Eckler

Kostelnyk
Holdings Corp.

30 MAY 2013

REVIEW OF SASKATCHEWAN GOVERNMENT INSURANCE SASKATCHEWAN AUTO FUND 2013 PROPOSAL FOR RATE ADJUSTMENT EFFECTIVE 31 AUGUST 2013

PREPARED BY

ECKLER LTD. AND KOSTELNYK HOLDINGS CORP.

FOR THE

SASKATCHEWAN RATE REVIEW PANEL

TABLE OF CONTENTS

Page

1.0 BACKGROUND AND APPLICATION OVERVIEW 1
1.1 INSURANCE INDUSTRY TRENDS 1
1.2 SAF COVERAGES 1
1.3 SAF OPERATING PHILOSOPHY 2
1.4 2013 RATE IMPACTS – ORIGINAL AND REVISED APPLICATIONS 2
1.5 2013 RATE INCREASE WITH REBALANCING 7
1.6 RATE STABILIZATION RESERVE 8
1.7 HISTORICAL RATE CHANGES 8
1.8 CROSS-CANADA RATE COMPARISON 8
2.0 SASKATCHEWAN RATE REVIEW PANEL MANDATE 12
2.1 MINISTER'S ORDER AND TERMS OF REFERENCE 12
3.0 REVIEW PROCESS 15
3.1 STUDY OBJECTIVES 16
4.0 RATEMAKING METHODOLOGY OVERVIEW 17
4.1 CLASSIFICATION 17
4.2 INDICATED RATE CHANGE AND RELATIVITIES 18
5.0 ACTUARIAL ANALYSIS 19
5.1 PURE PREMIUM CALCULATION 19
5.2 PROJECTED ADEQUATE AVERAGE PREMIUM CALCULATION 19
5.3 INDICATED RATE CHANGE 21
5.4 BASE RATES AND RELATIVITIES 22
5.5 VEHICLE RATING CLASSES 23
5.5.1 Canadian Loss Experience Automobile Rating System 23
5.6 RATE INDICATIONS BY CLASS 24
5.6.1 CLEAR-Rated Vehicles 24
5.6.2 Conventionally-Rated Vehicles 26
6.0 2012 PANEL RECOMENDATIONS 28
7.0 2012 CONSULTANT RECOMMENDATIONS 30
8.0 ACTUARIAL CHANGES 33
8.1 CLEAR-RATED VEHICLES 33
8.2 CHANGES AFFECTING OTHER SPECIFIC CLASSES 33
9.0 EFFICIENCY AND EFFECTIVENESS OF OPERATIONS 34
9.1 OPERATIONAL EFFICIENCY GAINS 34
9.2 EFFICIENCY SAVINGS 36
10.0 FIVE YEAR FINANCIAL FORECAST 38
11.0 PROGRAM REVENUE 39
11.1 PREMIUM REVENUES 39
11.2 REINSURANCE CEDED PROGRAM 39
11.3 INVESTMENT INCOME 40
11.4 OTHER INCOME 42
12.0 PROGRAM COSTS 44
12.1 CLAIM COSTS INCURRED 44
12.2 OPERATING, MAINTENANCE & ADMINISTRATIVE EXPENSES 45
12.2.1 Salaries and Wages, Pensions, and Benefits 46
12.2.2 External Services 47
12.2.3 Capital Costs and Building Rehabilitation 47
12.2.4 Data Processing 49
12.2.5 Issuer Bank Charges 49

12.2.6 Other Administrative Expenses 49
12.3 COLLISION REPAIR COSTS 50
12.4 LABOUR RATES 50
12.5 MEDICAL SERVICE RATES 51
12.6 TRAFFIC SAFETY PROGRAMS 51
12.7 APPEAL PROCESS AND COSTS 58
12.8 PREMIUM TAXES 58
12.9 ISSUER FEES 59
13.0 PERFORMANCE MANAGEMENT PLAN 60
13.1 WARD GROUP STUDY 60
13.2 MEASUREMENT 61
14.0 COST ALLOCATION 63
15.0 RECOGNITION PROGRAMS 65
15.1 SAFE DRIVER RECOGNITION 65
15.2 BUSINESS RECOGNITION 65
15.3 COMMENTARY 66
16.0 INTERNATIONAL FINANCIAL REPORTING STANDARDS 67
18.0 CAPITAL MANAGEMENT POLICY AND MINIMUM CAPITAL TEST 70
18.1 CAPITAL MANAGEMENT POLICY 70
18.2 MINIMUM CAPITAL TEST 70
19.0 INDUSTRY NORMS 72
20.0 CORE ISSUES AND RECOMMENDATIONS 73
20.1 BREAK EVEN MARGIN 73
20.2 PROPOSED CHANGE IN AVERAGE RATE LEVEL 73
20.3 RATE REBALANCING 74
20.4 MOTORCYCLE ISSUES 75
20.5 TAXIS AND THE BUSINESS RECOGNITION PROGRAM 77
20.6 CAPITAL MANAGEMENT POLICY 78
20.7 RATE STABILIZATION RESERVE 80
20.8 TECHNICAL IMPROVEMENTS 82
20.9 INVESTMENT INCOME 82
20.10 TRAFFIC SAFETY 83
20.11 COST ALLOCATION 84
20.12 ADMINISTRATIVE EFFICIENCIES AND PERFORMANCE MEASURES 84
20.13 OM&A EXPENSES 85
20.14 CROSS-CANADA RATE COMPARISON 87
21.0 GLOSSARY OF ACRONYMS 89
22.0 APPENDIX – ILLUSTRATIVE RENEWAL NOTICE 91

1.0 BACKGROUND AND APPLICATION OVERVIEW

Saskatchewan Government Insurance (SGI) was established by legislation in 1944 to address an extreme shortage of private insurers willing to provide adequate automobile insurance coverage for Saskatchewan motorists. It began offering basic compulsory automobile insurance coverage in 1946. The Saskatchewan Auto Fund (SAF) was established in 1984 and is administered by, yet wholly independent of, SGI. It continues to provide basic insurance coverage to drivers and vehicle owners in Saskatchewan, operating on a self-sustaining basis over time. SAF does not receive money from, nor pay dividends to the Government of Saskatchewan. SAF's operational goal is to maintain an adequate balance in its Rate Stabilization Reserve (RSR), which is a public fund used as a buffer to protect their customers from rate shock following years with unexpected outcomes, e.g., higher than expected claim costs.

SGI is headquartered in Regina, Saskatchewan. According to the 2012 SAF Annual Report, SAF licensed approximately 762,000 drivers and issued about 1.1 million vehicle registrations. SAF also provides driver examination services along with numerous driver and vehicle certification programs. SAF services extend to providing safety programs that aim to reduce the costs and damage to people and property through motor vehicle use. Their services also include audit programs for vehicle operators who carry passengers or who transport goods. As of 31 December 2012, all of the aforementioned services were provided across the Province at 399 independent motor license and vehicle insurance issuing offices in 299 communities in Saskatchewan. SAF also operates 7 license issuing branch offices, 21 claims centers, and 5 salvage centers in 13 communities.

In addition to administering SAF on behalf of the provincial government, SGI provides competitive insurance products through SGI CANADA (SGIC) within Saskatchewan, and its subsidiary, SGI CANADA Insurance Services Ltd. (SCISL), outside of Saskatchewan. SCISL also owns Coachman Insurance Company (Coachman) and 75% of the Insurance Company of Prince Edward Island (ICPEI). SGIC and SCISL are separate entities from SAF and, therefore, are not to be considered part of this rate adjustment Application review.

1.1 INSURANCE INDUSTRY TRENDS

The 2013 Performance Management Plan indicates that Saskatchewan's growing economy is affecting its insurance market. Competition is increasing. The trend of independent brokers consolidating and new business models being established (such as brokers buying brokers, insurers buying brokers, and broker specialization) is being witnessed in Saskatchewan.

The use of technology by insurers to operate more efficiently and effectively is increasing. This helps them to better understand customers. Many insurers are moving towards multi-channel distribution, allowing them to meet the needs of the consumer how, when and where the consumer chooses.

1.2 SAF COVERAGES

Compulsory coverage provided by SAF is legislated in *The Automobile Accident Insurance Act* by the Province of Saskatchewan and is divided into 3 components:

- **Personal Injury** coverage provides Saskatchewan residents with benefits if they are injured or killed in an automobile accident. Residents have a choice between No-Fault Coverage and Tort Coverage.

- **Third Party Liability** coverage provides vehicle owners with up to $200,000 to pay for damages that their vehicles may cause to other people or their property.

- **Physical Damage** coverage includes both collision and comprehensive coverage and pays for damages due to an accident or other occurrences such as hail, fire, theft, or vandalism. Such claims are subject to a deductible, which is currently $700 for most vehicles.

1.3 SAF OPERATING PHILOSOPHY

The major operating philosophy of SAF is to provide basic insurance coverage that is universal and fair by charging insurance premiums for vehicle classes that are reflective of their claims experience and cost of repair, while keeping rates as low as possible, avoiding undue cross subsidization, and large rate increases.

The three components considered by SAF when determining rates are establishing adequate premium rates to break even, fairness in rating, and maintaining adequate capital.

1.4 2013 RATE IMPACTS – ORIGINAL AND REVISED APPLICATIONS

The original Application, filed on 15 February 2013, proposed a 1.03% overall average rate increase with rebalancing as well as a 1.23% RSR surcharge effective 31 August 2013. The original rate rebalancing proposal was designed to cap rates so as to have maximum increases or decreases of 15% for all vehicles classes, except for Motorcycles and Small City Taxis. The Motorcycle Class was proposed to achieve full “break even” rates in this Application year, while the Small City Taxi sub-Class was to be capped at 30%. The exceptions made to the capping rule for Motorcycles and Small City Taxis were in recognition that the existing rates were far below the costs attributed to these classes and resulted in substantial cross-subsidization by other vehicle classes.

