have positive effects on motorcycle rates. Since the 2014 riding season is a number of months away, the Panel puts forward this suggestion in the belief that it can enhance fairness, with minimal cost to the Auto Fund or its customers.

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Appendices:

1.0 Role of the Saskatchewan Rate Review Panel

1.1 Authority

Through an Order dated January 1, 2013, the Minister of Crown Investments (the Minister) appointed a Ministerial Advisory Committee known as the Saskatchewan Rate Review Panel (the Panel). The Panel's mandate states that it shall:

(a) *conduct a review and provide an opinion of the fairness and reasonableness of proposed Crown corporation rate changes, referred to the Panel by the Minister of Crown Investments Corporation; and*

(b) *incorporate as part of its mandate specific terms of reference for particular Crown corporation rate change reviews that may be attached by further Minister's Order.*

Whether in the original Order-in-Council establishing the Panel (437/2000 dated July 27, 2000), or in the Terms of Reference for particular reviews, the Panel has always been instructed to consider: "*…the interests of the customer, the Crown corporation, and the public*."

The mandate of the Panel extends to three Crown corporations in Saskatchewan – SaskEnergy, SaskPower and SGI's Saskatchewan Auto Fund. Serving as an advisory body to the Minister of Crown Investments, the Panel provides independent advice on rate proposals from the above-noted corporations. The final decision about these proposals continues to rest with the Saskatchewan government.

1.2 Members of the Panel

Through the January 1, 2013, Minister's Order, the following members were appointed to serve on the Saskatchewan Rate Review Panel:

Chair	Kathy Weber	Saskatoon
Vice-Chair	Bill Barzeele	Little Bear Lake
Members	Steve Kemp	Regina
	Delaine Barber	Weyburn
	Lyle Walsh	Yorkton
	Daryl Hasein	Biggar
	Burl Adams	Kelvington

1.3 Panel's Terms of Reference

The Minister of Crown Investments has asked the Saskatchewan Rate Review Panel to conduct a review of the Saskatchewan Auto Fund's request for an overall average rate increase of 2.27%, with rate rebalancing, to be implemented August 31, 2013.
The provincial Cabinet may implement any rate change adjustment on an interim basis, pending receipt of the Panel's recommendation(s).

The Panel shall function within its mandate and operational terms of reference as specified in the Minister's Order dated January 1, 2013. The Panel shall provide an opinion on the fairness and reasonableness of the Auto Fund's proposed rate changes, having consideration for 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 effects of the proposed rate change on the competitiveness of the Crown Corporation related to other jurisdictions.

In conducting its review the Panel will consider the following factors:
The reasonableness of the proposed changes to Saskatchewan Auto Fund rates in the context of:

a) the Saskatchewan Auto Fund's mandate to operate on a self-sustaining basis over time;
b) 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 SGI Board approved Capital Management Policy;
c) the impact of rising claims costs; and
d) the 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.

The Panel shall consider the following parameters as given:

a) the compulsory insurance coverage provided by the Saskatchewan Auto Fund through its legislative mandate;
b) the Saskatchewan Auto Fund is a public fund for motorists with no profit component required in pricing of the product;
c) the Saskatchewan Auto Fund Capital Management Policy, which requires a Minimum Capital Test ratio of between 75% and 150%;
d) the existing program parameters of the Safe Driver Recognition Program and the Business Recognition Program;
e) the vehicle risk groups used by the Saskatchewan Auto Fund; and,
f) the accounting and operating policies and procedures used by the Saskatchewan Auto Fund.

The Minister's Order for this review called for the Panel to complete its work no later than June 12, 2013, which was later moved to June 11.

2.0 Saskatchewan Auto Fund Rationale for the Application

The Panel received the Saskatchewan Auto Fund's revised rate proposal (the "Application") on March 14, 2013.

The Saskatchewan Auto Fund is a separate entity administered by SGI and provides basic universal vehicle insurance to all residents of Saskatchewan at cost, with no profit component built into insurance premiums. The Auto Fund does not receive funding from the provincial Government, and does not pay dividends to the Government. Saskatchewan Auto Fund basic coverage includes Personal Injury coverage, Third Party Liability protection and Physical Damage coverage.

As part of its basic service, the Saskatchewan Auto Fund also provides:

- licencing for drivers
- registration for vehicles and trailers
- driver examinations and education
- driver and vehicle fitness programs
- carrier and safety audit programs
- funding for accident prevention and traffic safety initiatives

According to the Saskatchewan Auto Fund, there are three main trends driving its Application for a 2.27% overall average rate increase, which consists of an overall rate increase of 1.03%, and an additional 1.23% rate surcharge to help rebuild the Rate Stabilization Reserve.

These trends identified by the Auto Fund include:

- Declining bond yields resulting in lower investment income;
- Injury costs affected by higher wages, resulting in higher income replacement benefits for vehicle collision victims; and
- Higher costs for parts used in collision repair.

Rate rebalancing is also built into the Application, as it takes into account collision frequency and severity, including damage, injury and liability costs for each class of vehicle. Rate rebalancing means that individual customers' rates may change by more or less than the average increase requested. However, to mitigate rate shock rate changes greater than $1,000 would be capped at 15%, with changes less than $1,000 capped at dollar amounts at various thresholds.

The Saskatchewan Auto Fund has requested that the proposed rate adjustment take effect August 31, 2013. The proposed Rate Stabilization Reserve surcharge would be applied on top of rebalanced rates, and, if approved, would be applied in 2013, 2014 and 2015.

3.0 Review Process for the Saskatchewan Auto Fund Application

3.1 Technical Consultants

The Panel engaged two expert technical Consultants to assist with the review of the Rate Application and to provide an independent, technical report.

Brian Pelly, of Eckler Ltd., has worked with the Panel on four previous Auto Fund reviews and has been an actuarial advisor to the Manitoba Public Utilities Board on reviews of Manitoba Public Insurance since 1998. He is based in Toronto.

Myron Kostelnyk, of Kostelnyk Holdings Corp., has served as technical consultant to the Panel on Auto Fund applications since 2005. He has also worked on several SaskEnergy commodity and delivery rate reviews, as well as three SaskPower rate reviews. He is based in Winnipeg.

The Consultants conducted a detailed analysis that included an examination of the Auto Fund application, two rounds of Information Requests, plus supplementary questions and individual discussions with the Auto Fund to clarify specific points. They reviewed public comments and presentations to the Panel, attended the public meeting in Regina and reviewed the transcript of the public meeting in Saskatoon. The Consultants also participated in several meetings and conference calls with the Panel during the review process before presenting their final report to the Panel on May 30, 2013. Their independent report is attached as Appendix D.

The Panel also engaged the services of a technical writer to assist in preparing this report.

3.2 Public Consultations

The Rate Review Panel believes that public consultations are an important part of every review. During this review the public consultation process included:

- Public meetings;
- Submissions received by mail;
- Online messages received through the Panel's website;
- Messages received directly through the Panel's email address;
- Messages received through the Panel's toll-free voice mailbox; and
- Messages posted to the Panel's Facebook and Twitter accounts.

This review marks the first time that the Panel used Twitter and Facebook to communicate with people interested in the review and to receive their comments. This proved to be a particularly timely addition to the Panel's public consultation process, as the controversial proposal on motorcycle rates generated thousands of comments. The accounts also enabled the Panel to provide quick updates to the interested public as the review proceeded.

The Auto Fund Application received news coverage immediately after the original Application was announced in February and the coverage quickly focused on vocal opposition to the proposed increases in motorcycle rates. News coverage continued in early March when the provincial government announced it would ask the Auto Fund to reconsider its application, followed by the submission of a revised Application in mid-March. The news media also covered the Panel's public meetings in Regina and Saskatoon in April.

The Panel invited public input with ads in daily and select weekly newspapers, targeted web banner ads, and postings on Twitter and Facebook. Posters inviting public comment were placed in SGI offices, brokerage offices and select businesses throughout the province. Over 500 attended public meetings held in Regina on April 9 and in Saskatoon on April 22.

Copies of the Applications were available at the Panel's website and at SGI's offices. The Auto Fund established its own email address to gather comments related to the proposal on motorcycle rates. SGI also provided a rate calculator at its website showing the effect of the proposed rate changes on each vehicle class, which assisted in the review process.

The Panel is encouraged by the communications received from several organizations during the review process, and was particularly impressed with the quality of presentations made at the public meetings. It was evident that many presenters had invested significant time and effort into researching the Auto Fund's operations, and had also given thought to possible alternatives to the proposed rate changes.

The Panel noted that while most of the presentations focused on the contentious topics of small city taxi and motorcycle rates, some presentations also raised questions in other areas, such as the performance of the Auto Fund's investment portfolio or the allocation of costs to the Auto Fund's and SGI Canada's operations. The Panel believes these developments reflect a deeper and broader understanding of the various components that go into the Auto Fund's ratemaking process.

Organizations making submissions at the public meetings included Regina Cabs/Premier Taxi, Regina; Capital Cab, Regina; United Cabs, Saskatoon; Saskatchewan Powersport Dealer Association; Riders Against Government Exploitation (R.A.G.E.); Southern Independent Riders; Prairie Harley Davidson, Regina; Harley Owners Group (HOG); and the Canadian Vintage Motorcycle Group. Approximately 25 individuals made comments or raised questions during the public meetings.

Input on Motorcycle Rates

This section of the report identifies feedback that was received during consultations. Quotations are provided not as endorsement of the opinions or statement, but to illustrate the types of input the Panel received from the public.

Several important points and some key themes emerged from the public consultation process. Many of the comments and suggestions related to motorcycle rates echoed those also made during the Panel's 2012 rate review, including encouraging riders to wear protective gear, supporting motorcycle safety training, mandatory training for new riders, educating other vehicle drivers to improve their driving practices around motorcycles, and exploring other alternatives to simply raising rates, such as raising deductibles or changing coverage levels.

Some presenters stated that it is too easy for young riders with no training to obtain a learner's license. Lawrence Ward, the President of Southern Independent Riders, noted that *"Right now you can go in, you can write your learner's license, go downtown and buy a 750 street bike, and their CCs are putting out more horsepower than my 1200 does."* (Transcript of Regina Public Meeting, p. 66).

Speaking on behalf of Riders Against Government Exploitation, Don Fuller added that some riders simply renew their learner's license year after year by completing a 10-minute test that is not motorcycle-specific, on a touch screen. *"If you can withdraw $20 from an automated teller, you can ride a motorcycle in Saskatchewan,"* Fuller said, adding that 25% of all motorcycle accidents in the province involve riders with a learner's license. (Transcript of Saskatoon Public Meeting, p. 74).

Several submissions questioned the Auto Fund's motorcycle classification system, suggesting that classifying them as recreational vehicles does not make sense. At the public meeting in Regina, Rick Dobson of the Saskatchewan Powersport Dealer Association stated that while other insurers set standards using as many as 19 different models, the Auto Fund's *"… archaic and unfair classification system for motorcycles"* uses four large groupings and engine displacement, rather than horsepower, to set premium levels. *"The result is two virtually identical motorcycles with a 10-horsepower difference* (in engine power)*, can have a drastic difference in insurance premiums, as much as three times as much,"* Dobson said. (Transcript of Regina Public Meeting, p. 61-62). The Panel heard several other comments that horsepower would be a better measure for assigning motorcycle classifications.

The Panel received several submissions regarding the Auto Fund's no-fault policies and Safe Driver Recognition program. As the Panel heard in 2012, many people want to see more responsibility placed on drivers/riders at fault in accidents, and see this reflected in the insurance premiums and penalties applied to drivers/riders found to be at fault under the law.

John Parsons, a qualified motorcycle license examiner, stated that the Auto Fund currently does not reward or encourage rider training, and that better Safe Driver discounts, especially for motorcyclists, would send a positive message.

> *"SGI's present safe driver recognition program is only a maximum of 20 per cent. This implies that, on any given machine, a proven safe experienced rider is only 20 per cent less likely to be in an accident than an untrained novice when all statistics show the actual percent is much, much higher."* (Transcript of Regina Public Meeting, p. 103-04).

Parsons also noted that most jurisdictions in the United States and elsewhere in Canada exclude motorcycles and some specialty vehicles from no-fault insurance, adding that any decision regarding changing the current provisions should have wide public support. (Transcript of Regina Public Meeting, p. 101).

Input on Taxi Rates

Taxi owners making presentations at the public meetings repeated the theme that individual drivers involved in accidents need to more responsible for those costs, rather than penalizing taxi companies under the Business Recognition program. Sandy Archibald of Regina Cabs and Premier Taxi stated that at a meeting with SGI representatives in January 2013, *"…the industry unanimously suggested that SGI should take stronger steps against the drivers who are involved in the accidents with stiffer penalties; therefore, make the individual responsible for his or her actions."* (Transcript of Regina Public Meeting, p. 46)

Troy Larmer of the United Group in Saskatoon suggested that the Business Recognition program *"…does not work for the taxi industry at all."* (Transcript of Saskatoon Public Meeting, p. 62) Archibald noted that the industry had asked the Panel to review the Business Recognition program in previous years, and looks forward to *"more input and real substantive change"* from the current review of the Business Recognition program. (Transcript of Regina Public Meeting, p. 45) She asked the Panel not to approve any increase in urban taxi rates until SGI completes its review of the Business Recognition program. (Transcript of Regina Public Meeting, p. 50)

Larmer, Archibald and Glen Sali of Capital Cabs all suggested the Auto Fund could help improve taxi driver skills and increase traffic safety by investing in specific training materials that the companies could include in their safety training. Larmer also suggested the Auto Fund make available its ability to show taxi drivers' records in real time, *"…so that we can actually see which ones …are good and react to them or bad, I guess, and react to them in a quick and fast manner."* (Transcript of Saskatoon Public Meeting, p. 63)

Glen Sali stated that SGI needs to change the way it does things, *"…instead of all they can do is raise the rates."* (Transcript of Regina Public Meeting, p. 55-6) Larmer added that he has tried to work with SGI to resolve problems, but, *"My experiences in the past* *with trying to work with SGI and their consulting processes have not been overly positive."* (Transcript of Saskatoon Public Meeting, p. 53)

Looking for Action

Comments from several of the motorcyclists and representatives of the motorcycle industry shared a common theme with those made by taxi industry representatives regarding their experiences in consultations with the Auto Fund. In summary, they stated that the proposed rate increases are unacceptable, and that there must be a better way to solve the problem than simply raising rates. Both suggested previous consultations – including Panel recommendations in previous reviews – have not led to any substantive changes. For example, motorcyclist Burt Michleborough said, *"SGI has all the resources to change things for the better, but they don't."* (Transcript of Regina Public Meeting, p. 83)

Sean Renton, president of the Saskatchewan Sport Bike Association, stated that his organization had made suggestions on mandatory safety training, protective gear and other items during the 2012 review, *"…and there has been no news, no nothing done with that. So is this going to be the same this year?"* (Transcript of Saskatoon Public Meeting, p. 158) The Association's past president, Tom Schutzman, added that rounds of roundtable talks with SGI's management, suggesting alternatives and proposing ways to *"balance the ledger"* have not resulted in any mitigating initiatives. (Transcript of Saskatoon Public Meeting, p. 159) Rick Dobson of the Saskatchewan Powersport Dealers Association suggested that the Auto Fund, *"…must provide a more thought-out proposal to its customers who ride motorcycles."* (Transcript of Saskatoon Public Meeting, p. 106)

The Panel expresses its appreciation to the organizations and individuals who took the time to prepare presentations and make comments on the Application. These submissions and comments are posted on the Panel's website, and include:

- Regina Cabs/Premier Taxi
- Capital Cabs
- United Group of Companies (United Cabs, Saskatoon)
- Saskatchewan Powersport Dealers Association
- Southern Independent Riders
- Riders Against Government Exploitation
- Saskatchewan Sport Bike Association
- Prairie Harley Davidson
- Harley Owners Group (HOG)
- Canadian Vintage Motorcycle Group

Several individual motorcyclists also submitted comments or asked questions during the public meetings. After the public consultation period closed, the Panel commissioned an analysis of public comments that showed a total of 2,367 comments were received through email, the Panel's website, Facebook, Twitter, by letter and voicemail. The great majority were received between the announcement of the original application on February 15 and the revised Application on March 14, 2013.

The entire analysis is available on the Panel's website, but it is important to note that the comments echo the same themes raised in the public meetings, including the affordability of the large increase proposed for motorcycle rates, the need to place greater responsibility on riders/drivers with poor driving records, suggestions to encourage motorcycle safety clothing, equipment and training, and the possibility of allowing motorcyclists to purchase insurance from private companies.

Approximately 3,900 people signed a petition expressing opposition to the proposed motorcycle rate increases. This petition was subsequently forwarded to the Panel.

A member of the Panel, who is a long-time motorcycle owner and rider, responded to 37 phone messages. Of those calls, 34 related to some aspect of the proposed motorcycle rates. The remaining three raised issues about cars and trucks.

The Panel thanks the Saskatchewan Auto Fund for making a presentation on its Application at each of the public meetings and for responding to questions at the meetings. The Panel also thanks the Auto Fund for responding to specific inquiries during the review process.

4.0 Summary of the Technical Consultants' Report

Brian Pelly and Myron Kostelnyk served as the technical Consultants for this review, as was mentioned in Section 3. They presented their final report to the Panel on May 30, 2013. It is attached as Appendix D.

The following is a summary of the Consultants' technical assessment of the Application.

4.1 Break-Even Margin

The Consultants state that in their past report on the 2012 rate Application that while they could not support including a Contingency Margin based on the Auto Fund's rationale, it was reasonable to include a margin recognizing the expected growth in claims costs. They add that the Break-Even Margin the Auto Fund introduced with the 2013 Application resulted from the Consultants' recommendation in their 2012 report, with the Auto Fund building on it to include other revenue sources that were not previously recognized in the ratemaking model.

The 0.81% Break-Even Margin loaded into the rates is there to offset losses from the increased risk provision, and is reduced by expected permit premiums and cancellation retention amounts.

The Consultants note that the Auto Fund calculated the growth of the Provision for Adverse Deviation for the rating year to be $9.5 million, with permit/cancellation fees at $2.4 million, resulting in a net $7.1 million. Based on net written premium of $876.6 million, the result is a Break-Even Margin of 0.81%. The Consultants note that this margin is to be recalculated every year, and can be expected to vary based on forecasted future claims and estimated bond yields from the Auto Fund's investment portfolio that affect discount rates used in the calculation. As an example, they explain that an increase in the discount rate of 0.5% from future bond yields in the rating year will cause the projected Provision for Adverse Deviation to be about $5 million lower, causing the Break-Even Margin to decrease by about 0.58%.

The Consultants recommend including a Break-Even Margin estimated at 0.81% of net written premium, based on the Auto Fund's estimate for the 2013-2014 rating year. They also recommend that calculations for any future requested Break-Even Margin should be part of the Minimum Filing Requirements for future rate applications.

4.2 Capital Management Policy and the Minimum Capital Test

The Consultants note that the primary objective of the Auto Fund's Capital Management Policy is to maintain enough capital in the Rate Stabilization Reserve to cushion the Auto Fund from the volatility that can be expected in investment and underwriting operations, and also to moderate the need for large rate increases.

The Auto Fund uses a common industry measurement, the Minimum Capital Test, as defined by the Office of the Superintendent for Financial Institutions Canada (OSFI), to determine whether the funds in the Rate Stabilization Reserve are adequate. The Minimum Capital Test ratio is calculated by dividing the capital available, which is primarily the excess of assets over liabilities, by the capital required, which is comprised of various margins applied to unpaid claims, unearned premiums, and investments. The Auto Fund has set the mid-range target of the Minimum Capital Test at 112.5%, with an acceptable range of between 75% and 150%. The Office of the Superintendent for Financial Institutions Canada changed this test in 2012 and again in 2013. Further changes are expected in 2015, but they are not reflected in this Application.

The Auto Fund monitors the Minimum Capital Test on a monthly basis, using the information to plan for the future and determine actions necessary to ensure the Minimum Capital Test remains within the parameters set out in the Auto Fund's Capital Management Policy. The Office of the Superintendent for Financial Institutions Canada prescribes the definition of the Minimum Capital Test. However, the Auto Fund Board has the final say in changing the parameters for the range of acceptable limits or the target Minimum Capital Test ratio.

Auto Fund policy states that if the Minimum Capital Test is below 75% on a moving average basis, a proposal to address the shortfall is brought to the Auto Fund Board of Directors to replenish the Rate Stabilization Reserve. The proposal included in this rate application is for a 1.23% Rate Stabilization Reserve surcharge to be applied each year for the next three years (not compounded) beginning August 31, 2013. This surcharge is expected to bring the Minimum Capital Test to the minimum 75% level in 2016. Once the Minimum Capital Test is within the defined acceptable range the surcharge would be removed.

In response to Information Requests, the Auto Fund provided the results of sensitivity testing done for specified changing circumstances affecting its operations. The tables in Section 5, on page 26 of this Report, summarize the results of this sensitivity testing for both adverse and favourable circumstances.

While the Capital Management Policy and the Minimum Capital Test parameters are to be considered as given in this review, the Consultants point out, as they did in their past report on the 2012 review, that the Capital Management Policy has a direct bearing on Auto Fund customers, because the policy can trigger the need for a Rate Stabilization Reserve surcharge, or a rebate. Considering the results of the sensitivity analyses provided by the Auto Fund, the Consultants point out that there is considerable uncertainty around forecasting Minimum Capital Test ratios, and therefore considerable uncertainty around the level of Rate Stabilization Reserve surcharge required to replenish the Rate Stabilization Reserve over a defined period.

The Consultants note that the regulatory capital levels for Insurance Corporation of British Columbia rely on the Minimum Capital Test, and that Manitoba Public Insurance makes a practice of using the Minimum Capital Test to monitor and manage its capital levels, including the Basic Rate Stabilization Reserve. They also note that the requested Rate Stabilization Reserve surcharge will only bring the Minimum Capital Test ratio to the minimum requirement of 75%, if continued at the rate of 1.23%, by the end of 2016. The sensitivity analyses illustrate that any number of circumstances could lead to a further deterioration of the Minimum Capital Test ratio. Changes made by the Office of the Superintendent for Financial Institutions will affect the relative measurement of capital adequacy for the Auto Fund, in the context of its Capital Management Policy. The Consultants suggest the Minimum Capital Test target range needs to be assessed on an annual basis.

Because of the risk of the Capital Management Policy falling out of step with the Minimum Capital Test as it evolves, the Consultants recommend that the Auto Fund provide explicit documentation of the monitoring of the Capital Management Policy as it is affected by any actual or known planned changes to the Minimum Capital Test, as a regular part of its rate applications. The Consultants again recommend, as they did in 2012, that the Capital Management Policy be brought within the Panel's Terms of Reference in reviewing future applications.

4.3 Proposed Change in Average Rate Level

The Consultants note that the Auto Fund has adopted a different approach to the selection of future trend assumptions in this Application from prior applications. In their 2012 report, the Consultants recommended that the Auto Fund focus on development of best estimate rate indications and enhance the level of support and documentation for judgmental overrides of experience-driven assumptions. The Consultants note that in this Application, the Auto Fund has provided considerable detail related to the analysis leading to the selection of frequency and severity trends, including future trends.

> The Consultants state that, *"We consider that the process for selecting future trends has improved considerably relative to the approach used in the prior Application, as has the accompanying documentation."* Consultants' independent Report, p. 73

The Consultants explain that while it was not practical to undertake an exhaustive review of the many underlying assumptions, their review of methodologies and underlying assumptions was comprehensive and focused on areas with the greatest sensitivities. They noted no significant concerns. The Consultants concur that the work was done in accordance with accepted actuarial practice in Canada and, therefore, recommend an overall rate increase of 1.03%, before the Rate Stabilization Reserve surcharge is applied.

4.4 Rate Stabilization Reserve

The Rate Stabilization Reserve acts as a shock absorber to protect customers against significant rate changes due to much higher than expected claims costs or much lower than expected investment income. As the Consultants noted above, the Minimum Capital Test used to measure the adequacy of the Rate Stabilization Reserve was well below the minimum 75% ratio at the end of 2012. As of December 31, 2012 the Minimum Capital Test ratio was at 47% while the twelve month rolling average Minimum Capital Test ratio was 61%. An update showed the February and March 2013 twelve-month rolling average Minimum Capital Test ratio to be 58% and 57% respectively.