On 14 March 2013, SAF submitted a revision to the original Application which did not alter the original rate increase request of 1.03% and the RSR surcharge of 1.23%, but proposed changes to the capping rules originally used for rate rebalancing, so that all vehicle class rates would be capped at plus or minus 15% without exception.

The revised 2013 rate Application only affected the proposed rates for CLEAR-rated vehicles, LV - Motorcycles, and PT - Urban Taxis. The CLEAR-rated vehicle rates were adjusted upwards from the original 2013 rate Application to make up for lost revenue due to the capping of Motorcycle and Taxi rates in the revised 2013 rate Application. Overall estimated revenues, expenses, RSR levels and MCT ratios did not change.

The following highlights summarize the changes from the original Application to the revised 14 March 2013 Application based on capping Motorcycle and Small City Taxi rate increases at 15%:

- The original Application proposed a rate increase for 55% of Saskatchewan vehicles, excluding Motorcycles. This equated to an average annual increase of $28 for all vehicles, except Motorcycles which would have had an average annual increase of $964.

- The revised Application will result in a rate increase for 63% of Saskatchewan vehicles, including Motorcycles. This equates to an average annual increase of $35.

- The original Application proposed 42% of Saskatchewan vehicles would experience an average annual rate decrease of $25.

- The revised Application will result in 35% of Saskatchewan vehicles experiencing an average annual rate decrease of $21.

- The original Application indicated no change to rates for approximately 10,000 Saskatchewan vehicles.

- The revised Application indicates no changes in rates for approximately 14,000 Saskatchewan vehicles.

The following table shows the rate impacts for each vehicle class as a result of the average overall rate increase with rebalancing of 1.03% and the 1.23% RSR surcharge submitted with the revised Application:

2013 Average Indicated and Proposed (with RSR 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%

The following table illustrates the impact the revised Application had on the CLEAR-rated vehicle classifications as a percentage when comparing the original 15 February 2013 Application to the revised 14 March 2013 Application:

CLEAR-Rated Vehicle Classifications				
Vehicle Class	**Original Application Effect of CLEAR and Discount / Surcharge Changes**	**Original Application Effect of CLEAR and Discount / Surcharge Changes including RSR Surcharge**	**Revised Application Effect of CLEAR and Discount / Surcharge Changes**	**Revised Application Effect of CLEAR and Discount / Surcharge Changes including RSR Surcharge**
CLEAR-Rated Vehicles	-0.8%	0.4%	0.4%	1.6%
A - Commercial Light Trucks	18.9%	20.4%	20.4%	21.9%
F - Farm Light Trucks (1994 & Newer)	1.1%	2.4%	2.3%	3.6%
LV - PPV	-0.9%	0.3%	0.2%	1.5%
LV - PPV - Farm Cars, SUVs & Vans	-3.2%	-2.0%	-2.0%	-0.8%
LV - Police Cars	8.0%	9.4%	9.3%	10.7%
LV - Police Trucks, Vans & SUVs	-15.1%	-14.0%	-14.0%	-12.9%
LV - U Drives	7.6%	8.9%	9.0%	10.3%
PT - Taxis (Rural)	-7.5%	-6.4%	-6.4%	-5.3%

Monetarily, the minimum adequate premium (without RSR surcharge applied) that any PPV should pay changed from $664 to $669 as a result of the revised 14 March 2013 Application.

The impact on the CLEAR-rated vehicle premiums as a result of the revised Application are as follows:

- The original Application reported approximately 375,000 vehicles (49%) with average annual premium increases of $24.
- The revised Application indicates approximately 442,000 vehicles (57%) with average annual premium increases of $31.
- The original Application reported approximately 391,000 vehicles (51%) with an average annual reduction of $20.
- The revised Application indicates approximately 319,000 vehicles (41%) with an average annual reduction of $14.
- The original Application reported no change to rates for approximately 4,600 vehicles.
- The revised Application indicates no change to rates for approximately 8,700 vehicles.

The distribution of CLEAR-rated vehicles that are within +/-10% of adequate rates before and after the proposed 2013 rate program changes are shown in the following table:

CLEAR-Rated Vehicles Within +/-10% of Adequate Rates Comparison of Original Application to Revised Application				
Difference between Current Rate and Adequate Rate (Excluding Surcharge)	**Before 2013 Rate Program Original Application**	**After 2013 Rate Program Original Application**	**Before 2013 Rate Program Revised Application**	**After 2013 Rate Program Revised Application**
Less than -10%	1.0%	0.0%	1.0%	0.0%
Between +/-10%	91.0%	99.0%	90.0%	98.0%
Greater than +10%	8.0%	1.0%	9.0%	2.0%

Motorcycles and Small City Taxis

Motorcycle injury costs account for approximately 73% of the required average Motorcycle premium, while injury costs for private passenger vehicles, as an example, account for less than 25%. The original 2013 rate Application reported 80%. To reduce rate shock, Motorcycle rates and Small City Taxi rates (which is part of the PT - Urban Taxi classification) have been changed from the original 2013 rate Application as follows:

Changes Proposed for Motorcycles and Urban Taxis Comparison of Original Application to Revised Application				
Vehicle Class	**Original Application Effect of CLEAR and Discount / Surcharge Changes**	**Original Application Effect of CLEAR and Discount / Surcharge Changes including RSR Surcharge**	**Revised Application Effect of CLEAR and Discount / Surcharge Changes**	**Revised Application Effect of CLEAR and Discount / Surcharge Changes including RSR Surcharge**
LV - Motorcycles	70.5%	72.6%	15.4%	16.8%
Cruiser / Touring	57.6%	59.5%	15.1%	16.5%
Dual Purpose / Other	73.6%	75.8%	20.7%	22.2%
Sport	128.7%	131.5%	15.3%	16.8%
PT - Taxis (Urban)	17.2%	18.6%	15.0%	16.4%
A-Small Cities		31.5%		16.4%
B-Large Cities		16.4%		16.4%
C-Regina & Saskatoon		16.4%		16.4%

- Cruiser / Touring Motorcycles would receive an average increase of $233/year ($839/year in the original 2013 rate Application). The maximum annual increase went from $1,327 to $289 in the revised 2013 rate Application.

- Dual Purpose / Other Motorcycles would receive an average increase of $122/year ($416/year in the original 2013 rate Application). The maximum annual increase went from $1,033 to $254 in the revised 2013 rate Application.

- Sport Motorcycles would receive an average increase of $256/year ($2,007/year in the original 2013 rate Application). The maximum annual increase went from $3,376 to $383 in the revised 2013 rate Application.

- Small City Taxis proposed premium with RSR would increase by $266 (the original 2013 rate Application reported an increase of $513).

1.5 2013 RATE INCREASE WITH REBALANCING

SAF submitted that a rate increase is needed because of:

- Declining bond yields resulting in lower investment income;
- Higher income replacement benefits for accident victims; and
- Higher cost of parts used in collision repairs.

In support of one of SAF's operating philosophies related to fairness in rating, rate rebalancing, which addresses vehicle class cross-subsidization, is a component of the requested 1.03% overall average rate increase. Based on a response to First Round IR # 11, 50.5% of written exposures were within 5% of adequate rates in 2012. This is expected to increase to 79.5% in 2013 and to 98.0% by 2016, assuming the revised capping rules are approved. Prior to the revision, 79.8% of written exposures would have been within 5% of adequate rates in 2013 and 98.0% by 2016.

To reduce the degree of rate shock, SAF now proposes to cap rate adjustments at +/-15% for customers with an annual premium in excess of $1,000. Originally, SAF submitted that Motorcycle and Small City Taxi rates continued to be substantially lower than what is required to cover their claim costs. To eliminate the cross subsidization, Motorcycle rates were originally going to be increased to break even and Small City Taxi rates were going to be increased by 30%. As instructed, SAF amended the Application by capping the Motorcycle Class and the Small City Taxis sub-Class at 15% as well. For the 2012 rate Application, all Motorcycles were capped at 15% (except sport bikes which were at 30%).

For annual premiums less than or equal to $1,000, SAF recommends dollar caps, ranging from $25 to $150, as outlined below. In the revised Application SAF stated that, based on 1,081,094 written exposures, 6% (64,865) will receive dollar caps and 2% (17,468) will receive percent caps.

The table below illustrates the proposed capping limits:

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

Each entitled customer will receive the benefit of any rate decrease in the form of a refund equal to the portion of the difference between the old and new premium corresponding to the period from 31 August 2013 to their registration expiry date. Refunds for the unused portion of a customer's current term will be automatically issued in September 2013. Customers who are to receive increases will not pay the new rates until their next renewal on or after 31 August 2013.

1.6 RATE STABILIZATION RESERVE

The RSR acts as a cushion to protect customers against significant rate changes due to much higher than expected claim costs or much lower than expected investment income.

In addition to the 1.03% overall average rate increase, a rate surcharge, to replenish the RSR, of 1.23% would be applied equally to every vehicle rate. SAF requested that, in addition to becoming effective on 31 August 2013, it would continue for a 3 year period expiring, all else being equal, on 31 August 2016. It is expected that the RSR will be replenished and meet the minimum target range of 75% at the end of that 3 year period.

1.7 HISTORICAL RATE CHANGES

From 1998 to 2012, SAF has had a compounded rate adjustment change of 7.44%, while the Saskatchewan Consumer Price Index (CPI) cumulative percent change for the same period was 38.96%. Following is a summary table of rate adjustments and notable points through this period:

Summary of Rate Adjustments vs. CPI

Year	Rate Adjustment	CPI Year-Over-Year Change	Comments
1998	5.00%	1.30%	In 1997 most customers supported a 3 year rate change from 1998 to 2000: 5%, 2%, & 2%, respectively. Basic deductible changed from $500 to $700 in 1998.
1999	2.00%	1.80%	
2000	2.00%	2.60%	
2001	0%	3.00%	
2002	0%	2.90%	Introduction of SDR program rewarding safe drivers. In 2011, discounts totalled $97 million, equal to a 13% rate reduction.
2003	0%	2.30%	
2004	0%	2.20%	Introduction of BR program, rewarding businesses with discounts of up to 10% based on loss experience.
2005	0%	2.20%	
2006	0%	2.10%	Refunded $44 million in excess RSR funds to 520,000 customers, an average $84 rebate.
2007	(7.10%)	2.80%	Refunded $100 million in excess RSR funds to 540,000 customers, an average $185 rebate. Rate decrease included rate rebalancing.
2008	0%	3.30%	
2009	4.20%	1.00%	Rate increase included rate rebalancing.
2010	0%	1.40%	
2011	0%	2.80%	
2012	1.60%	1.60%	Rate increase included rate rebalancing.
Compound Change	7.44%	38.96%	

1.8 CROSS-CANADA RATE COMPARISON

The cross-Canada rate comparison is intended to determine how much an average driver would pay for auto insurance across Canada given their vehicle, driving record, and claims history,

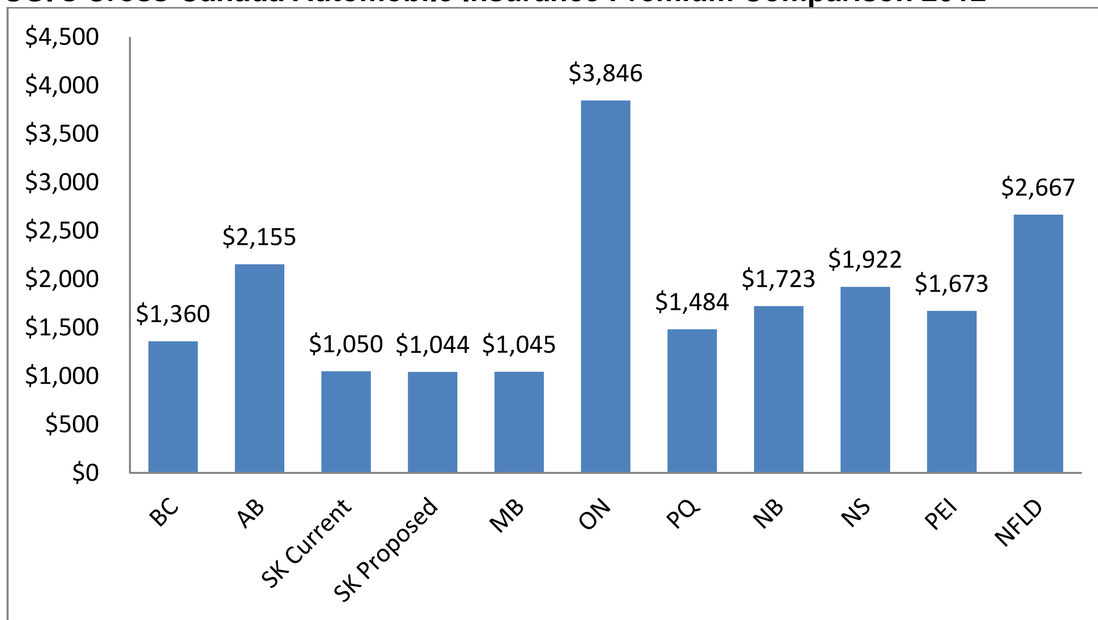
relative to SAF's rates. SAF used 34 vehicle and driver profiles in 22 cities across Canada for this comparison, which represented various geographical areas such as major centres, rural communities, and northern communities. Driver profiles remain constant from year to year and while the 34 most popular vehicles are updated annually, there are usually minimal changes.

For the 2012 survey, SAF used the most popular vehicles registered in Saskatchewan in 2011, while the cities were selected in 2005 by the utility Crowns and Crown Investments Corporation (CIC), with one exception. The Gatineau, Quebec location was replaced by Aylmer, Quebec, which is a sector of the City of Gatineau. This change was made to make the location more specific for the comparison.

Comparing insurance rates across Canadian jurisdictions is a challenge due to differences that exist including with respect to coverages, weather, population and traffic density, road infrastructure, crime levels and vehicle mix. The third party liability limit and the physical damage deductible for the cross-Canada rate comparison are $2 million and $500, respectively. Benefit level coverages across the surveyed jurisdictions varied significantly.

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

SGI's Cross-Canada Automobile Insurance Premium Comparison 2012



1.10 MOTORCYCLES

Subsequent to the SAF 2013 Application being filed with the Panel and made available to the public on 15 February 2013, a significant amount of feedback was received from organizations and individuals, primarily those affected by the proposed Motorcycle rate increases. This proposal did not cap Motorcycle rates, instead bringing these to a “break even” rate so that

other vehicle classes would no longer subsidize Motorcycle rates. SAF was directed to revise the Application which was then filed with the Panel on 14 March 2013. As previously mentioned, the revision reinstituted capping for Motorcycles ($150 maximum increase for premiums less than or equal to $1,000 and 15% maximum increase for premiums greater than $1,000), indicating that future rate increases would be phased in over time to get to rate adequacy.

Many persons concerned with the Motorcycle aspect of the initial and revised Applications attended public meetings in both Regina and Saskatoon and presented their views related to this matter.

Based on the current rate program, to bring Motorcycle rates to within 5% of current indicated rates (i.e. rate adequacy, as defined by SAF) over 3 years and 5 years, would require the following annual rate increases:

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%

Future forecasts will differ from those indicated above.

In conjunction with the revision to the Application, SAF was also directed by Government to establish a working committee of interested stakeholders to review matters related to Motorcycle insurance coverage so as to achieve Motorcycle rate adequacy,

The major topics for the review, as currently planned include:

- Rating structure – includes classification system (currently – sports, cruiser and dual purpose and engine capacity), seasonal rates and a Safe Driver Recognition type program for motorcyclists.

- Motorcycle safety programming – issues such as mandatory driver testing, graduated engine sizes, mandatory clothing will be analyzed.

- Injury benefit levels – various changes to the injury benefit levels will be analyzed with the intent of reducing the average 73% rate increase needed for motorcyclists.

1.11 URBAN TAXIS

In SAF's original Application, Small City Taxis were to be treated as exceptions to the capping rule and capped at 30%. However, the revised Application reinstituted the same capping for Small City Taxis ($150 maximum increase for premiums less than or equal to $1,000 and 15% maximum increase for premiums greater than $1,000) as for all other vehicle classes.

Based on the current rate program, SAF stated that to bring Taxi rates to within 5% of current indicated rates (i.e. rate adequacy) over 3 years and 5 years would require the following annual rate increases:

Within 5% of Adequate Rate Over 3 Years			
Taxi Location	1st Year Rate Change	2nd Year Rate Change	3rd Year Rate Change
A - Small Cities	26.4%	26.4%	26.4%
B - Large Cities	26.4%	1.6%	0.0%
C - Regina & Saskatoon	17.9%	0.0%	0.0%

Within 5% of Adequate Rate Over 5 Years					
Taxi Location	1st Year Rate Change	2nd Year Rate Change	3rd Year Rate Change	4th Year Rate Change	5th Year Rate Change
A - Small Cities	15.1%	15.1%	15.1%	15.1%	15.1%
B - Large Cities	15.1%	11.6%	0.0%	0.0%	0.0%
C - Regina & Saskatoon	15.1%	2.4%	0.0%	0.0%	0.0%

Future forecasts will differ from those indicated above.

SAF established the Urban Taxi sub-Class distinct from the Rural Taxis sub-Class because the insurance risk differs significantly between urban and rural areas, and there is more loss experience available for urban Taxis. As well, the method of operation is different for each of the sub-classes. Rural Taxis are often used as personal vehicles. Urban Taxis are used more continuously as a service. Since 2012, the 3 year loss ratio for urban Taxis has been 146% compared to only 40% for rural Taxis.

2.0 SASKATCHEWAN RATE REVIEW PANEL MANDATE

In the Minister's Order dated 1 January 2013, pursuant to Section 16 of *The Government Organization Act*, the Minister of Crown Investments Corporation of Saskatchewan appointed a Ministerial Advisory Committee known as the Saskatchewan Rate Review Panel.

In accordance with Appendix A to the above noted Minister's Order (Schedule A: Saskatchewan Auto Fund Rate Increase and Rebalancing Proposal Terms of Reference), the Panel is tasked with conducting a review of SAF's request for an overall average rate increase and rate rebalancing for vehicle insurance rates effective 31 August 2013. The Panel is to review the fairness and reasonableness of SAF's proposed rate changes while considering the interests of the customers, the Crown Corporation, and the public.

In conducting its review, the Panel can engage suitably qualified technical consultants to assist and advise in the review of SAF's Application. The Panel's final report is not to include any information that could be refused disclosure by a government institution pursuant to Section 18 or 19 of *The Freedom of Information and Protection of Privacy Act*.

2.1 MINISTER'S ORDER AND TERMS OF REFERENCE

The Minister's Order and Terms of Reference, dated 6 February 2013, state that the Panel is to conduct a review of the SAF Application for a general increase and rebalancing of vehicle insurance rates targeted for implementation on 31 August 2013. The Panel shall provide an opinion on the fairness and reasonableness of SGI's proposed Auto Fund rate change giving consideration to the following:

- The interests of the Crown Corporation, its customers and the public;
- Consistency with the Crown Corporation's mandate, objectives and methodologies;
- Relevant industry practices and principles; and
- The effect of the proposed rate change of vehicle insurance rates on the competitiveness of the Crown Corporation related to other jurisdictions.