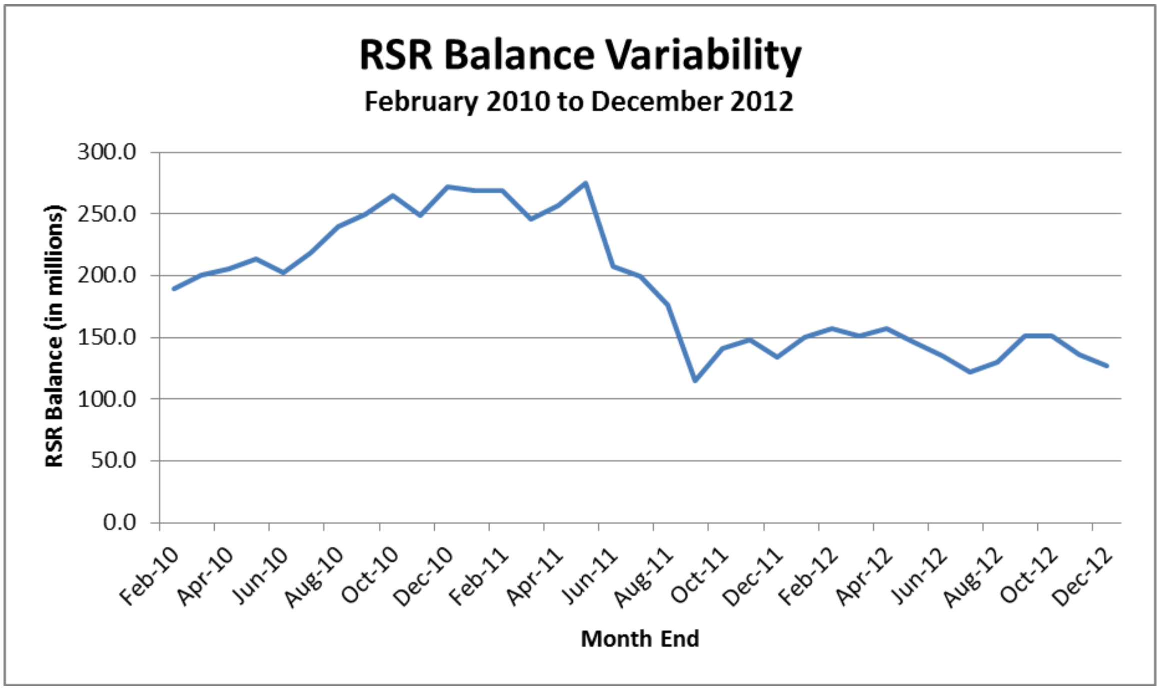
An actuarial analysis has confirmed the Rate Stabilization Reserve needs to be replenished by about $32 million to reach the bottom end of the Minimum Capital Test target range of 75%. To help reach this level the Auto Fund requested a 1.23% Rate Stabilization Reserve surcharge to begin August 31, 2013, for a three-year period. The surcharge will be applied proportionally to every vehicle rate. It is Auto Fund's position that if this request were to be approved by the Minister, no further approval would be needed by the boards of SGI or Crown Investment Corporation in subsequent years to continue the surcharge for the approved period and that it would drop at the end of the period. The Auto Fund also indicated that if the level of capital in the Rate Stabilization Reserve showed that a change in the surcharge was necessary, that change would be included in a rate application.

The Auto Fund added a clarification to its Capital Management Policy explaining how the proposed surcharge would be implemented. This policy stipulated that the surcharge will be:

- identified as a percentage and applied to the base insurance premium, and be incorporated in the base rates after application of any rate caps.
- included in the base insurance dollar amount but will not be split out separately on the vehicle registration certificate, but a percent amount will be shown and described.
- applied over full year periods to ensure equity among customers.
- accounted for as premiums written, and will not flow directly to the Rate Stabilization Reserve, but instead will be included in the earned premium process.

The Consultants note that even with the 1.03% overall rate increase and the 1.23% Rate Stabilization Reserve surcharge, the 2013 Rate Stabilization Reserve balance is expected to decrease by $16.8 million. This expected decline is due, in part, because the proposed rate increase and surcharge would not take effect until August 31, 2013. The Consultants also point out that not all of the factors that affect the Rate Stabilization Reserve balance are likely to move in one direction, but rather that there can be significant swings in Rate Stabilization Reserve balances and Minimum Capital Test ratios. This is compounded when looking beyond the year of an application.

The following graph illustrates how Rate Stabilization Reserve levels can fluctuate from month to month, in response to changes in the Auto Fund's financial position.



The Consultants recommend:

> *"…that a level of Rate Stabilization Reserve replenishment of a minimum of 1.23% is necessary. This will, all else being equal, result in the Rate Stabilization Reserve balance being such that the Minimum Capital Test ratio will only achieve the minimum 75% in 2016. Given the potential for significant variances to the Rate Stabilization Reserve balances, such variances being assured with only the amount of variances being in question, the Consultants recommend the proposed surcharge be approved only for one year."* - Consultants' independent Report, p. 75

Further, they repeat their recommendation from earlier reviews:

> *"We have previously recommended that SAF make annual rate Applications, whether or not a rate change is required, to address the rate rebalancing issue. While we recognize that the filing of rate Applications is not entirely within the control of SAF, we consider that all parties must recognize the fact that annual Applications are crucial, especially in view of the current economic volatility, the issues surrounding Motorcycles, and the general imbalance in the rate structure. All these matters are best addressed by annual Applications, rather than avoiding an Application which would create greater discrepancies in a number of areas and increased vehicle class cross-subsidization."* Consultants' independent Report p. 81

The Consultants note that the proposed Rate Stabilization Reserve surcharge would be identified to customers as a percentage to be applied to the base insurance premium, but otherwise not identified separately on renewal notices. The Auto Fund indicated there were a number of practical considerations leading to the decision not to show the Rate Stabilization Reserve surcharge as a separate line item on the renewal notice. The current notice is two pages in length, and the Auto Fund considers that including more information on year-over-year changes may confuse customers. Further, since the surcharge is a temporary measure, dedicating resources to program and test changes to the notice would be inefficient. An insert will be included with all renewal notices, advising of average changes in rates and the amount of the surcharge, along with contact information for customers seeking more details on their premiums.

It is recognized that there is a need for transparency in providing information on the customer's renewal notice, and that time is short before the proposed surcharge would take effect. If approved, the Consultants suggest the Auto Fund be asked to reconsider including a separate line item on each renewal notice, and to estimate the time and resources required to accomplish this task.

4.5 Rate Rebalancing

Rate rebalancing is the process of setting proposed rates to minimize cross-subsidization across vehicle classes so that rates reasonably reflect the claims experience of each class of vehicles, while also avoiding undue rate shock. Rate rebalancing, therefore, is important to ensuring fairness for all Auto Fund customers.

The Consultants note that rate rebalancing is a component of the requested 1.03% overall average rate increase. They add that, according to the Auto Fund response to First Round Information Request # 11, 50.5% of vehicles were within 5% of adequate rates in 2012. If the capping levels were approved, this adequacy rate, which is a measure of fairness, would be expected to increase to 79.5% in 2013 and to 98% by 2016.

The original Application proposed rate rebalancing that would cap rates with maximum increases or decreases at 15% for all vehicle classes, with the exception of motorcycles and small city taxis. Full break-even rates were proposed for motorcycles, with the average increase set at 72.6%. The small city taxi sub-class would be capped at 30%. The rationale for the exceptions was that the existing rates for these two vehicle classes were far below the costs attributed to these classes, resulting in cross-subsidization by other classes.

On March 14, 2013, the Auto Fund submitted a revised Application that maintained the original rate request and proposed Rate Stabilization Reserve surcharge, but proposed capping all rate adjustments at plus or minus 15% for customers with an annual premium more than $1,000. For annual premiums of $1,000 or less, the Auto Fund proposed dollar caps ranging from $25 to $150.

The following table shows the indicated and proposed rates, with the Rate Stabilization Reserve surcharge, for CLEAR-rated and other vehicle classes.

2013 Average Indicated and Proposed (with RATE STABILIZATION RESERVE Surcharge) Rate Changes					
Vehicle Class	**Indicated Rate Change**	**Proposed Rate Change**	**Vehicle Class**	**Indicated Rate Change**	**Proposed Rate Change**
CLEAR-Rated Vehicles	-0.8%	1.6%	LV - Motorcycles:	70.4%	16.8%
A - Commercial Light Truck		21.9%	Cruiser / Touring		16.5%
F - Farm Light Truck - 1994 & Newer		3.6%	Dual Purpose / Other		22.2%
LV - Private Passenger Vehicles (PPV)		1.5%	Sport		16.8%
LV - PPV - Farm Cars, SUVs and Vans		-0.8%	Motorhomes	21.4%	15.7%
LV - Police Cars		10.7%	MT - Snowmobiles	-1.4%	0.0%
LV - Police Trucks, Vans & SUVs		-12.9%	PB - Passenger Inter-city Buses	25.0%	14.2%
LV - U Drives		10.3%	PC - Passenger City Buses	69.3%	16.6%
PT - Taxis – Rural		-5.3%	PS - Passenger School Buses	33.3%	26.7%
			PT - Taxis	38.4%	16.4%
Conventionally-Rated Vehicles					
Ambulances	2.0%	3.3%			
A - Commercial Vehicles:			**Trailers**		
Heavy Truck&Van IRP $2500 Ded	-7.8%	-6.3%	F - Trailers	15.8%	17.9%
Heavy Truck&Van IRP $15K Ded	-26.3%	-16.8%	LT - Trailer Dealers/Movers	1.3%	2.6%
Heavy Trucks & Vans Non-IRP	2.9%	3.2%	T - Personal Trailers	13.0%	10.0%
Power Units IRP $2500 Ded.	-1.2%	-0.7%	T- Utility	69.8%	70.0%
Power Units IRP $15K Ded.	-18.1%	-12.3%	T - Commercial Trailers	11.6%	13.1%
Power Units Non-IRP	-24.1%	-13.3%			
C&D - Commercial Vehicles:					
Heavy Trucks and Vans	17.9%	15.2%	**Miscellaneous Classes**		
Power Units	7.3%	5.4%	A - Excess Value	-61.2%	0.0%
F - Farm Vehicles:			C&D - Non-Resident	-12.0%	1.3%
Heavy Trucks and Vans	-21.3%	-7.6%	C&D - Excess Value	-65.1%	0.0%
Light Trucks - 1993 & Older	-15.9%	-14.3%	Industrial Tracked Vehicles	-18.8%	1.1%
Power Units	-10.9%	-8.2%	LV - Motorized Bicycle	6857.2%	2.3%
Hearses	34.9%	16.5%	PV - Converted Vehicles	-54.2%	5.3%
L - Dealer Plates:	3.3%	4.8%	PV - Heavy Trucks & Vans	-3.0%	0.6%
Automobile		4.5%	PV - Power Units	-92.7%	-1.2%
Motorcycles		21.1%	TS - Excess Value	-74.3%	0.0%
L - Snowmobile Dealers	-50.6%	1.7%			
LV – Antiques	21.4%	22.7%	**Total**		
LV – Buses	70.7%	25.6%	All Vehicles Excluding Trailers & Misc.	0.8%	1.9%
LV - Buses (Restricted)	20.9%	22.5%	All Vehicles	1.03%	2.27%

As a result of the proposed capping, the rates for CLEAR-rated vehicle classes were adjusted upward in the revised Application to make up for the lost revenue due to capping motorcycle and small city taxi rates. Overall estimated revenues, expenses, Rate Stabilization Reserve levels and Minimum Capital Test ratios did not change from the original Application. Upon request by the Panel, the Consultants prepared a table comparing the estimated annual written premium levels for the current fleet of CLEAR-rated vehicles before this Application with those resulting from this Application, both before and after the revision, plus an additional scenario under which motorcycle rates are frozen at current levels.

CLEAR-Rated Vehicles				
Motorcycle Capping Scenario	**Annual Written Premium (in millions)**	**% Increase Over Current Rate**	**% Increase Over Original Application**	**% Increase Over Revised Application**
Current Rates	781.8			
Original Application – Achieve Break Even	784.9	0.4%		
Revised Application – Standard Capping	794.2	1.6%	1.2%	
Alternative – Freeze at Current Rates	796.8	1.9%	1.5%	0.3%

Motorcycle Issues and Rate Rebalancing

The Consultants observe that the Auto Fund has attempted to mitigate motorcycle claims costs by using a Loss Transfer mechanism and introducing the Motorcycle Graduated Driver License program. The Loss Transfer mechanism involves a data review that sorts all of the damage, injury and liability claims and losses by class, and looks at each of these groups of associated auto and injury claim files for a particular collision to see which auto claim file was marked as "50% or more at fault" for the accident. All claims and losses are then charged to that auto file's vehicle class. This process results in losses assigned exactly the same as a loss transfer system that has no minimum threshold above which to transfer claims to an at-fault party. However, because the transfer is done as part of a data query, there is no explicit "loss transfer" amount that is tracked by class. This process does not affect incidents involving vehicles that are "less than 50% at fault".

The Consultants provide a table showing the impact on the motorcycle class of assigning claims to the at-fault party, as opposed to only assigning those claims to the vehicle that the person was operating. The difference between the total claims in both cases is exactly the net amount of claims that were transferred from the Motorcycle class to other classes and from other classes to the Motorcycle class.