In conducting its review, the Panel will consider the reasonableness of the proposed rate changes in the context of:

- the SAF's mandate to operate on a self-sustaining basis over time;
- the objective to maintain adequate capital within a Rate Stabilization Reserve to serve as a cushion to protect customers from large rate increases within the terms of the SGI Board approved Capital Management Policy;
- the impact of rising claims costs; and
- the objective of ensuring stability and fairness in vehicle insurance ratings such that each vehicle class pays sufficient premiums to cover its anticipated claim costs to minimize cross

subsidization.

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

- the compulsory insurance coverage provided by the SAF through its legislative mandate;
- the SAF is a public account for motorists with no profit component required in pricing of the product;
- the SAF Capital Management Policy, which requires a Minimum Capital Test ratio between the range of 75 percent and 150 percent;
- the existing program parameters of the Safe Driver Recognition program and the Business Recognition program;
- the vehicle risk groups used by the SAF; and
- the accounting and operating policies and procedures used by the SAF.

In addition to providing its Application package, SGI is also to provide the Panel with any supplementary information as the Panel may require to fulfill its mandate and Terms of Reference.

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

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

The Panel is to provide SGI with the opportunity and reasonable time to review the Panel's technical consultant's preliminary report prior to its finalization to ensure there is no error in data or in the interpretation of data. The preliminary report is to include the consultant's observations, but will not include their recommendations to the Panel.

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

Consistent with the “Confidentiality Guidelines” for the Panel (11 March 2010), the Panel is not to publicly release or require SGI to publicly release Confidential Information supplied by the Crown Corporation to the Panel during the course of the rate change Application review.

The Panel is to release, as part of its final report, the results of the review of SGI's SAF rate change request as conducted by an independent third party. By doing so the Panel shall ensure there has been no indirect release of any of SGI's Confidential Information. The Panel is to present its report to the Minister of Crown Investments no later than 11 June 2013.

SGI CANADA and SGI CANADA Insurance Services Ltd. are separate entities from the SAF and are therefore not to be considered part of the SAF rate Application review.

Cabinet may implement any rate change adjustment on an interim basis pending receipt of the Panel's recommendation(s).

3.0 REVIEW PROCESS

The Panel retained the services of Eckler Ltd. and Kostelnyk Holdings Corporation (jointly referred to as the Consultants) to advise the Panel on this Application. The Consultants received all documents related to the Application on 15 February 2013. They immediately commenced a detailed review, providing initial impressions of the Application as well as an Application summary for the Panel, which was presented on 27 February 2013. SAF also presented an overview of the Application to the Consultants and the Panel on 27 February 2013. Subsequent to this meeting, the Consultants prepared initial information requests (IRs) on behalf of the Panel, which were reviewed with the Panel on 7 March 2013 and submitted to SAF on 8 March 2013. A revised Application was then submitted on 14 March 2013 by SAF and reviewed by the Consultants. As a result, supplemental IRs were submitted to SAF on 20 March 2013. Responses to the IRs, including supplements, were received on 26 March 2013.

Conference calls were held as needed between the Panel and the Consultants to discuss any issues that arose from the IRs.

On 9 April 2013 the Consultants and the Panel Chair met with SAF officials in Regina to clarify certain aspects of the Application, including the recently announced Motorcycle Review process, to generally discuss the First Round IR responses, and to indicate those areas that would be further pursued in Second Round IRs.

On 10 April 2013 the Consultants met with the Panel to discuss the SAF meeting of 9 April 2013, to review responses to all First Round IRs and to identify particular areas of concern to be canvassed in the Second Round IRs.

Public meetings were held in Saskatoon and Regina to allow Saskatchewan residents and associations to have an opportunity to make their inquiries and voice their opinions. Although the Consultants did not attend the Saskatoon meeting on 22 April 2013, they did attend the public meeting in Regina on 9 April 2013. The Panel did brief the Consultants on the Saskatoon public meeting, and transcripts of both public meetings were provided. Other presentations from the public were received by the Panel by email, phone calls, and written submissions.

Based on the information received in the First Round IRs, the public meetings, and the discussions between the Panel, the Consultants, and SAF, a Second Round of IRs was prepared and submitted to SAF on 23 April 2013. SAF provided responses to these IRs on 3 May 2013.

After reviewing and analyzing the responses provided by SAF and public input, primarily from the Regina and Saskatoon public hearings, the Consultants prepared additional supplemental IRs to clarify previous responses or to obtain further information on certain matters. Responses to these supplemental IRs were provided by SAF by 15 May 2013. The Consultants provided the Panel with an overview of its recommendations, and a draft report was then prepared and submitted for review by the Panel on 17 May 2013. The draft report, in an abridged form, was also submitted to SAF for verification of factual data and proper interpretation of the Application on 17 May 2013. SAF provided their response on 22 May 2013.

On 22 May 2013, the Consultants met with the Panel to review the draft report and outline the

scope of the recommendations. Changes deemed appropriate by the Consultants were then incorporated, and the Consultants' final report was submitted to the Panel on 30 May 2013.

3.1 STUDY OBJECTIVES

The Consultants study objectives included:

- Gathering sufficient, up to date information, to allow the Panel to fulfill its mandate;
- Identifying and evaluating feasible and appropriate alternatives to SAF's proposal;
- Reviewing the practicality of SAF's proposal;
- Assessing the reasonableness of the proposed overall rate increase given the nature of the industry, the insurance environment, the economic environment, and the interests of SAF's customers, the Crown Corporation, and the general public;
- Assessing the reasonableness and fairness of the proposed rate rebalancing across the various rating classes of vehicles, and within those classes, across the underlying rating classifications;
- Assessing the consistency of the Application with SAF's mandate, objectives, and methodologies as well as with general insurance industry practices; and
- Assessing the reasonableness of SAF's cross-Canada rate comparison.

4.0 RATEMAKING METHODOLOGY OVERVIEW

SAF's ratemaking methodology is designed to reduce vehicle classification cross subsidization while maintaining the lowest rates possible and reducing customer impacts flowing from large rate adjustments.

SAF assigns vehicles into use classes based on the characteristics and exposure to risk of each class. The largest of these is the private passenger vehicle (PPV) class, which accounts for 64% of all vehicles insured (78% when trailers are excluded). Examples of other classifications are Farm Vehicles, Heavy Trucks, Motorcycles, and Taxis. A complete list of vehicle classes is listed in Appendix A of the Application.

SAF's ratemaking methodology considers indicated rate changes for each vehicle classification, and rate relativities within those classifications.

4.1 CLASSIFICATION

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

Premiums

Major considerations in forecasting premiums are vehicle drift (change in the mix of the fleet) and vehicle volume (change in number of vehicles). Both of these factors are used to predict the number and types of vehicles SAF will be insuring during the rating period.

Drift estimates the number of motorists that will have a change in premium paid due to upgrading to a newer vehicle from their current registered vehicle. Commencing in 2012 and continuing in 2013, the drift estimates were refined to assess drift on a class-by-class basis, according to historical trends. Previously SAF assessed drift using a flat rate across all classes.

Volume reviews the total number of vehicles that will be insured during the rating period. In 2013, a refined process of reviewing historical data on a class-by-class basis to determine the increase in the number of vehicles to be registered is again applied to predict volume growth. Previously a flat rate had been applied to forecast all classes.

Claims

Claims costs have always been and still are, by far, the largest component of overall costs and the most difficult to predict. Claim costs represent approximately 80-85% of SAF's total costs. Of this percentage, damage claims represent 65% of total claim costs, and injury and liability account for the remaining 35%. In the actuarial analysis, claims are assigned to the vehicle classes based on vehicle accident responsibility (i.e. to the at-fault vehicle).

The major factors affecting Saskatchewan claims are unpredictable, including severe weather conditions such as summer storms and winter driving conditions. Additional factors which

contribute to increased claims costs are inflation sensitive factors such as labour rates paid to body shops and the increase in the average wage of people injured. These factors increase the cost of income replacement benefits for which SAF provides coverage.

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

Expenses

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

Variable vehicle expenses include expenses and credits that are dependent upon premiums written, such as taxes paid to the General Revenue Fund, issuer commissions and credits for short term registrations and AutoPay programs. SAF also considers traffic safety program costs to be a variable vehicle expense.

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

4.2 INDICATED RATE CHANGE AND RELATIVITIES

Once all premiums, claims, and expenses are grouped by appropriate vehicle classes, an overall rate indication is determined by comparing total projected premiums and other revenue sources to total projected claims and expense costs for each class. If the projected revenues do not cover the projected costs incurred, an increase is required. If the projected revenues are in excess of the projected costs incurred, a rate decrease is required. Six years of data for damage and liability claims, seven years for catastrophe claims and nine years of data for injury claims are utilized to ensure that any irregularities that may occur over one or two years are smoothed out, so as not to drastically impact determination of a classification's rate.

Relativities (defined as 1 + the percent difference in claims costs between rating categories) within a classification will reflect attributes specific to vehicles within the classification. Relativities are used to differentiate vehicle rates based on factors such as usage, seating capacity, value, and model year. This process is referred to as a relativity analysis. As an example, the base group for Motorhomes used by SAF is a vehicle valued between $1,001 and $20,001. Premiums for other values of vehicles in this class are determined by multiplying the base rate by the calculated relativity for the specific rating category. If the loss experience of a specific rating category is worse than that of the base group, the premium is higher, and the premium is lower if the loss experience is better.