Motorcycle Incurred Loss Comparison			
Accident Year	**Claims Not Assigned by Fault**	**Claims Assigned by Fault – 2013 Application**	**% Difference**
2001	8,278,111	8,177,211	−1%
2002	3,667,253	3,170,242	−14%
2003	8,651,358	6,331,811	−27%
2004	11,840,378	5,110,552	−57%
2005	11,835,107	11,141,054	−6%
2006	9,012,187	8,664,135	−4%
2007	14,945,250	11,627,633	−22%
2008	13,337,946	10,320,036	−23%
2009	15,713,675	11,686,711	−26%
2010	14,540,178	9,223,580	−37%
2011	9,819,392	5,885,880	−40%
2012	866,047	555,833	−36%
Total	**122,506,883**	**91,894,678**	**−25%**

The Consultants point out that in 2011 the impact flowing from the Loss Transfer mechanism was to reduce the claims costs assigned to the Motorcycle class from $9.8 million to $5.9 million, a 40% reduction. To date in 2012, (data available when the Application was prepared) the reduction has been from $866,047 to $555,833. The reduction since 2001 has been from $122.5 million down to $91.9 million, a reduction of 25%.

Regarding the Motorcycle Graduated Driver License (MGDL), the Consultants observe that it was developed after reviewing motorcyclists' rider and crash-related behaviour during the first years of obtaining a learner's permit, and in particular, restriction on night time riding and alcohol consumption. The program was implemented in June 2011, but the Consultants state that while it is expected to reduce the number of at-fault collisions and associated claims, there is not yet enough data to perform a meaningful analysis of the program's effects. They add that in 2012, there were 26,164 customers with registered motorcycles who were also part of the Safe Driver Recognition program. Of those, 20,769, or 79.4%, received discounts under the Safe Driver Recognition program and 4,008 (15.3%) paid a surcharge. The maximum discount under the program is 20%; the maximum surcharge is $2,500 per year.

The Consultants point out that cross-Canada rate comparisons have inherent limitations, adding that the Auto Fund is obligated to provide compulsory basic insurance, to insure all drivers regardless of driving record, and to pay legislated benefits, as are Manitoba Public Insurance (MPI) and the Insurance Corporation of British Columbia (ICBC). Insurers operating in competitive jurisdictions are not under these constraints. The Consultants state that comparisons with Manitoba Public Insurance and Insurance Corporation of British Columbia, while still not "pure", are the only jurisdictions that can be used reliably for comparisons. Further, they add that competitive jurisdictions should not be used in any comparative analyses because the market dynamics and underlying parameters are significantly different. The Panel discusses Cross-Canada Rate Comparisons in Section 6 of this report.

In response to Second Round Information Request # 3 respecting motorcycle premium comparisons with Manitoba Public Insurance and Insurance Corporation of British Columbia, the Saskatchewan Auto Fund provided the Consultants with premium comparisons. Because Manitoba Public Insurance uses an assumed five-month riding season, the Manitoba Public Insurance motorcycle premiums in the following table are less sensitive to the shortened riding season, compared to the premiums for the Saskatchewan Auto Fund and Insurance Corporation of British Columbia.

Saskatchewan Government Insurance
2013 Rate Program
Documentation for Information Request #3
Comparison of Motorcycle Rates

Premiums based on a four month riding season

Cruiser

Year	Make	Model	Declared Value	Engine Capacity (CC)	SGI Current	SGI Indicated	SGI Proposed	Average MPI	Average ICBC
2009	YAMAHA	XVS950 V-STAR	$ 7,300	942	$490	$620	$559	$1,018	$597
2009	HARLEY DAVIDSON	FLHXI STREET GLIDE EFI	$ 16,675	1,584	$513	$730	$586	$1,166	$801
2005	YAMAHA	XVS11S V-STAR 1100 CUSTOM	$ 4,350	1,063	$464	$620	$529	$1,062	$533
2007	HARLEY DAVIDSON	FLSTCI HERITAGE SOFTAIL CLASSIC EFI	$ 12,650	1,584	$516	$729	$586	$1,121	$719
2008	HARLEY DAVIDSON	FLHTCUI ULTRA CLASSIC ELECTRA GLIDE EFI	$ 15,450	1,584	$513	$730	$586	$1,166	$775

Sport

Year	Make	Model	Declared Value	Engine Capacity (CC)	SGI Current	SGI Indicated	SGI Proposed	Average MPI	Average ICBC
2008	HONDA	CBR125R	$ 2,250	125	$190	$475	$219	$942	$262
2007	HONDA	CBR600RR	$ 7,175	599	$540	$1,034	$617	$1,466	$534
2008	SUZUKI	GSX-R750	$ 8,350	749	$566	$1,036	$647	$1,575	$560
2007	SUZUKI	GSX-R600	$ 6,050	599	$540	$1,034	$617	$1,466	$510
2009	KAWASAKI	EX250R NINJA	$ 3,025	249	$190	$475	$219	$942	$299

Dual

Year	Make	Model	Declared Value	Engine Capacity (CC)	SGI Current	SGI Indicated	SGI Proposed	Average MPI	Average ICBC
2009	HONDA	CHF50 JAZZ	$ 1,900	49	$139	$159	$161	$330	$125
2007	SUZUKI	DR-Z400S	$ 4,275	398	$166	$284	$194	$682	$331
2009	YAMAHA	VINO 125	$ 2,850	125	$170	$285	$199	$348	$282
2009	KAWASAKI	KLX250S	$ 3,775	249	$170	$285	$199	$652	$317
2008	KAWASAKI	KLR650	$ 4,275	651	$391	$507	$444	$1,018	$468

Based on the driving record: an SDR discount of 20% has been applied to SGI rates, a 30% DSR discount has been applied to MPI rates and a conviction free driving record has been assumed for ICBC rates.

MPI motorcycle premiums are fully earned over the 5 month period from May 1 to October 1.

Collision and comprehensive deductibles of $500, TLP limit $1,000,000.

The Consultants note that in the Auto Fund's 2012 Application, the cap applied to motorcycles was the same as for other vehicle classes, except for sport motorcycles, to which a 30% cap applied. They point out that sport motorcycles continue to show a very large rate need, and in the absence of any exception to the capping rule, there may be concerns over unfair cross-subsidization.

Based on the current rate program, the Consultants offer the following examples of the rate increases that would be required to bring motorcycle rates to within 5% of current indicated rates, that is, rate adequacy as defined by the Auto Fund, over a three-year or five-year period, respectively.

Within 5% of Adequate Rate Over 3 Years			
Motorcycle Class	1st Year Rate Change	2nd Year Rate Change	3rd Year Rate Change
Cruiser/Touring	47.0%	6.6%	0.5%
Dual Purpose/Other	43.4%	17.2%	3.1%
Sport	74.0%	29.4%	1.6%

Within 5% of Adequate Rate Over 5 Years					
Motorcycle Class	1st Year Rate Change	2nd Year Rate Change	3rd Year Rate Change	4th Year Rate Change	5th Year Rate Change
Cruiser/Touring	28.1%	17.7%	3.4%	0.9%	0.1%
Dual Purpose/Other	28.0%	16.0%	11.0%	3.7%	1.4%
Sport	39.4%	39.4%	14.4%	2.6%	0.3%

The Consultants point out that future forecasts will differ from those indicated above. They also observe that in conjunction with the revised Application, the Auto Fund was directed by Government to establish a working committee of interested stakeholders to review matters related to motorcycle insurance coverage, so as to achieve rate adequacy. The current plan for the review includes reviewing the rating structure, including the classification system, seasonal rates and a Safe Driver Recognition type program for motorcyclists; looking at issues concerning safety programming; and analyzing possible changes to injury benefit levels with the intent of reducing the average 73% increase needed for motorcycles.

The Consultants note that since the current system of compulsory insurance coverage and the current vehicle risk groups are to be accepted as givens for this review, the data underlying the development of the rate indication for motorcycles is valid and show that the premium revenues for motorcycles are substantially below costs, especially for sport motorcycles. While recognizing motorcyclists' displeasure with this Application, the Consultants state that:

> *"Were it not for the ongoing Motorcycle Review process, we would recommend repeated application of the capping process from the last Application. The evenhandedness in the application of this capping across almost all classes of vehicles promotes fairness in rating, with exceptions made only in those instances of the most extreme rate inadequacy."* - Consultants' independent Report, p. 74.

Considering the magnitude of the current rate inadequacy and the extent of cross-subsidization that implies, and the uncertainty of the outcomes of the Motorcycle Review process, the Consultants recommend all vehicle classes be subject to the same rate cap rules, including Motorcycles and Taxis.

4.6 Taxis and the Business Recognition Program

At the Panel's request, the Consultants examined the concerns of taxi fleet owners under the Business Recognition program, which were raised during the 2012 review, and repeated again during the public meetings in the 2013 review.

The Consultants observed that the taxi industry does face unique challenges, which may include a transient driver workforce and a limited ability to pass on increased costs to customers because of the regulated environment in which they operate. The Consultants note, in the Auto Fund's response to Second Round Information Request # 49 that, of the $1.675 million of 2012 premiums for taxis under the Business Recognition program, about 9%, or about $153,000, was subject to any surcharge under the Business Recognition program as a result of the specific claims experience of taxis. In addition, removing taxis from the Business Recognition program would result in increased rates for the taxi fleets with better experience, and reduced rates for taxi fleets with poorer experience, perhaps with less incentive for loss prevention.

In response to Second Round Information Request # 50 the Auto Fund noted that giving taxi fleets the option to withdraw from the Business Recognition program would result in those customers subject to penalties opting out. This would be to the detriment of those remaining in the program and could possibly lead to other Business Recognition eligible classes demanding the same option.

4.7 Technical Improvements

The Consultants state there is many technical improvements introduced with this Application, and applaud the progress made. The most significant among the actuarial changes are improvements to the rigour of the analysis underlying the trend assumptions, and the documentation provided to support the analysis. More emphasis was placed on the most recent years for past trends, and where adequate justification could not be provided by the trend selection committee, future trends were selected as being the same as past trends. The Consultants suggest that in the future, any significant changes in methodology or basis of selection of assumptions be specifically highlighted and include a rationale for the change and estimated impact of the change.

The Consultants encourage the Auto Fund to continue to explore the need for developing distinct rate levels for tort vs. no-fault coverage, and the practical challenges of implementing such a change if it is justified by experience. They suggest, as an alternative, considering the low demand for the tort alternative, that the Auto Fund consider discontinuing the tort option.

4.8 Investment Income

The Consultants observe that the Auto Fund reviews its Investment Policy periodically and revises it as market conditions change, or are anticipated to change. In 2012, the Auto Fund decided to conduct a complete policy review annually instead of once every three years.

The Consultants note that the Auto Fund employs the services of an investment advisor to administer the policy, with quantified objectives to be met, based on a benchmark portfolio. They also note that in 2012 the investment advisor added value to Canadian equities, but longer-term performance is a concern for the Auto Fund. Investment returns have decreased primarily because of decreased bond yields affected by interest rates and the terms of various bond issues.

The Consultants observe that the Auto Fund has stated that a review of market projections since the Application was filed does not further affect the 2013 and future year returns. The Auto Fund will re-evaluate its projection in August in conjunction with the next budget-making process. The Consultants observe that while disappointing, the Auto Fund's returns are generally in line with that other comparable companies are also experiencing.

Using asset class return forecasts prepared at August 2012, the following table illustrates the expected returns for Auto Fund's investment portfolio from 2012 to 2015.

Auto Fund Return Forecast				
	2012	**2013**	**2014**	**2015**
Expected Return (net of fees)	4.74%	2.93%	1.60%	0.91%

The Consultants observe that the Auto Fund is mandated to maintain at least 65% of its investment portfolio of approximately $1.4 billion in fixed income securities, and that these may be subject to capital losses if interest rates rise from current levels, although the impact of this on Net Income will be largely offset due to its matching portfolio.

The Consultants recommend that the Investment Committee continue to review its current portfolio mix (both matching and return seeking portfolios), especially given the forecast returns over the next five years, recognizing the Auto Fund must balance returns with risk.

The Consultants conclude that the scrutiny given to the performance of the investment portfolio is adequate, and has responded to changing and challenging market forces and circumstances. They add that the Auto Fund has cited that decreased investment returns are a primary cause for the requested rate increase and that the Auto Fund is attempting to improve in areas where its portfolio is underperforming.

4.9 Traffic Safety

The Saskatchewan Auto Fund is the lead agency in promoting traffic safety in the province, and bears all associated costs. The Auto Fund budgets for 3% of total premiums to be directed to safety programming, with budgets from 2013 to 2016 in the range of 2.5% to 2.8%. The current cost of these programs is about 2.9% of net premiums written.

The Auto Fund monitors the results of its safety programs and considers these results in reviewing its annual programs. The Consultants state that they remain of the view that the

Auto Fund's commitment to and emphasis on traffic safety is commendable. They also state that an effective and dynamic safety program will, in the long term, reduce costs, injuries and deaths. They consider the level of expenditure within the range of 2% to 3% of premiums written to be reasonable, within the five-year financial forecast.