5.0 ACTUARIAL ANALYSIS

5.1 PURE PREMIUM CALCULATION

A pure premium is the average loss amount per unit of exposure. An exposure is equivalent to a vehicle written on a policy for one year. One car insured for an entire year equals one exposure unit, while a motorcycle insured for one half a year equals half an exposure unit. Non-catastrophe and liability data used were from accident years 2007 to 31 May 2012, while catastrophe data from accident years 2005 to 31 May 2012 and injury data from accident years 2004 to 31 May 2012 were used to calculate the average pure premium per coverage.

Loss development factors are calculated using ultimate claims costs from the 31 May 2012 actuarial valuation. These costs are used to bring yearly incurred losses by coverage to their estimated ultimate value. The ultimate losses are divided by the number of exposures resulting in the estimated ultimate pure premium by coverage.

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

Both trend factors and loss development trends are used to bring pure premium values to an appropriate level for a future rating period. In this Application, selected premium trends do not differ significantly between past and future selections. Past trends have no impact on the rate indications. Premium trend selection differs between vehicle classes. Pure premium trend selection is the compounded combination of corresponding selected frequency and severity trends.

Income replacement and care benefits are adjusted for inflation prior to trend selection and previous years' benefits are indexed for inflation. The selected frequency and severity factors have a 3% index factor increase applied for inflation to the pure premium to bring the values forward to the current rating period.

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

5.2 PROJECTED ADEQUATE AVERAGE PREMIUM CALCULATION

Pure premiums have to be adjusted for the time value of money, loss adjustment expenses, administrative expenses, salvage amounts, reinsurance costs, medical funding, appeal costs, the Malus component of the Safe Driver Recognition (SDR) program, variable expenses, a Break Even Margin, and investment income on the RSR. In this Application, SAF introduced a Break Even Margin, calculated to be 0.81%, and has not considered a contingency margin that was a part of last year's Application. It will be recalculated for each subsequent rate Application and can be expected to vary based on forecasted future claims and estimated bond yield rate

changes.

The estimate of a projected average pure premium (i.e. cost of claims per vehicle) by coverage or sub-coverage, considers recent historical accident year experience with provisions for development to estimated ultimate levels and patterns of change in that experience (i.e. frequency and severity trends). A trend is applied to project the pure premiums to be relevant for a future rating year. The projected pure premiums are discounted for the time value of money, recognizing that claim payments may be made over many years in some instances, and loaded for fixed and variable expenses, including loss adjustment expenses (LAE). Once aggregated, offsetting provisions are made for the expected contributions to revenue arising from investment earnings on the RSR, as well as the Malus components of the Safe Driver Recognition program. This result represents an estimate of the average required rate, which is then compared with an estimate of the current average rate adjusted for any premium trend expected, up to the average date of policy issue in the proposed rating year. The ratio of these two average rates represents the estimate of the indicated or required change in average rate.

The overall rate of interest used to discount the expected cash flows in this rate Application is 3.85%.

LAE are expenses associated with claim settlements, but are not claim specific. For example, legal costs, adjuster costs, and costs associated with operating claim centres are included in loss adjustment expenses. They are not allocated to a specific claim, but instead to the total number of vehicle classes based on claim counts by coverage. The total LAE is divided by the number of vehicles forecasted to determine the average LAE per vehicle. The same amount will then be paid by each vehicle within the class.

OM&A expenses (such as salaries, building maintenance, and supplies) are charged as fixed expenses to every vehicle exposure, except for trailers, snowmobiles, and antiques which are charged half of what other vehicles pay. The calculated 2013-2014 full amount was $51.31 per exposure, using 5 of 12 months of the 2012 budget and 7 of 12 months of the 2013 budget. Because the RSR funded the Auto Fund Redevelopment Project, it is not considered an administrative expense.

Credits for salvage are revenue received from the sale of written off light passenger vehicles or their parts. A credit per exposure of $15.98 is applied to the damage and liability portion of pure premiums (light passenger vehicles only).

Protection against catastrophic losses, either due to severe weather conditions or multiple serious injuries from collisions, is provided by reinsurance purchased to mitigate the potential RSR impact. A reinsurance damage cost per exposure of $3.66 is applied to all classes, except trailers and antiques which is $1.83. A reinsurance injury cost per exposure of $0.81 is applied to all classes except trailers and antiques which is $0.40. Snowmobiles and snowmobile dealers are not charged reinsurance coverage.

Medical funding is considered to offset the costs that are incurred by the Province as a result of vehicle-related accidents and damages. SAF pays a portion of the costs of medical expenses for each class, which totals close to $30 million per year. These costs are allocated to each vehicle class based on exposures. The same amount is paid by each vehicle within the class.

Appeal costs are related to Automobile Injury Appeal Commission costs and are allocated to each vehicle within a vehicle class. The total cost is about $1 million per year. The same amount is paid by each vehicle within the class.

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

Variable expenses account for 10.52% of 2013 premiums as follows:

Variable Expenses	
Premium Taxes	5.00%
Traffic Safety	3.34%
Issuer Commissions	5.15%
Short Term Registrations	(1.17%)
AutoPay	(1.80%)
Total Variable Expenses	10.52%

A Break Even Margin of 0.81% is loaded into the rates to offset expected costs from the increased risk provision that is required when setting reserves. Expected permit premiums and cancellation retention amounts reduce this margin. The 2013 Application is the first time a Break Even Margin has been introduced. The proposed contingency margin from last year's Application has not been requested.

Credit is applied for forecasted investment income on the forecasted RSR. This is calculated per forecasted vehicle and calendar period expected investment yields using a 2.02% return for the 2013 projected RSR, and a 1.26% return for the 2014 projected RSR. This results in the application of a $1.55 per vehicle credit.

5.3 INDICATED RATE CHANGE

The indicated rate change is the projected adequate average premium divided by the projected on-level average premium (minus one). The projected on-level average premium is calculated on a class-by-class basis. Historical written premiums are brought to current rate level (on-levelled) by applying past rate changes to premiums written prior to implementing a rate change. The average on-level premium is then projected using selected past and future premium trend (i.e. drift) assumptions.

The direct required premium (or adequate gross premium) is calculated by dividing the sum of the discounted pure premium by one minus the variable expenses and Break Even Margin percentages, which then adds the RSR investment income credit.

SAF states the five reasons why proposed rates differ from indicated rates are:

- Transition from CLEAR-rated to Conventionally-rated vehicles (specifically the PV class);
- Lack of credibility in the indicated rate;

- Truncating of older model year rates due to fewer being registered;
- SAF coverage review related to not providing excess coverage; and
- Removal of Motorcycle subsidization by other vehicle classes. (This cross-subsidization will be continued, pursuant to the 14 March 2013 Application revision, which capped Motorcycle rates at plus or minus 15%).

5.4 BASE RATES AND RELATIVITIES

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

SAF typically has three base rates: Damage, Injury, and Liability. These three base rates comprise the base premium for any class. Rates within a vehicle class may vary by rating attribute or rate group reflecting the variance in loss experience for each of the attributes relative to the base group. A relativity factor is applied to the base rate to recognize this variance.

Premiums charged for private passenger and other CLEAR-rated vehicles and Motorcycles are calculated by multiplying the Damage base rate by the damage relativity, then adding the Injury base rate multiplied by Injury relativity, and finally adding the Liability base rate (including flat fee amounts).

Premiums charged for the other classifications where rating groups exist are calculated by multiplying the Damage base rate by the damage relativity and then adding the Injury base rate and the Liability base rate (including flat fee amounts).

Premiums charged for the other vehicles without rating groups are calculated by adding the Damage base rate to the Injury base rate and the Liability base rate (including flat fee amounts).

In some cases, the limited data available for small populated classifications may skew the accuracy of forecasting. To account for this, SAF has used the base rate of Private Passenger Vehicles (PPV) and applied either a surcharge or a discount based on loss experience for the classification. To be consistent these rate calculations had the same caps applied to their surcharges or discounts as shown in the Dislocation Capping table below.

Based on these calculations, indicated rates are established and applied to the appropriate vehicle classifications.

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

Taking into consideration the rate shock impact to customers, maximum increases or decreases

were capped at either a dollar value or a percentage of the total premium for all vehicle classifications. The parameters are outlined in the table below:

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

As previously discussed, caps were not applied to all classifications in the original 2013 rate Application because one of SAF's goals is to limit vehicle class cross-subsidization to less than 5% across all classifications. There were two major exceptions in the original 2013 rate Application. First of all, Motorcycle rates were not capped. They were increased to break even. Secondly, Small City Taxi rates were to be increased by 30% or $487 per year (not including the RSR surcharge). The revised 2013 rate Application applied a 15% maximum cap to both Motorcycles and Small City Taxis. Any excess or foregone premium as a result of the capping across all classifications is rebalanced over the CLEAR-rated vehicles.

5.5 VEHICLE RATING CLASSES

5.5.1 Canadian Loss Experience Automobile Rating System

The Canadian Loss Experience Automobile Rating system (CLEAR) was created by the Insurance Bureau of Canada. It is based on data collected from across Canada, from 1977 to present, and is used by insurance companies Canada-wide.

It was developed on the premise that the vehicle specific portion of rates should be based only on the likelihood of vehicles being involved in claims and the costs of settling those claims. IBC analyzes historical claim frequencies and severities of each vehicle make, model, and year to predict future losses and establish a claim-to-vehicle historical relationship matrix.

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

CLEAR has two major components: rate group assignments and associated relativity factors. The higher the rate group, the greater the relativity factor and, therefore, the higher the premium charged. SAF uses internal data to produce damage relativities by rate group, supplemented with CLEAR relativity factors when required to produce credible numbers. For the 2012 Application, SAF determined that injury rates used by CLEAR are not a good fit for the Saskatchewan loss experience. Thus, injury rates are now based solely on SAF injury claims data.