4.10 Cost Allocation

The Consultants note that they received the Auto Fund's cost allocation policy on a confidential basis, since it contains information related to SGI companies that operate in a competitive environment. After reviewing total administrative and Loss Adjustment Expenses, and traffic safety costs allocated or assigned to the operation of the Auto Fund, the Consultants state that they believe the cost allocation methodology and the monitoring and control systems are satisfactory, generally comply with industry cost allocation methodologies, and that the Auto Fund does not unduly subsidize SGI's non-regulated companies.

4.11 Administrative Efficiencies and Performance Measures

The Consultants note that total efficiencies from the Auto Fund Redevelopment Project (AFRP) and other initiatives were estimated at $1.92 million in 2012 and $1.89 million in 2013, not including increased PST collections. The Consultants state that they understand the year-over-year efficiency savings consist of a one-time cost saving or avoided expense that is realized every year. However, they are of the view that efficiencies ought to be measured on an incremental basis. They also recommend that the Auto Fund file narrative and quantify year-over-year efficiencies on a line-by-line basis.

The Consultants note that corporate performance measures are reviewed annually, in conjunction with the Performance Management Plan. They note that measures applicable to the Auto Fund include that all auto premiums be within 5% of indicated rate by 2016, that the newly structured Auto Fund value index currently at 69% achieves 75% in 2019, that 717 or more customers be served by a single full time equivalent employee (FTE), and that the administrative expense ratio fall below the industry norm of 13.7%. The Auto Fund's current ratio is below that mark, at 12.9%.

4.12 OM&A Expenses

Operating, Maintenance and Administrative (OM&A) expenses include salaries, infrastructure costs and support system costs. The Consultants are of the view that the Auto Fund's budgets for wages, salaries, benefits and pensions are reasonable, given the growth in business, aging staff, and the continued growth in services offered to customers.

They also note that of the $6.6 million expenditure for external services in 2013, $4.1 million is for traffic safety initiatives. Overall, Operating, Maintenance and Administrative expenses have increased by $11.8 million, or 9.04% in the 2013 budget from the previous year, to an estimated total of $142.6 million. Of that increase, Wages and Salaries account for $3.3 million, Driver Education for $1.9 million, External Services for $3.0 million and Issuer Bank Charges for $2.35 million.

The Consultants observe that the Auto Fund's capital budget for repairing claims centres and other buildings is the largest expenditure over the planning horizon to 2017, and that they consider the capital program for 2013 to be reasonable. They also note that bank charges for 2013 are expected to be $2.35 million, with 56% directly related to customers using credit cards to make payments, mostly through the online MySGI service. The Consultants conclude that other Operating, Maintenance and Administrative expenses appear to be reasonable.

4.13 Cross-Canada Rate Comparison

The purpose of the cross-Canada rate comparison is to illustrate how much an average driver would pay for auto insurance in various locations, given their vehicle, driving record and claims history, relative to Auto Fund rates. The Auto Fund used 34 vehicle and driver profiles in 22 cities across Canada for this comparison, representing various geographical areas such as major centres, rural communities and northern communities. The Consultants observe that comparing insurance rates across jurisdictions in Canada is a challenge because of difference in coverages, weather, population and traffic density, road infrastructure, crime levels and vehicle mix. They also pointed out that benefit level coverage across those jurisdictions surveyed varied significantly, and that the only useful comparisons are with the Insurance Corporation of British Columbia and Manitoba Public Insurance.

The Consultants recommend that the graphic comparison be enhanced to show the diversity and concentration of the rates underlying the averages in each province, and that narrative be added to improve disclosure about the inherent limitations of the comparison. The Consultants provided an enhanced graphical presentation using premium data provided by the Auto Fund as shown in Section 6 on page 41 of this Report.

5.0 Panel Recommendations and Analysis

The Saskatchewan Rate Review Panel, in completing its review and analysis, conferring with its Consultants, and listening closely to the input from the public on this Application, prepared the following recommendations to present to the Minister of Crown Investments Corporation.

> **Recommendation # 1: That the proposed overall rate increase of 1.03% be approved, and further, that calculations for any future requested break-even margin be part of the Minimum Filing Requirements for future applications.**

The Consultants state that while they could not support the inclusion of a Contingency Margin in their 2012 report based on the Auto Fund's rationale, they regard a "Break Even Margin", recognizing the expected growth in claims costs, as reasonable.

Likewise, the Panel supports a Break-Even Margin to cover the expected growth in claims costs. This margin will need to be recalculated every year, and will vary according to estimated bond yields in the Auto Fund's investment portfolio and forecasted future claims. As shown in Section 6.4, the Auto Fund projects that income from investments will decline in the next few years because of declining bond yields. The Panel finds that the 0.81% break-even margin built into the request for an overall rate increase of 1.03% (before the Rate Stabilization Reserve surcharge) is reasonable, and that the requested overall rate increase is reasonable.

As discussed earlier in this Report, the Panel echoes the Consultants' comments with respect to the many technical improvements introduced in this Application. The Panel requests that any significant changes in methodology or basis for selections of assumptions be specifically highlighted in future rate applications, including a rationale for the change and the estimated impact of the change.

> **Recommendation #2: That the proposed 1.23% Rate Stabilization Reserve surcharge be approved for one year only.**

The Panel notes there is much evidence showing that various factors could affect the Minimum Capital Test ratio positively or negatively between now and 2016, which could significantly impact the health of the Rate Stabilization Reserve. For example, at the beginning of 2013, the Office of the Superintendent for Financial Institutions issued a revised guideline for the Minimum Capital Test that reduced the Auto Fund's Minimum Capital Test ratio by approximately 2%. At the request of the Consultants, the Auto Fund prepared two tables showing the effects of eight negative and eight positive revenue and expense factors that could affect the Rate Stabilization Reserve from now until 2016. The first table shows the negative scenarios and their financial impacts, followed by the second table with the favourable impacts.

The most dramatic example is in the first table, where a 10% increase in claims costs could push the Minimum Capital Test ratio down to 12%. This would put the Rate

Stabilization Reserve in a very vulnerable position. As the second table shows, even a 10% reduction in claims costs would increase the Minimum Capital Test ratio to 64%, still well below the 75% minimum level and the 112.5% target level of the range.

Sensitivity Analysis on the 2013 Proposed Rate Change (which includes the 1.03% Rate Increase & 1.23% RSR Surcharge)					
Scenarios	**Net Premiums Earned**	**Total Claims & Expenses**	**Under-writing Loss**	**RSR Year End Balance**	**MCT Ratio**
2012 Forecast	773,871	900,940	(127,069)	119,001	47%
2013 Forecast	828,423	927,530	(99,107)	105,630	38%
Restated 2013 Forecast:					
1) Claims Incurred Costs - 10% Increase	828,423	1,000,950	(172,527)	32,210	12%
2) Vehicle Drift - 0.5% Decrease	826,023	927,199	(101,176)	103,437	38%
3) Vehicle Volume - 0.5% Decrease	826,014	924,976	(98,962)	105,651	38%
4) Investment Income - 10% Decrease	828,423	927,530	(99,107)	100,531	37%
5) LAE - 10% Increase	828,423	934,234	(105,811)	98,926	36%
6) Administrative Expenses - 10% Increase	828,423	933,073	(104,650)	100,087	36%
7) Traffic Safety Costs - 10% Increase	828,423	930,402	(101,979)	102,758	37%
8) Other Income - 10% Decrease	828,423	927,530	(99,107)	101,814	37%

Sensitivity Analysis on the 2013 Proposed Rate Change (which includes the 1.03% Rate Increase & 1.23% RSR Surcharge)					
Scenarios	**Net Premiums Earned**	**Total Claims & Expenses**	**Under-writing Loss**	**RSR Year End Balance**	**MCT Ratio**
2012 Forecast	773,871	900,940	(127,069)	119,001	47%
2013 Forecast	828,423	927,530	(99,107)	105,630	38%
Restated 2013 Forecast:					
1) Claims Incurred Costs - 10% Decrease	828,423	854,110	(25,687)	179,050	64%
2) Vehicle Drift - 0.5% Increase	830,823	927,861	(97,038)	107,822	39%
3) Vehicle Volume - 0.5% Increase	830,832	930,084	(99,252)	105,609	39%
4) Investment Income - 10% Increase	828,423	927,530	(99,107)	110,731	40%
5) LAE - 10% Decrease	828,423	920,826	(92,403)	112,334	41%
6) Administrative Expenses - 10% Decrease	828,423	921,986	(93,563)	111,174	40%
7) Traffic Safety Costs - 10% Decrease	828,423	924,658	(96,235)	108,502	39%
8) Other Income - 10% Increase	828,423	927,530	(99,107)	109,445	40%

It is unlikely that all of the factors would be entirely negative or entirely positive, but very likely that some will affect the Auto Fund's projections. The Panel believes it would be prudent to review this issue on an annual basis and, therefore, supports the proposed Rate Stabilization Reserve surcharge, but for one year only. The following chart shows Minimum Capital Test ratios on a monthly basis, illustrating how volatile the level of the Rate Stabilization Reserve can be.

Minimum Capital Test Ratios on a Monthly Basis			
Month/Year	**MCT**	**12-month Average MCT**	**RSR Balance**
Jan-10	85%	74%	
Feb-10	92%	79%	189,123,342
Mar-10	99%	83%	200,018,670
Apr-10	101%	88%	205,621,418
May-10	106%	91%	213,144,263
Jun-10	99%	93%	202,387,106
Jul-10	104%	95%	218,420,051
Aug-10	114%	97%	240,183,606
Sep-10	115%	99%	249,728,969
Oct-10	123%	102%	264,699,313
Nov-10	115%	103%	248,964,325
Dec-10	124%	106%	271,856,958
Jan-11	120%	109%	268,980,914
Feb-11	120%	112%	269,197,787
Mar-11	113%	113%	246,216,801
Apr-11	116%	114%	256,951,553
May-11	128%	116%	274,903,144
Jun-11	94%	116%	207,442,140
Jul-11	87%	114%	199,356,996
Aug-11	76%	111%	176,714,148
Sep-11	49%	105%	115,051,304
Oct-11	63%	100%	140,977,366
Nov-11	67%	96%	147,871,487
Dec-11	60%	91%	134,261,151
Jan-12	65%	87%	149,726,482
Feb-12	69%	82%	157,460,109
Mar-12	65%	78%	151,318,916
Apr-12	69%	74%	156,661,715
May-12	65%	69%	145,710,316
Jun-12	58%	66%	134,720,722
Jul-12	51%	63%	122,015,722
Aug-12	54%	61%	129,950,603
Sep-12	62%	62%	150,853,633
Oct-12	62%	62%	151,023,793
Nov-12	55%	61%	135,612,199
Dec-12	51%	61%	127,121,624
Jan-13	46%	59%	122,252,000
Feb-13	55%	58%	141,747,000
Mar-13	61%	57%	157,514,000

As noted in the Table on the previous page of this Report, should SGI's current financial forecasts materialize, the 2013 forecast RSR year-end balance is expected to decrease to $105,630,000, resulting in a MCT ratio of 38% which includes the proposed 1.03% rate increase and the 1.23% RSR surcharge.

Should the Minister accept this recommendation, the Panel strongly encourages the Auto Fund, in the interest of fairness and transparency in its dealings with its customers, to show the amount of the surcharge on a separate line or in a separate box on the customer's renewal notice, together with a brief explanation of the surcharge.

The Auto Fund has indicated that the surcharge would be identified to customers as a percentage to be applied to the base insurance premium, but otherwise not identified separately on renewal notices. A generic insert would be included with all renewal notices, advising of average changes in rates and the amount of the surcharge, along with contact information for customers seeking more details on their premiums.

The Auto Fund indicated there were a number of practical considerations leading to the decision not to show the Rate Stabilization Reserve surcharge as a separate line item on the renewal notice. They claimed the current notice is already two pages in length and the Auto Fund considers that including more information on year-over-year changes may confuse customers. They also felt that since the surcharge is a temporary measure, dedicating resources to program and test changes to the notice would be inefficient.

The Panel believes the practical considerations given by the Auto Fund for providing customers with a generic insert rather than disclosing the specific dollar amount of the individual customer's contribution to the rebuilding of the Rate Stabilization Reserve are not compelling. Rather than being confused by the additional information, the Panel believes that customers will welcome it. In addition, the reasoning that the surcharge is "only temporary" is not credible, since the Auto Fund projected that it would need to add the surcharge to customer bills for at least the next three years to meet the 75% minimum of the range. As clarified by the Auto Fund in First Round Information Request # 40, a Rate Stabilization Reserve surcharge of 6.31% annually for the next 3 years would be required to attain the 112.5% target of the range.

Recognizing the need for transparency in providing information on the customer's renewal notice, and that time is short before the proposed surcharge would take effect, if this recommendation is approved, the Consultants suggested in their independent report to the Panel that the Auto Fund be asked to reconsider including a separate line item on each renewal notice, and to estimate the time and resources required to accomplish this.

Recommendation # 3: That all vehicle classes be subject to the same rate cap rules as set out in the revised Application and further, that rate rebalancing occur annually, whether or not a rate change is required.