Injury rates for CLEAR-rated vehicles vary by vehicle body style for: two-door cars; four-door cars; convertible cars; station wagons; vans; sport utility vehicles (SUV's); and trucks. These

are subject to a relativity analysis using a Poisson / Gamma method to determine injury costs per body style.

Rate group tables are updated annually on a revenue-neutral basis, with new vehicles added, and new claims experience and the depreciation of prior years' models recognized.

SAF reduces the damage rate group by one for every year that a vehicle is older than 1998 until a rate group of 0 (SAF derived) is reached and then remains at one, for all vehicles older than 1998. As of 31 May 2012, 17% of the vehicles have model years of 1997 and older and 4% are in rate group 0.

SAF can only implement new tables upon approval of a rate Application and has indicated that they will endeavour to keep rates as close as possible to CLEAR by conducting annual reviews and filing Applications as needed.

5.5.2 Conventionally-Rated Vehicles

All vehicles that are not rated using CLEAR are conventionally-rated. The major vehicle classes are: Heavy Trucks and Power Units; Farm Vehicles (including Light Trucks 1994 and newer); Urban Buses; Buses; Snowmobiles; Motorcycles; Vehicle Dealers; Special Use Vehicles (Ambulances; Hearses and Antiques); Trailers; Motorhomes; and Private Vehicles. Criteria used for conventional classes are based on significant rating attributes such as model year, engine size, seating capacity, value, etc.

5.6 RATE INDICATIONS BY CLASS

5.6.1 CLEAR-Rated Vehicles

CLEAR vehicles account for 71% of all vehicles insured by SAF. Excluding trailers, this value increases to 87% of all insured vehicles. Conventionally-rated vehicles account for the remainder.

SAF's actuarial analysis shows that a 0.8% decrease is warranted for CLEAR-rated vehicles based on the loss experience and premiums for the entire group. Rates for individual classes are based on loss experience for each of the classes as they relate to the PPV class.

SGI recommended decreasing CLEAR-rated vehicles by 0.8% (or a 0.4% increase when capping and the RSR surcharge are applied) in the original 2013 rate Application. In the revised 2013 rate Application SGI recommended increasing CLEAR-rated vehicles by 0.4% (or 1.6% when capping and the RSR surcharge are applied) in order to make up the shortfall in premiums from other classes due to capping. PPV rates will now be increasing by 0.2% (original 2013 rate Application decreased by 0.9%), which is a 1.5% increase when capping and the RSR surcharge are applied (original 2013 rate Application was 0.3%).The current and proposed changes for each of the remaining CLEAR-rated vehicles are as follows:

Changes Proposed for Remaining CLEAR-Rated Vehicles (Revised Application)				
Vehicle Class	**Current Discount / Surcharge**	**Proposed Discount / Surcharge**	**Effect of CLEAR and Discount / Surcharge Changes**	**Effect of CLEAR and Discount / Surcharge Changes including RSR Surcharge**
Farm Cars, SUVs and Vans	-20%	-20%	-2.0%	-0.8%
Farm Light Trucks (1994 & Newer)	-25%	-25%	2.3%	3.6%
Class A - Commercial Light Trucks	35%	55%	20.4%	21.9%
Police Cars	50%	70%	9.3%	10.7%
Police Trucks	5%	-10%	-14%	-12.9%
Rural Taxis	60%	50%	-6.4%	-5.3%
U-Drive (Rental) Vehicles	15%	25%	9.0%	10.3%
Changes Proposed for Remaining CLEAR-Rated Vehicles (Original Application)				
Vehicle Class	**Current Discount / Surcharge**	**Proposed Discount / Surcharge**	**Effect of CLEAR and Discount / Surcharge Changes**	**Effect of CLEAR and Discount / Surcharge Changes including RSR Surcharge**
Farm Cars, SUVs and Vans	-20%	-20%	-3.2%	-2.0%
Farm Light Trucks (1994 & Newer)	-25%	-25%	1.1%	2.4%
Class A - Commercial Light Trucks	35%	55%	18.9%	20.4%
Police Cars	50%	70%	8.0%	9.4%
Police Trucks	5%	-10%	-15.1%	-14.0%
Rural Taxis	60%	50%	-7.5%	-6.4%
U-drive (Rental) Vehicles	15%	25%	7.6%	8.9%

In summary for CLEAR-rated vehicles, 442,000 vehicle registrations or 57% of customers will experience an increase in rates (original 2013 rate Application was 375,000 & 49%). The average increase will be $31 annually with a maximum increase of $567 per year (original 2013 rate Application was $24 & $567). 319,000 or 41% of customers (original 2013 rate Application was 391,000 & 51%) will experience an average decrease of $14 annually with a maximum decrease of $523 per year (original 2013 rate Application was $20 & $523), while 8,700 vehicles or 0.6% of the total customer population will experience no change to their rates (original 2013 rate Application was 4,600 & 0.6%).

The CLEAR-rated vehicle relativity analysis includes the indication and selection of: a) damage relativities by rate group; b) injury relativities by body style; and c) discounts and surcharges for classes whose rates are based on PPV rates. The rate group relativity analysis for CLEAR-rated vehicles estimates pure premium costs per rate group. Current rate group relativities are credibility weighted with the calculated relativities based on actual pure premiums per rate group. Proposed rate group relativities are no longer capped to be within 10% of the current rate group relativities because this additional level of capping was considered redundant and unnecessary. The proposed rate group relativities are used to determine the vehicle's Damage portion of the premium, while SAF uses only its own internal data to determine the Injury rate group relativities for the Injury portion of the premium. Changes since last year's Application include: 1) recalculation of the current relativity using corrected exposures from the 2012

analysis, and 2) using credibility weighted relativities. The calculation of the class discount / surcharge has been adjusted to increase the accuracy by adding the effect of injury relativities and scaling down the effect of damage relativities.

5.6.2 Conventionally-Rated Vehicles

The proposed average indicated and adequate premiums for all vehicles not rated according to CLEAR criteria are determined based only on SAF internal rating criteria. The rating criteria uses significant rating attributes that include Gross Vehicle Weight, Make and Model year, Type, Seating Capacity, Declared Value, Body Type, Motor Size as well as surcharges on other rates, flat rates, and, for Taxis, geographic location is also used. The resulting indicated and proposed average rate changes are detailed in Section 1.4 of this report. The detailed SAF rating criteria was included as Appendix D of the Application. Proposed vehicle premiums are determined as discussed in Section 4.0, Ratemaking Methodology Overview.

Motorcycles are rated using engine capacity instead of horsepower because horsepower is not as reliable or standard a measure as engine capacity according to SGI. With respect to Motorcycles, there are 2 components of the relativity analysis: 1) indication and selection of damage relativities; and 2) indication and selection of injury relativities. There has been no change from the 2012 rate Application to the manner in which damage and injury relativities are calculated.

5.7 SENSITIVITY ANALYSIS

In response to First Round IR # 119 and Second Round IR # 34, SGI assessed the impact of eight scenarios on the proposed rate change (which includes the 1.03% rate increase and the 1.23% RSR surcharge). This sensitivity analysis looked at some of the basic revenue and expense drivers used in the preparation of the forecasts for 2013 to 2017. The following table lists the eight adverse scenarios from the First Round IR # 119 response and shows the financial impact on the 2013 proposed rate change (assuming all else to be equal):

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%

Investment income is affected in all eight scenarios due to changes in the RSR. For the claims incurred cost increase of 10% (excluding discounting), LAE was also increased by 10% as it is

proportional to claims incurred. Future claims incurred are only impacted by claims reserve Provision for Adverse Deviations changes and discounting. With regard to the premium drift decrease of 0.5%, issuer fees, premium taxes and other income were affected as they are proportional to premiums written / earned. Future years' premium is affected as well since each year's premium is based on changes from the premium of the year before. With regard to the vehicle volume decrease of 0.5%, premiums, losses and all expense amounts proportional to either premiums or losses were affected. Future years are affected as well due to a larger number of vehicles being insured. With regard to the investment income decrease of 10%, it does not include bond gains / losses.

The response to Second Round IR # 34 illustrates another eight favourable scenarios and shows the financial impact on the 2013 proposed rate change (assuming all else to be equal):

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%

6.0 2012 PANEL RECOMENDATIONS

The Panel made several recommendations in its report to the Minister pursuant to SAF's 2012 rate adjustment Application. As part of the 2013 Application Minimum Filing Requirements (MFRs), SGI provided the current status of these recommendations as follows:

- **Recommendation:** SAF implement an overall average rate increase of 0.6%, effective 4 August 2012. This increase is to include:

  - 1.1% additional expense provision (i.e. Break Even Margin); and
  - 0.5% judgmental reduction for residual conservatism in SAF's rate indication.

  Response: SGI implemented a 1.6% overall rate increase effective 4 August 2012. It included the Panel's 0.6% overall average increase recommendation and added the Panel's 1.0% RSR surcharge recommendation.

- **Recommendation:** SAF implement an overall average rate surcharge of 1.0% effective 4 August 2012 for a two year period to replenish the RSR.

  Response: SGI used the Panel's 1.0% RSR surcharge recommendation as part of the 1.6% overall average rate increase effective 4 August 2012. Based on the Capital Management Policy, the RSR did not require a surcharge on premium rates.

- **Recommendation:** SAF focus on developing best estimate rate indications in future Applications and enhance the level of support and documentation for judgmental overrides of experience-driven assumptions.

  Response: SGI agreed to provide more documentation in future rate Applications to support how judgments were made. SGI will continue to use the judgment of its experts when determining rates rather than solely relying on the data.

- **Recommendation:** SAF proposed capping levels be accepted. SAF also be required to submit annual Applications for the next two years to achieve rate rebalancing fairness. Lastly, SAF file a fully developed implementation plan for CLEAR-rated and Conventionally-rated vehicles (including detailed financial impacts).

  Response: SGI agreed to the proposed capping levels and that rate adjustment Applications with rebalancing will be submitted on an annual basis depending on corporate priorities at the time.

- **Recommendation:** SAF's Capital Management Policy (CMP) include an officially defined and stated purpose for the RSR (i.e. not to fund capital projects) and the CMP be included in future Panel Terms of Reference.

  Response: SAF's CMP is a given parameter under the Panel's Terms of Reference and recommending changes to it is outside of the Panel's mandate. SAF has the required experience and expertise to make CMP decisions.

- **Recommendation:** SAF provide an assessment from its external auditor regarding SAF assuming responsibility for the Driver Education Program.

  Response: SGI and their external auditors are of the opinion that the Driver Education Program is accounted for correctly.

- **Recommendation:** SAF review future MFRs, as proposed by the Panel's consultants and provide comments.

  Response: SGI, in conjunction with CIC and the Panel, developed mutually agreed to MFRs.

- **Recommendation:** As part of the Stakeholder Insurance Product Offering Review, SAF should consider reviewing the following:

  - motorcycle safety and driver training;
  - physical damage deductible levels;
  - premiums for seasonal use vehicles (including short duration permitting options);
  - proper use for farm licensed vehicles;
  - SDR and BR programs; and
  - review of risk classifications for all vehicles (specifically urban and rural taxis).

  Response: SGI considers the Panel a stakeholder and shall consult with them when such a review takes place.

7.0 2012 CONSULTANT RECOMMENDATIONS

The Consultants made the following recommendations in their 2012 report to the Panel:

- **Recommendation:** Include an additional expense provision (i.e. Break Even Margin) estimated at 1.25% of the premium on an undiscounted basis. The additional expense provision would be 1.1%.

  Status: The Panel recommended a 1.1% additional expense provision as part of an overall average rate increase recommendation of 0.6%. This formed part of the SAF 1.6% overall average rate increase that was effective 4 August 2012.

- **Recommendation:** SAF provide explicit documentation, as part of its rate Applications, on the monitoring of the CMP as it is affected by any actual or planned MCT changes.

  Status: Not specifically addressed.

- **Recommendation:** Amend the CMP to include an officially defined and stated purpose for the RSR (i.e. not to fund capital projects) and include the CMP in future Panel Terms of Reference.

  Status: The Panel accepted this recommendation. SGI commented that SAF has the required experience and expertise to make CMP decisions, which is outside of the Panel's mandate. Under the Panel's Terms of Reference for the current rate Application, SAF's CMP is to be considered as a given parameter. However, the Panel is to conduct its review with specific consideration to the CMP.

- **Recommendation:** The Panel should consider the possibility of residual conservatism in SAF's rate indication when making its recommendations.

  Status: The Panel recommended a 0.5% judgmental reduction for residual conservatism as part of an overall average rate increase recommendation of 0.6%. This formed part of the SAF 1.6% overall average rate increase that was effective 4 August 2012.

- **Recommendation:** Future SAF rate Applications should focus on developing best estimate rate indications as well as enhancing the level of support and documentation for judgmental overrides of experience-driven assumptions.

  Status: The Panel accepted this recommendation. SGI agreed to provide more documentation in future rate Applications to support how judgments were made. SGI continues to use the judgment of its experts when determining rates rather than solely relying on data.

- **Recommendation:** Some modest level of RSR replenishment should be applied for a fixed one or two year period (expressed as a percent of premium).

  Status: The Panel recommended an overall average rate surcharge of 1.0% effective 4 August 2012 for a two year period to replenish the RSR. SGI applied the Panel's 1.0% RSR

surcharge recommendation as part of the SAF 1.6% overall average rate increase effective 4 August 2012. Based on the CMP, the RSR did not require a surcharge on premium rates.

- **Recommendation:** SAF should segregate any RSR replenishment loading in its accounting and communications with policyholders.

  Status: There was no RSR replenishment loading by the SAF in 2012.

- **Recommendation:** Accept SAF's proposed rate level change capping philosophy.

  Status: The Panel and SGI shared this same position.

- **Recommendation:** SAF should submit rate proposals with rebalancing on an annual basis.

  Status: The Panel accepted this recommendation. SGI agreed to submit rate adjustment Applications with rebalancing on an annual basis, provided that other corporate priorities did not interfere.

- **Recommendation:** Bring the review of the SDR and BR programs under the Panel's Terms of Reference.

  Status: Under the Panel's Terms of Reference for the current rate Application, the parameters of the SDR and BR programs continue to be considered as givens.

- **Recommendation:** SAF to provide updates to the Panel on Auto Fund Redevelopment Project developments, resulting revenues realized, and any impacts on rate requirements.

  Status: Addressed in various areas of the Application.

- **Recommendation:** SAF to provide details on actual Traffic Safety program cost savings along with a statistical analysis demonstrating each program's effectiveness.

  Status: Addressed in various areas of the Application.

- **Recommendation:** SAF to provide an external auditor assessment of the Driver Education Program for which SAF assumed responsibility (i.e. is it an onerous contract under IFRS).

  Status: The Panel accepted this recommendation. SGI and their external auditors agreed that the Driver Education Program is accounted for correctly.

- **Recommendation:** SAF identify all surpluses and deficiencies flowing to the RSR on a more detailed basis

  Status: Addressed in various areas of the Application.

- **Recommendation:** SAF to include a discrete internal efficiency / productivity factor (as a percentage of total OM&A costs) when preparing budgets in order to offset costs attributed to inflationary pressures. An efficiency / productivity factor of 0.5% was suggested.

Status: Not specifically addressed.

- **Recommendation:** MFRs identified by the Consultants should be adopted for future Applications.

  Status: The Panel accepted this recommendation. SGI, in conjunction with CIC and the Panel, developed mutually agreed to MFRs.

- **Recommendation:** As part of the Stakeholder Insurance Product Offering Review, SAF should consider reviewing the following:

  - Motorcycle safety and driver training;
  - physical damage deductible levels;
  - premiums for seasonal use vehicles (including short duration permitting options);
  - proper use for farm licensed vehicles;
  - SDR and BR programs; and
  - review of risk classifications for all vehicles (specifically Urban and Rural Taxis).

  Status: The Panel accepted this recommendation. SGI considers the Panel a stakeholder and agreed to consult with them when such reviews take place.

8.0 ACTUARIAL CHANGES

Most significant among the actuarial changes introduced with this Application are the improvements made to the rigour of the analysis underlying the trend assumptions, and the documentation provided in support of that 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. As a result, selected future trends do not tend to differ significantly from past trends unless supported by the experience.

8.1 CLEAR-RATED VEHICLES

The PV (Private Vehicle) class is no longer part of the CLEAR-rated vehicle group, thereby removing it from the CLEAR indication and analysis. The PV class is not comparable to CLEAR-rated vehicles. It is, however, comparable to class A, C and D vehicles, which is where SGI proposes moving them to. Historically, PV class rates were based off of the PPV rate for a Ford F350. At the time, the Ford F350 had the highest premium for a one-ton truck even though it was not assigned to a CLEAR-rated group (since IBC did not provide information on the Ford F350).

8.2 CHANGES AFFECTING OTHER SPECIFIC CLASSES

All vehicle classifications, other than the PV class moving from CLEAR-rated to Conventionally-rated, are the same as in last year's Application for premium assignment purposes.

9.0 EFFICIENCY AND EFFECTIVENESS OF OPERATIONS

In addition to describing an efficiency strategy, SAF provided a description of specific internal productivity and efficiency goals and targets as well as gains realized. The basic premise of SGI's Efficiency Strategy is that in order to change corporate culture awareness of the need to change and the desire to change must be instilled. The establishment and promotion activities related to PEP (Process, Efficiency, and Productivity) Squad are two key stepping stones in this process. PEP is comprised of SAF staff who introduce the LEAN methodology to different areas of the Corporation. SGI's goal is to focus on one large corporate project per year and to work on ten smaller department efficiency ideas submitted by employees. In this regard, SAF provided a reporting outline consisting of three main areas considered: Operational Efficiency Gains, Partner Leverage, and Company / Customer / Employee Benefits.

9.1 OPERATIONAL EFFICIENCY GAINS

a) Auto Fund Redevelopment Project (AFRP)

The AFRP was commenced in 2005 and implementation was completed in 2011, at a total cost of $36.046 million which was funded by the RSR. The remaining two Redevelopment Reserve payments to the RSR are projected to be $3.447 million in 2013 and $1.520 million in 2014, at which point the Redevelopment Reserve will be at zero.

The AFRP system allowed SAF to integrate all customer activities into a single system and provide web-based applications, which are also used for law enforcement and driver examinations.

This system included the MySGI application, the Vehicle Inspection Station Management System, scheduling for driver licensing examinations, and the introduction of mobile issuing services. The single system integration of these functions supports real time processing for transactions as the information is recorded and logged immediately.