The Panel notes that currently, 50.5% of vehicle premiums are within 5% of adequate rates, with the expectation that this will increase to 79.5% in 2013. However, significant rebalancing still needs to occur to achieve the objective of 98% by 2016. This would require annual rebalancing under current capping philosophies which can only happen with regular rate adjustment processes.

The Panel has repeated the recommendation it made in previous reviews that the Auto Fund make annual rate applications to address the rate rebalancing issue, for obvious reasons. As this Application has proven, annual Applications are crucial, especially in view of the general imbalance in the rating structure, plus the issues around motorcycles, and the current volatile economic environment and its possible effects on the Auto Fund. All of these matters are best addressed by annual Applications. Avoiding an Application would only create greater discrepancies in a number of areas within the Auto Fund, and increase vehicle class cross-subsidization.

The Panel offers Recommendation # 3 because it believes it has been asked to resolve a problem of rate fairness, or rather rate unfairness that has existed for a long time. The original Application targeted one group of Auto Fund customers in a way that was fundamentally unjust, with predictable repercussions. The pushback from motorcyclists, and some other customers who perceived the proposed increase as unfair, indicated that the Auto Fund was not listening to its customers. The Panel believes the revised Application, prepared and submitted by the Auto Fund at the behest of the government, may have alleviated the worst potential impacts for this particular year. However, it does not deal with the long-term problems created by not addressing rate rebalancing in rate applications before 2009, and since, on a regular basis.

The Auto Fund began a three-phase product review in October 2012, and is currently examining the Safe Driver Recognition and Business Recognition programs in the first phase. At the direction of the provincial government, the Auto Fund launched a Motorcycle Review in May 2013. The Panel suggests that the review of this Application could have been more effective and focused on a broader range of issues if these Auto Fund initiatives had begun earlier, and changes implemented, before this Application was prepared. As a monopoly provider of basic insurance for Saskatchewan motorists, listening, working with and responding to its customer needs must be an integral part of SGI’s forward-looking business strategy,

The Panel deliberated on the idea of recommending no increase in motorcycle rates in this Application, but in order to maintain the same amount of revenue overall, a freeze on motorcycle rates would mean an average rate level increase of about 0.3% in addition to the 1.6% proposed overall on all customers with vehicles in the CLEAR-rated class, which make up about 71% of the vehicle fleet in the province.

The following table compares the estimated annual written premium levels for the current fleet of CLEAR-rated vehicles before this Application with those resulting from this Application, both before and after the revision, plus an additional scenario under which motorcycle rates are frozen at current levels.

CLEAR-Rated Vehicles				
Motorcycle Capping Scenario	Annual Written Premium (in millions)	% Increase Over Current Rate	% Increase Over Original Application	% Increase Over Revised Application
Current Rates	781.8			
Original Application – Achieve Break Even	784.9	0.4%		
Revised Application – Standard Capping	794.2	1.6%	1.2%	
Alternative – Freeze at Current Rates	796.8	1.9%	1.5%	0.3%

While freezing motorcycle rates might represent a solution to some, albeit one that some customers might rightly see as unfair to them, it would not address a long-term solution. As well, the Panel would also have to justify a recommendation that conflicted with its Consultants' findings and recommendation.

After further deliberation, the Panel suggests to the Auto Fund that if the recommendation on rate rebalancing is approved, the rebalancing provision be delayed on motorcycle rates until after the results of the Motorcycle Review Committee's work are known. Since the rate proposal is to begin at the end of August 2013, very few motorcycle customers would be affected by rebalanced rates during this riding season, and the additional time would enable the Motorcycle Review Committee to continue its work, with the expectation that meaningful changes that could have a positive effect on motorcycle rates could be implemented before the 2014 riding season begins. The Panel believes this suggestion would add an element of fairness to the proposal on rate rebalancing, with little or no cost to Auto Fund customers in any rate class.

Recommendation #4 – That the Panel's Terms of Reference be expanded to include:

- **a) Analysis of the Capital Management Policy and the Minimum Capital Test**
- **b) The Safe Driver Recognition and Business Recognition programs**
- **c) The existing vehicle risk groups**
- **d) The SAF's accounting and operating policies and procedures.**

The Panel's mandate is to provide the government with an opinion on the fairness and reasonableness of the Auto Fund's proposed rate change, within the definition of the specific Terms of Reference for this review, issued by the Minister of Crown Investments Corporation.

It is not the Panel's job to manage the Saskatchewan Auto Fund, but it does need to maximize the relevant information that can be used in its analysis in order to adequately fulfill its mandate to the Auto Fund, its customers and the shareholder.

The Terms of Reference for this review were such that some information the Panel considered to be important was described as “givens” which rendered them outside the Panel’s review.

Accessing this information would have been most helpful for the Panel in conducting a thorough review and analyzing all the relevant data. In addition, the Panel found itself unable to respond to pubic comments because it could not access certain information.

These “givens” in the Terms of Reference have direct and indirect impacts on the rates paid by Auto Fund customers. The Panel believes that a broader mandate for access to information would allow the Panel to better assist the Auto Fund to operate at its best, delivering the most cost-effective basic vehicle insurance at rates that are fair to all customers, and in a way that customers recognize as fair.

The following discussion identifies how each of four types of information has an influence on the ratemaking process, and, therefore, would enhance analysis by the Panel.

a) Capital Management Policy and Minimum Capital Test

The Rate Stabilization Reserve acts as a cushion to protect Auto Fund customers from significant rate changes due to much higher than expected claims costs or much lower than expected investment income. In practical terms, the Auto Fund can draw from the Rate Stabilization Reserve to help alleviate “rate shock” where a significant rate increase might otherwise be needed.

The Auto Fund has developed a Capital Management Policy and uses the Minimum Capital Test as a measure to ensure the funds in the Rate Stabilization Reserve are adequate to moderate the need for large rate increases. The Auto Fund has determined in its Capital Management Policy that the acceptable range for the Minimum Capital Test is 75% to 150%, with a mid-point of 112.5%. If the Minimum Capital Test rises above 150%, customers may receive a rebate that recognizes their overpayment. If, as is the case in this Application, the Minimum Capital Test falls below 75%, customers may be required to pay higher premiums to restore the Rate Stabilization Reserve to an acceptable level.

The Panel points out that it is caught between two conditions of its mandate in this part of its review. The Panel is to assess whether the proposed Rate Stabilization Reserve surcharge is adequate to restore the Rate Stabilization Reserve to an acceptable level, but the Panel does not have the ability to review or examine the merits of the Capital Management Policy or the Minimum Capital Test, nor how the Auto Fund applies them.

The following sets out the Panel’s recent history on this issue.

1. In its 2009 Report on the Auto Fund rate application, because of the limitations it detected, the Panel recommended “…*that the Saskatchewan Auto Fund test the*

appropriateness of the currently prescribed Minimum Capital Test (MCT) target range for the Rate Stabilization Reserve (RSR). Once the target range is determined, the Panel recommends that a formal policy on an action plan be developed to address situations where the MCT for the RSR falls significantly above or below the target range."

2. As a result of that recommendation, the Auto Fund developed a new Capital Management Policy, changing the limits to the current range of 75% to 150%. The Policy was approved by the SGI Board and took effect January 2010. The Crown Investments Corporation Board approved it in February 2010.

3. In its 2012 Report, the Panel expressed its concern that one of SGI's stated purposes for the Rate Stabilization Reserve was to fund large capital projects. The Panel recommended in its 2012 Report that the Auto Fund include an officially defined and stated purpose for the Rate Stabilizations Reserve that specifically excluded funding capital projects, and that the Capital Management Policy be included in the Panel's Terms of Reference in future applications.

4. In response to this recommendation SGI stated that it has the required experience and expertise to make decisions on the Capital Management Policy, which is outside the Panel's mandate.

5. In their independent report on the 2013 Application, the Consultants observe that while the Capital Management Policy (CMP) is to be considered a given, *"... the Panel is to conduct its review with specific consideration of the CMP."* – Consultants' independent report, p. 31.

6. In its 2012 Report, the Panel held the view that it was crucial for the Auto Fund to take action then to begin replenishing the Rate Stabilization Reserve, because of concerns shared by its Consultants about the health of the Rate Stabilization Reserve at that particular time. The Panel recommended a 1% surcharge to replenish the Rate Stabilizations Reserve as part of its recommended overall rate increase.

7. In August 2012, the Auto Fund implemented a 1.6% overall rate increase, using the Panel's recommended 1% Rate Stabilization Reserve (RSR) surcharge as part of the overall rate increase. In response to the panel's recommendation, the Auto Fund stated: *"Based on the Capital Management Policy, the RSR did not require a surcharge on premium rates."*

The Panel notes that even with the 1.6% rate increase implemented in August 2012, the information in First Round information Request #41 and Second Round Information Request # 13 reveals that the 12-month moving average Minimum Capital Test ratio in January 2013 was at 59%, at 58% in February 2013, and dropping to 57% in March 2013, all well below the low end of the acceptable range of 75%.

In response to First Round Information Request #40, the Auto Fund stated that a Rate Stabilization Reserve surcharge of 6.31% would be needed for 2013 and each of the next two years to bring the Minimum Capital Test ratio to the mid-point or target of the range, 112.5%, by the end of 2016.

Finally, as recommended in the Consultants' Report, because of the risk of the Capital Management Policy falling out of step with the Minimum Capital Test as it evolves, the Panel requests that the Auto Fund provide explicit documentation of the monitoring of the Capital Management Policy as it is affected by any actual or known planned changes to the Minimum Capital Test, as a regular part of its rate applications.

The information presented here confirms that the Panel's concerns, and those of its Consultants, regarding the health of the Rate Stabilization Reserve, were justified. The Panel repeats its view that the review process would be more effective and of benefit for all parties if the Capital Management Policy was within its mandate to review.

b) Safe Driver Recognition and Business Recognition programs

Both programs are designed to reward customers with safe driving records with discounts and penalize poor driving records with surcharges. In 2012, discounts in the Safe Driver Recognition program exceeded penalties by approximately $90 million. Similar results are expected in 2013. In the Business Recognition program, discounts exceeded surcharges by just under $10 million.

The revenue needed to offset the discounts to good drivers must come primarily from an additional revenue requirement, and therefore, forms part of the requested rate increase of 1.03% in this Application. With both programs, the penalties only modestly offset the revenue requirements resulting from the discounts to good drivers. The following table shows the Auto Fund's five-year financial forecast, including the projected amounts for Safe Driver Recognition and Business Recognition discounts and penalties.

The first line item in the table, Safe Driver Recognition Bonus, refers to the discounts to reward safe drivers in that program. This item shows $111.6 million in discounts forecast in 2013, with $120.6 million projected for 2014. The Safe Driver Recognition Malus line item shows $13.5 and 14.6 million in penalties expected to be collected from drivers in 2013 and 2014, respectively.

The third line, Business Recognition Net Bonus, shows the net result of discounts paid by the Auto Fund, over the revenue received from penalties. The net result is a projected loss of $9.1 and $9.8 million in 2013 and 2014, respectively.

Updated Five Year Financial Forecast (in $ thousands) (with 1.03% Rate Increase and 1.23% RSR Surcharge)						
Year Ended December 31	**Actual**	**Forecast**				
	2012	2013	2014	2015	2016	2017
Net Premiums Written before Discounts	878,741	965,451	1,054,335	1,124,181	1,192,878	1,262,443
Safe Driver Recognition Bonus	(100,728)	(111,608)	(120,602)	(128,568)	(136,402)	(144,336)
Safe Driver Recognition Malus	11,213	13,518	14,608	15,572	16,521	17,482
Business Recognition Net Bonus /Malus	(8,059)	(9,100)	(9,834)	(10,483)	(11,122)	(11,769)
Premiums Written – Net	**781,167**	**858,261**	**938,507**	**1,000,702**	**1,061,875**	**1,123,820**
Premiums Earned	**767,226**	**828,423**	**904,865**	**971,881**	**1,034,795**	**1,093,801**
Claims Incurred	677,194	691,052	701,022	716,880	799,276	879,447
Loss Adjustment Expenses	63,333	67,039	71,332	76,003	81,105	86,640
Premium Taxes	38,555	41,645	45,472	48,827	51,978	54,932
Issuer Fees	37,795	43,638	47,155	50,270	53,333	56,435
Administrative Expenses	51,546	55,434	56,101	56,981	59,307	61,516
Traffic Safety Programs	22,627	28,722	29,325	29,941	30,570	31,212
Total Expenses	**891,050**	**927,530**	**950,407**	**978,902**	**1,075,569**	**1,170,182**
Underwriting Loss	**(123,824)**	**(99,107)**	**(45,542)**	**(7,021)**	**(40,774)**	**(76,381)**
Investment Earnings	74,838	44,132	25,670	15,573	59,581	97,715
Other Income	37,489	38,157	40,316	42,763	45,215	47,724
Increase (Decrease) to RSR	**(11,497)**	**(16,818)**	**20,444**	**51,315**	**64,022**	**69,058**

A common theme the Panel heard from the public during this review was *"…make the bad drivers pay"*. A variation on this theme came from Business Recognition program stakeholders – primarily taxi companies – that told the Panel in this and previous reviews, that the program is not a good fit for their business, and imposed harsh penalties on the companies, rather than on the individual drivers who are responsible for accidents. Taxi owners also noted that they have been in consultations with the Auto Fund on issues of concern since 2009, with little to show from them.

Both programs are currently under review as part of the Auto Fund's stakeholder product review that began in October 2012. Any proposed changes are not likely to be implemented until 2014. Because the discounts offered to good drivers in both programs represent a revenue requirement that must be built into the ratemaking process, the Panel believes bringing these two programs within its Terms of Reference would assist it in determining that the rates charged to Auto Fund customers are fair and reasonable.

c) Vehicle Classifications

The Panel heard during the public consultations that some vehicle classifications are *"unfair"*, or *"misguided"*, or that the system does not properly recognize certain vehicles, but it was unable to explore these issues fully because vehicle classifications are a given. For example, the Auto Fund assigns motorcycles to three sub-classes. Are they the right ones?

Regarding taxis, the Panel recognizes the difficulty in classifying them, since there are fewer than 600 registered in the entire province. However, the Panel is concerned by what the taxi industry perceives as a lack of action coming out of consultations with the Auto Fund since at least 2009.

Working within its current mandate the Panel cannot respond factually to the observations made by the industry, nor can it answer questions definitively. The Panel is not satisfied that the current classification system serves Auto Fund customers as well as it might, but the Panel is unable to explore these issues in depth, and is limited to offering suggestions or observations on fairness issues that could affect Auto Fund customers.

d) Accounting and Operating Policies and Procedures

During the public consultations, the Panel also heard presentations that questioned the validity of the Auto Fund's numbers and statistics. Because the whole area of operating policies and procedures are a given, the Panel was unable to gather all of the information needed to assess these assertions in depth and determine if any of the information might affect the fairness of the rate proposal.

The Panel points out that in prior reviews, Auto Fund accounting policies and procedures were not a given and thus the Panel was able to analyze these as part of the rate review process. Because accounting standards are mandated at the national level by agencies such as the Office of the Superintendent for Financial Institutions, along with federal and provincial reporting requirements, this exclusion limits and compromises the Panel's ability to do its job: to determine what is fair and reasonable in this rate Application.

To sum up, the Panel repeats that its role is not to manage the Saskatchewan Auto Fund, but to provide thorough analysis of all factors affecting rates. In this case, the Panel's work would have benefited greatly from the ability to gather all information on certain issues, explore issues at greater depth, and be able to provide a greater number of factual responses to observations or questions put before the Panel.

6.0 Panel Observations

The Panel offers the following observations arising from its deliberations during this review.

6.1 Possible changes to Auto Fund Programs and Policies

During the public consultation process, several ideas were presented that are worthy of consideration. The following are the most prominent and commonly raised issues by the public:

- Overly generous benefit levels – particularly injury and income replacement benefits – under the current no-fault system.
- Place more responsibility on drivers/riders who are at fault by increasing the penalties on them.
- Reduce premiums by revising current coverage levels or raise deductibles.

The Panel notes that the Auto Fund is currently examining these and other issues such as the Safe Driver Recognition and the Business Recognition Programs in the Three-Phase Product Review. A number of other issues are being considered in the Motorcycle Review Committee, which is also underway. The Panel has a keen interest in the outcomes of these reviews and fully expects future applications will detail the recommendations and SGI response to each of those reviews.

6.2 Taxis and the Business Recognition Program

The Panel asked its Consultants to specifically look at the taxi industry, in part because longstanding issues need to be addressed. During the public consultations, the Panel heard a representative of one taxi company state that taxi companies should be able to opt out of the Business Recognition program. The Auto Fund stated in response to Second Round Information Request # 50 that 14 customers would opt out of the program, leading to a loss of approximately $40,000 of income through surcharges. This would have to be recouped on the rates of the taxi class as a whole, with an impact of around 2.5%.

Taxi industry representatives also told the Panel they would like to have access to the real-time information on taxi drivers' records that would help them in screening drivers during the hiring process. The representatives indicated this information is available in Manitoba, and the system used there is working well. The Panel sought out more information about the system used in Manitoba, but was unable to gather detailed information before completing this Report. The Panel encourages the Auto Fund to explore this suggestion for possible use in Saskatchewan.

6.3 Taxis and the classification system

The Panel observes that the population definition for classifying small urban taxi sub-classes requires urgent attention, particularly in light of the province's recent population growth. In its response to First Round Information Request # 14, the Auto Fund stated that Estevan, Weyburn and Yorkton were moved, for some unknown reason, from "large cities", i.e., population greater than 5,000, but not as large as Regina and Saskatoon, to "small cities", which are defined as centres with a population of 2,000 to 4,999. The Panel notes that 2011 population figures for various cities are readily available on the Internet, and urges the Auto Fund to follow through on its plans to look at these definitions and classifications in 2013, as it states in the Information Request, and report to the Panel in the next Application.

6.4 Investment Income

The Auto Fund derives income from it's approximately $1.4 billion portfolio. About $130 million of this supports the Rate Stabilization Reserve, while the remaining funds are set aside and invested to meet future liabilities, which are mostly claims related. An Investment Committee manages the Auto Fund's investment policy, with day-to-day management assigned to a professional investment advisor. The investment strategy includes a Matching Portfolio for all fixed-income investments, which accounts for about 75% of all investments, and a Return Seeking Portfolio for equity and real estate investments. (Federal legislation governing all insurance companies requires that at least 65% of all assets invested be in fixed income securities).

The Consultants note that over the ten years ending in 2012, investment income has been equal to 10% of premiums annually, which has resulted in lower rates for customers. However, investment returns are highly variable from year to year, and the outlook for the next five years is for lower investment returns due to rising interest rates causing capital losses in the bond portfolio (Matching Portfolio), and lower overall total returns.

The following return forecast prepared in August 2012 illustrates the expected returns from the Auto Fund's investment portfolio.

Auto Fund Return Forecast				
	2012	**2013**	**2014**	**2015**
Expected Return (net of fees)	4.74%	2.93%	1.60%	0.91%

The Consultants observed that while disappointing, the expected returns are generally in line with what other comparable companies are experiencing.

The Panel recognizes the current difficult investment climate, but points out that the low returns projected in 2014 and 2015 will have an impact on the rates customers pay. The Auto Fund has confirmed that decreased investment income is one of the main drivers for the rate increase it is requesting. Given the significant impact investment income has had on rates in the past and will in the future, the Panel urges the Auto Fund Investment

Committee to continue reviewing its portfolio and maximizing returns, recognizing the need to balance returns with risk.

6.5 Operating, Maintenance and Administrative Expenses

Operating, Maintenance and Administrative expenses include salaries, infrastructure and system support costs, which will account for approximately 15% of Auto Fund expenses in 2013. Spending related to loss adjustment expenses, administrative expenses and traffic safety costs are also included in the estimated Operations, Maintenance and Administrative budget of $142.6 million for 2013. This is an increase of $11.8 million or 9.04% over the previous year.

The Panel notes that advertising costs are projected to increase in 2013 by more than $424,000 over the previous year, a rise of 104% year-over-year. The Panel would like to see more documentation on the effectiveness of Auto Fund advertising, in particular with respect to items such as informing customers about the MySGI online services or SGI's extended hours. The Panel also observes that bank charges are expected to increase by more than $2.3 million in 2013, or 56% over the previous year, primarily due to customers using credit cards for online transactions. The Panel understands that these charges are likely to continue to increase as more customers opt to use MySGI to handle their renewals and other business. However, the Panel expects to see corresponding savings in the form of lower administrative costs within the Auto Fund and in fees paid to its brokers. These savings were not identified in this Application, but are something the Panel expects to see in future applications.

The following table summarizes Auto Fund expenses.

OM&A Expenses					
Description	2011	2012	Budget 2013	Variance 2012-13	
				$	%
Wages & Salaries	66,843,104	69,162,436	72,473,851	3,311,415	4.79%
Benefits	11,547,233	12,555,762	12,630,993	75,261	0.60%
Pensions	3,857,454	4,073,722	4,216,785	143,063	3.51%
Advertising	158,092	407,492	832,138	424,646	104.21%
Amortization Costs	2,265,714	2,606,450	2,609,092	2,642	0.10%
Building Rehabilitation	2,005,364	2,304,669	2,135,651	-169,018	-7.33%
Data Processing	12,398,531	11,630,189	11,453,078	-177,111	-1.52%
Drinking & Driving Awareness	2,654,809	2,658,717	2,717,624	58,907	2.22%
Driver Education	2,495,022	6,368,769	8,251,074	1,882,305	29.56%
Employee Training	1,570,799	1,733,093	2,111,826	378,733	21.85%
External Services	3,790,369	3,594,804	6,612,697	3,017,893	83.95%
Insurance	404,965	432,266	426,566	-5,700	-1.32%
Issuer Bank Charges	4,009,517	4,203,255	6,551,729	2,348,474	55.87%
License Plates	832,712	867,050	773,723	-93,327	-10.76%
Material & Supplies	707,277	708,424	712,070	3,646	0.51%
Postage	2,684,147	3,590,800	3,560,399	-30,401	-0.85%
Safety Awareness	3,411,208	861,168	1,392,865	531,697	61.74%
Tools & Equipment	164,547	178,377	190,661	12,284	6.89%
Travel (incl. Vehicle Costs)	1,969,159	2,054,103	2,228,226	174,123	8.48%
Other Expenses	346,826	752,535	684,013	-68,522	-9.11%
Total	**124,116,849**	**130,743,991**	**142,565,000**	**11,821,009**	**9.04%**

6.6 Traffic Safety

The Auto Fund is the lead agency in promoting traffic safety in the province, and bears all associated costs. The Auto Fund budgets for 2% to 3% of total premiums to be directed to safety programming, with budgets from 2013 to 2016 in the range of 2.5% to 2.8%. The following table shows projected and actual traffic safety costs since the current program began in 2011.

Total Traffic Safety Costs (in $ thousands)			
Description	**2011**	**2012**	**2013 Budget**
Traffic Safety Promotion	1,852.1	1,762.9	4,148.9
Traffic Safety Program Evaluation	63.8	21.5	70.0
Traffic Safety Advertising	3,338.0	600.0	600.0
Driver Programs	2,312.4	2,291.5	2,373.1
Driver Development	1,890.0	7,415.0	8,416.1
Carrier Safety Services	0	0	18.0
Total Traffic Safety Initiatives	**9,456.3**	**12,090.9**	**15,626.1**
Regulatory Program Administration	**10,997.4**	**11,066.1**	**13,095.9**
Total Traffic Safety Budget	**20,453.7**	**23,157.0**	**28,722.0**

The Auto Fund monitors the results of its safety programs and considers these results in reviewing its annual programs. The Consultants state that they remain of the view that the Auto Fund's commitment to, and emphasis on traffic safety, is commendable. They also state that an effective and dynamic safety program will, in the long term, reduce costs, injuries and deaths. They consider the level of expenditure within the range of 2% to 3% of premiums written to be reasonable, within the five-year financial forecast.

The Panel notes that while many agencies and organizations have a stake in traffic safety, the Auto Fund bears all of the costs. The total budgeted for traffic safety for 2013 is $28.7 million. As traffic safety programming benefits all members of the public in Saskatchewan, the Panel questions the fairness of Auto Fund customers bearing the full brunt of the costs of these programs.

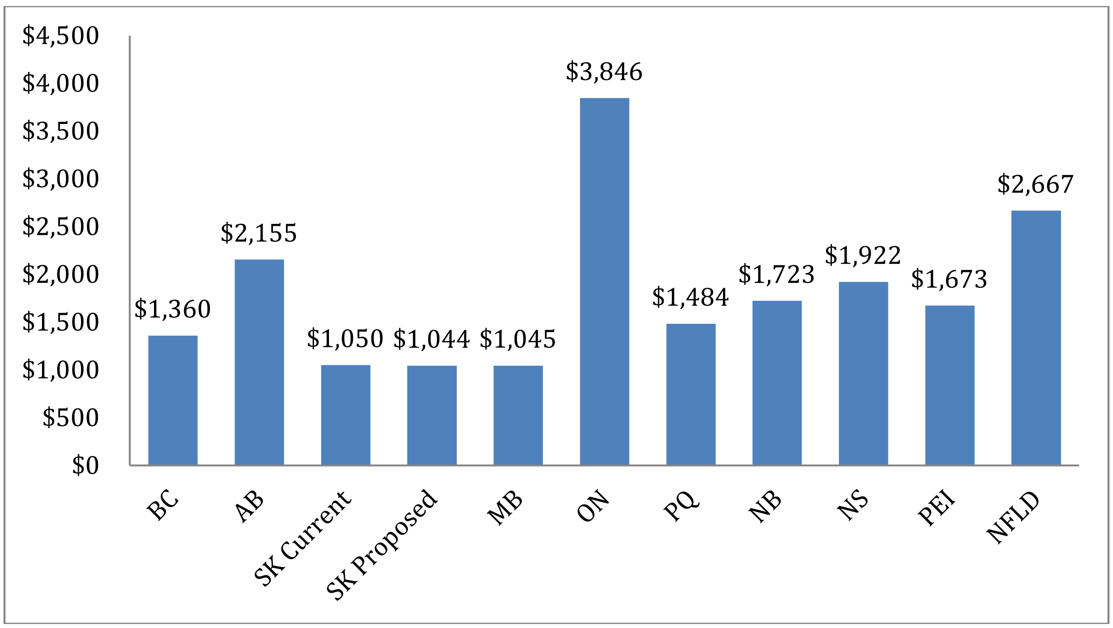
The Auto Fund monitors and measures the effectiveness of the various programs that it supports, with some programs being dropped and others introduced or enhanced from year to year, The Panel encourages the Auto Fund to continue applying rigorous measurements to its safety programming to ensure its customers are getting maximum value from its safety programming. The Panel expects SGI in future Applications to provide an overview of the costs and the benefits of all traffic safety initiatives.

6.7 Cross-Canada Rate Comparison

For the 2012 survey, the Auto Fund used 34 vehicle and driver profiles, called risk profiles, in 22 cities across Canada for this comparison, representing various geographical areas such as major centres, rural communities and northern communities. However, the Consultants state that the comparison is open to question, given the differences that exist between jurisdictions, including with respect to coverages, weather, population and traffic density, road infrastructure, crime levels and vehicle mix. They add that benefit coverage levels varied widely across the surveyed jurisdictions.

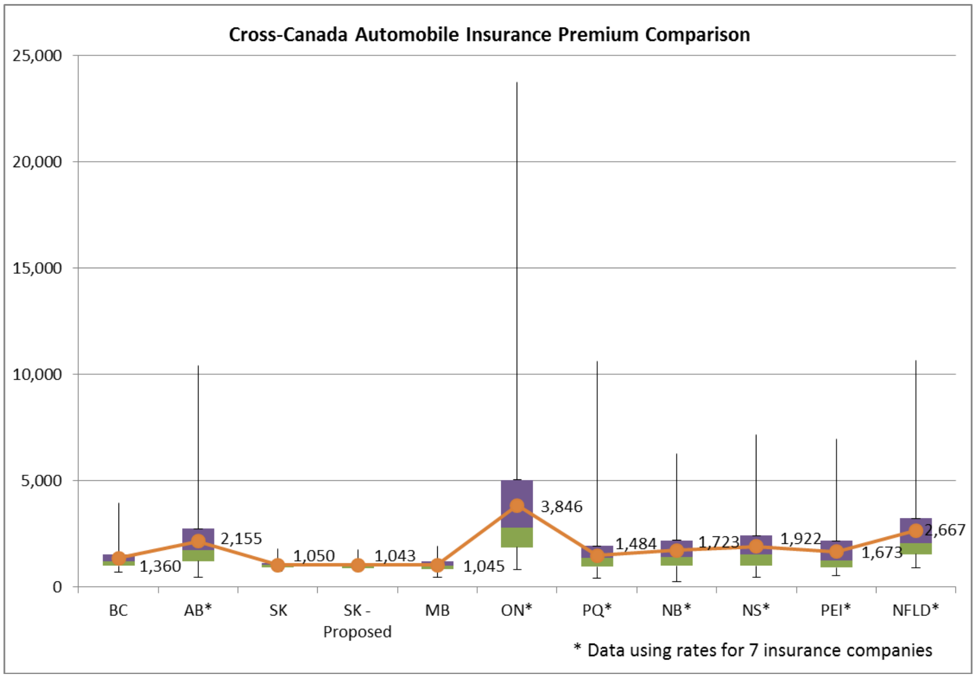
The Auto Fund is obligated to provide compulsory basic insurance, to insure all drivers regardless of their driving record, and to pay legislated benefits, as are Manitoba Public Insurance (MPI) and the Insurance Corporation of British Columbia (ICBC). Private insurers operating in competitive jurisdictions are under no such constraints. Comparisons with Manitoba Public Insurance and Insurance Corporation of British Columbia, while not "pure", are the only ones that can be used reliably.

The Panel understands that the Auto Fund is required to include a cross-Canada rate comparison with its application. It also supports the Consultants' recommendation that the Auto Fund develop an enhanced graphic representation of the comparison in future applications. The first graph was prepared by the Auto Fund based on the selection of data sets noted above.



The second graph, prepared by the Consultants, uses the same data underlying the graph prepared by the Auto Fund. It shows more clearly, using vertical bars and thin black lines, the diversity of rates and the concentration of the rates underlying the averages in each province. The horizontal line running across the graph shows the average premiums for each jurisdiction cited by the Auto Fund in its graph. The vertical bar and the shading within it identify the 75th, 50th and 25th percentile points within the premiums paid by each of the 34 driver and vehicle risk profiles surveyed by the Auto Fund. For example, the 75th percentile point is the level of premium below which three-quarters of the surveyed premiums fall. The point where the shading changes within the vertical bar represents the 50th percentile, which is right in the middle of the surveyed premiums.

The black lines, in particular, illustrate the wide range of premiums offered in some provinces, including one of the Auto Fund risk profiles in Ontario facing an annual premium of close to $25,000. No customer in a competitive jurisdiction would likely pay this premium, but because it is offered, at least hypothetically, its existence does distort the comparison.



6.8 Efficiency Savings

The Panel concurs with the Consultant's recommendation that *"... the SAF file narrative and quantify year over year efficiencies on a line by line basis for all components of administrative expenses, and consider that all efficiencies flowing from the AFRP (Auto Fund Redevelopment Project) implementation be included in the base year costs, against which future efficiencies are measured."* The Panel looks for this reporting in future rate applications.

7.0 Impacts

The Panel attempted to achieve a balance of fairness within the limited parameters in which it must work and believes the problems that surfaced during this review have been a long time in the making, and they will not be solved overnight. While the recommended overall increase and the Rate Stabilization Reserve surcharge would allow the Saskatchewan Auto Fund to continue to fulfill its mandate, the public consultations indicated many customers perceive that the Auto Fund is not listening to them.

7.1 Impact on the Customer

The Panel, with the assistance of its independent expert Consultants, conducted a review of the rate Application that was as thorough as possible, within the limits of the Terms of Reference for the review. After completing its review, the Panel believes the overall rate increase of 1.03% is fair, and that the rate rebalancing provisions in this Application will help to mitigate possible rate shock.

The recommended 1.23% surcharge to replenish the Rate Stabilization Reserve, by being expressed as a percentage of premiums, attempts to ensure each individual customer makes a fair contribution to rebuilding the Rate Stabilization Reserve, commensurate to the risk they bring to the insurance process. The small size of the recommended surcharge is intended to avoid rate shock, although the Panel and its Consultants express some concern that applying the proposed 1.23% surcharge over three consecutive years would only bring the level in the Rate Stabilization Reserve to the minimum 75% prescribed by the Auto Fund’s current Minimum Capital Test in 2016.

The greatest impact of this Rate Application on a customer group was the motorcycle class. There are approximately 25,600 motorcyclists in Saskatchewan. While this is a small number relative to the Auto Fund’s total customer base, it is likely that – based on the level of public engagement during the consultations – a great majority of motorcyclists view their treatment by the Auto Fund as lacking fairness. The Panel looks forward to the results of the Auto Fund’s motorcycle review, and substantive changes that will address the issues raised by motorcyclists during this and previous rate reviews.

At the Panel’s public meetings, several motorcyclists stated that if the proposed rate increase were approved, they would curtail their motorcycling activities, or stop riding altogether. Some suggested they would have to sell their bikes out of province, since the increase would affect the resale market in Saskatchewan. Rick Dobson of the Saskatchewan Powersport Dealer Association said the proposed capping only prolongs the agony and slows the death of the motorcycle industry in the province. – Transcript of Regina Public Meeting, p. 58.

Some motorcyclists suggested they be allowed to opt out of the basic insurance system and find their own deals from private insurers. Others suggested motorcycles might be better served under a tort system, rather than no-fault. Other suggestions included re-examining deductible levels and income replacement benefits. Riders Against

Government Exploitation stated that the Panel should reject the rate application altogether, while one individual suggested it might be time to privatize SGI.

Taxi operators repeated what has become their perennial position that taxis do not belong in the Business Recognition program, and would like to opt out.

Regardless of the merits of these positions, the results of the Panel's public consultation process indicate that many people question whether they are being treated fairly under the current system.

7.2 Impact on the Crown Corporation – SGI Saskatchewan Auto Fund

The original rate Application, and the public reaction to some of its provisions, suggest that many members of the public believe the Auto Fund is out of step with its customers.. The review process may provide the benefit of alerting the Auto Fund to customer relations issues that it can address going forward.

The recommended rate increase would enable the Saskatchewan Auto Fund to fulfill its mandate to operate on a break-even basis over time, while the recommended surcharge would begin the process of improving the financial health of the Auto Fund's Rate Stabilization Reserve. However, the Panel notes that future adverse or positive events could sidetrack or assist the Auto Fund's projection that three years of 1.23% surcharges would bring reserves in the Rate Stabilization Reserve to the 75% level set as the minimum in the Auto Fund's Minimum Capital Test.

Several motorcyclists indicated that if the proposed rate increase is approved, they would move their package polices on their cars, trucks and trailers with SGI Canada Limited to other insurance companies. One motorcyclist, Burt Michleborough, stated that if the Panel recommends the Government approve the proposed increase, he would ask the provincial Cabinet to turn it down. – Transcript of Regina Public Meeting, p. 86.

As was mentioned above, the proposed rate increase on motorcycle rates galvanized one group of customers to vociferously oppose the proposed increase. If those customers move their entire package policy business from SGI Canada to other insurers, this would not directly affect the Auto Fund. There is no way of knowing how these actions would affect SGI Canada's business.

7.3 Impact on the Public

At the conclusion of this review, the Public, as the shareholder for the Saskatchewan Auto Fund, may have questions about the Auto Fund fulfilling its mandate to provide fair and affordable vehicle insurance to all of its customers. Motorcyclists and the taxi owners who approached the Panel do not perceive the Auto Fund as providing fair and affordable insurance, or that the Auto Fund has been responsive to their concerns in consultations that have continued over a period of years. The Panel notes that its recommendations in previous reviews have only recently resulted in the Auto Fund's product review, which may lead to changes that may address the serious concerns raised by Auto Fund customers

Since the mandate of the Saskatchewan Auto Fund is to be self-sustaining – with revenues and costs balancing out over time – and does not earn profits or pay dividends, the recommended rate increase would have no financial effect on the shareholder.

Rick Dobson of the Saskatchewan Motorsport Dealer Association and Rob Hertzog of Prairie Harley Davidson stated that the proposed increase would threaten the viability of some businesses serving motorcyclists, with some going out of business. There is also the suggestion that some motorcyclists may decide not to license their bikes at all.

In the past, as part of the review process, the Panel has received updates to the original applications as the Crown corporation under review was able to provide new information. This is the first review where an entire rate proposal was revised in reaction to vocal public opposition to the proposal, prior to the start of public meetings. The Panel places a high priority on the integrity of the rate review process. The public must always have confidence that they will receive a full hearing and that the Panel will conduct thorough analysis and reach conclusions marked by the highest level of fairness.

8.0 In Appreciation

The Panel expresses its appreciation to the SGI Saskatchewan Auto Fund for the assistance provided during this review, and especially to those staff members who worked closely with and responded to all of the queries made by the Panel and its Consultants. Thank you for your responsiveness and professionalism offered throughout the process. In particular, the Panel welcomes the many improvements made in this Application over previous applications, which were also specifically noted by the Consultants. The co-operation given to the Panel was beneficial to the review process.

The Panel thanks its expert Consultants, Brian Pelly and Myron Kostelnyk, for their thorough and timely analysis of the Application.

The Panel thanks technical writer, Bill Armstrong, for his assistance in preparing this Report.

Finally, the Panel thanks the many members of the public who expressed their views on the Application, including those who took the time to come to the public meetings to make presentations, ask questions and observe the review process first-hand. It is very likely that the original Application received the most public scrutiny of any application that has come before the Panel.

Public participation made an important contribution to this review. The Panel recognizes a growing public engagement in its reviews and a strong public expectation for an effective rate review process.