This system now provides customers with more choices and ease of access to more readily available information. In addition to enhanced customer service, the new system has reduced its costs and improved SAF's position respecting the provisioning of its products in the future. The annual savings as a result of the AFRP were estimated to be $1.769 million in the 2012 rate Application, including an estimated $625,000 in salary savings. The actual 2012 annual savings are now reported to be $3.351 million. This difference is mainly the result of an increase in PST collections of about $1.5 million as shown below:

2012 Annual Savings to SAF from Efficiencies for the AFRP		
	2012 Rate Application	2012 Actual
MySGI Remuneration Savings	142,000	216,000
Increase in PST Collections	637,000	2,134,967
Staffing Cost Savings	625,000	635,000
Software Maintenance Cost Savings	263,000	263,000
E-rates	25,000	25,000
Issuer E-manual	10,000	10,000
BOSS on SAM Revenue	26,400	26,400
Miscellaneous Paper	35,000	35,000
Emailing IRP Renewals	6,000	6,000
Total	**1,769,400**	**3,351,367**

The increase in PST collection of $2.1 million, which is not entirely attributable to the implementation of the new system, is, however, included in the reported savings amounts. Other contributing factors to the increase in PST collections are vehicle fleet growth, increase in vehicle costs, and improved controls. SAF financial statements do not include these savings. Rather they accrue to the General Fund of the provincial government.

In the last Application, SAF stated that, as a result of the system's efficiency, SAF had been approached by other jurisdictions and were exploring opportunities to either license or sell the system. However, no additional revenue related to the sale of the system to other jurisdictions has been generated to date.

SAF stated that the implementation of the 5 year One Part Drivers License saved approximately $700,000 in 2012. However, SAF stopped receiving annual funding of $1.3 million from the Ministry of Finance for administering driver licenses in Saskatchewan in 2012. The result is an increased net cost of about $600,000.

As discussed in the last Consultant report, key elements of the system are MySGI, which allows customers to log onto accounts to see the history, on-line renewals, cancellations, registrations, and other various applications.

As well, the Vehicle Inspection Station Management System stores data from 900 stations and has automated the process for identifying vehicles that are due for inspection. It generates letters and automatically issues them for the vehicles to their owners.

The system has simplified and improved the Driver Examination process through better scheduling of appointments and examinations as well as the issuing of driver examination certificates. In addition to the improved processes, the system has expanded the number of branches that can perform Test Drives for new drivers from 2 to 12 branches, while ensuring accurate and automatic data storage.

The new system has expanded SAF's capabilities within Saskatchewan's northern region through the system's mobile service access. It has also improved SAF's ability to make changes faster, such as helping the Permit Office to be compliant with the New West Partnership Trade Agreement and the issuing of one part driver licenses.

Some major items implemented since the project concluded include E-rates, an Issuer E-manual, and selling extension coverage for issuers using SGI Canada's BOSS system on their SAM Terminals. E-rates have increased the availability of all SAF vehicle and insurance rates to 24 hours a day; seven days a week and online E-manuals have eliminated the need for bulky paper copies of manuals, reducing mailing costs and staff administration.

b) Highway Traffic Board (HTB)

Re-engineering was, as part of the LEAN implementation, the first event for the PEP (Process, Efficiency, and Productivity) Squad to test their new skill sets. The HTB can now manage 40% more hearings a week, improving turnaround time for customers.

The second area is related to Partner Leverage involving the tendering for license printing in 2010, resulting in an annual cost reduction of $250,000 in 2011. The contract was extended to 2012, and it is expected that similar savings will be realized in the future.

Another area for enhancing efficiency is related to Company / Customer / Employee Benefits. The goal to efficiency is to change SGI's culture. The PEP squad was created to promote the concept that everyone has the ability to make change. Various internal events were held to promote the program.

9.2 EFFICIENCY SAVINGS

SAF submitted an estimate of annual savings resulting from the above initiatives. In keeping with the philosophy of not making "Big Bang" changes throughout the organization, but rather focusing on more smaller activities, the current efficiency program contains in excess of 70 individual initiatives which are categorized into Operational Efficiency Gains (approximately 30), Crown Collaboration (approximately 5), Partner Leverage (Approximately 5) and Company / Customer / Employee Benefits (approximately 32).

Examples of operational efficiency gains are expanded use of automated systems, regional consolidations, process changes, translation services and many others. Crown collaborations include initiatives such as replacing Crown Corporation Vehicle Agency vehicles with less expensive SGI vehicles, and changes in call access procedures. Partner Leverage includes ignition interlock reciprocity with Alberta, renegotiating prices with hotel venues for various corporate functions, and changes to the HTB appeal process. There are numerous Company / Customer / Employee Benefit initiatives being implemented in 2013, including improvements to MySGI, various administrative efficiency activities related to permit process improvements, additional and improved communication devices, E-rate manuals, and many others.

SAF submitted that not all benefits can be quantified in terms of actual annual dollars saved. SAF provided estimates of annual dollar savings where initiatives are quantifiable to be approximately $850,000 for 2013, and this savings would be reflected for each of the next five years, as a one-time saving repeated, not on a compound basis.

Some of the efficiency savings of $850,000 were included in the estimated 2012 amount of $3.35 million shown above, but others were not.

In response to an Information Request, SAF restated the estimated savings for 2012 and 2013 for all quantifiable efficiencies as follows:

Efficiency Savings		
	2012	**2013**
Travel & Accommodation expenses	26,800	26,800
Salaries expenses	864,098	845,276
Bank Charge expense	1,200	1,200
Cell phone expense	5,000	5,000
Driver Testing revenue	77,000	77,000
Paper, Postage & Supplies expenses	112,071	106,095
Training expenses	206,600	195,000
Licence Plate sticker expense	100,000	100,000
Medical Payments expense	24,000	24,000
Issuer Fees expense	216,000	216,000
Data Processing expense	263,000	263,000
Outside Agency revenue	26,400	26,400
Total Estimated Savings for the Auto Fund	**1,922,169**	**1,885,771**
Total Estimated Savings for the General Revenue Fund (PST)	**2,134,967**	**2,134,967**
Total Estimated Savings from Efficiencies	**4,057,136**	**4,020,738**

Other non-quantifiable benefits include time improved customer service, intangible time saved, and more effective use of time, amongst others.

10.0 FIVE YEAR FINANCIAL FORECAST

The following table shows actual financial information for 2012 as well as forecasted financial information for 2013 to 2017 with the proposed 1.03% rate increase and 1.23% RSR surcharge effective 31 August 2013:

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 Bonus	(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**

SAF's 2012 Annual Report was released and provided to the Consultants on 16 April 2013. SAF submitted that the variance between the budgeted amounts and actual results do not "display any significant changes or trends related to claims costs, loss adjusting expenses, administrative expenses or investment income that would result in 2013 or future years' forecasts being amended."

In 2011 Issuer Fees were about 30% ($7.7 million) less than expected due to an anticipated premium deficiency which did not materialize. As well, Other Income was 11.9% ($3 million) higher than expected, due to higher than anticipated salvage sales and increased usage of short-term and auto pay registration programs. The other variances for 2011 ranged from -2.3% to +1.6%, with the exception of BR discounts which were 4.7% greater than anticipated.

In 2012, variances ranged from -2.3% to +3.3%, except for Issuer fees that was 6.4% less than budget ($2.4 million), again due to an anticipated premium deficiency which did not materialize. Other Income was 6.5% greater than budget primarily due to higher total loss vehicle sales.

On an overall basis, in 2011 the RSR increased by 1.7% ($2.4 million) from the budget projection of a negative balance of $145.4 million. In 2012 the RSR increased by 70.6% ($8.1 million) from the budget projection of a negative balance of $19.6 million. Although a relatively high percentage increase, the change in the RSR balance resulted primarily from $3.2 million (2.6%) less in underwriting losses, $2.4 million (3.3%) greater Investment Income and $2.4 million (6.5%) in Other Income.

11.0 PROGRAM REVENUE

11.1 PREMIUM REVENUES

SAF net premium revenues are anticipated to increase by $77 million, from $781 million in 2012 to $858 million in 2013. This represents a 9.86% increase, which takes into account the 2.27% SAF proposed rate increase (including RSR surcharge). The increase in premiums has been attributed to the impact of vehicle drift and growth as well as the net of driver surcharges and discounts from the Safe Driver Recognition and the Business Recognition programs. SAF notes that the factors accounting for the increase in premium revenues is greater than that generated by the requested 2.27% overall increase.

SAF states that the overall growth trend over the past 10 years has been near 2.0% per year in the number of vehicles excluding trailers, while changes in vehicle fleet mix has resulted in recent annual increases of over 3% in premium revenues. The combined premium increase for mix and volume was 7.0% in 2012 and is projected to be 6.6% in 2013.

The Safe Driver Recognition program has provided over $710 million in discounts to qualifying drivers since its inception in 2002 to the end of 2012. Estimated discounts for 2013 were $112 million and are projected to be $121 million for 2014. As noted, this program also collects revenues from drivers who are in the penalty zone. The rating rules and discounts are governed by the Minister's Order and are unchanged from 2009. As such, they are to be considered a given factor for the Panel when analyzing the request for a rate increase. Drivers in the penalty zone are penalized according to a pre-determined scale (SDR Malus). The surcharges for 2013 are projected at approximately $13.5 million and forecast to be $14.6 million for 2014.

The Business Recognition program has rewarded safe driving Saskatchewan businesses with discounts of up to 10% on their insurance fees. Since its inception in 2004 and up to the end of 2012, discounts provided to businesses have amounted to $49 million. SAF estimates that businesses will receive discounts of $9.1 million in 2013 and $9.8 million in 2014. As with the SDR program, the BR program is also to be considered as a given factor by the Panel in its review.

11.2 REINSURANCE CEDED PROGRAM

SAF continues to maintain two catastrophe excess of loss reinsurance programs which are designed to mitigate adverse RSR effects from catastrophic losses due to either severe weather events or multiple serious injuries caused by automobile collisions (auto physical damage and auto personal injury). Future expected ceded reinsurance premiums are projected by inflating current reinsurance contract premiums by 5% per year, provided there is no adverse experience to the programs. The projections are adjusted if there are losses. The reinsurance ceded premium for the two catastrophe programs based on the August 2012 forecast was $4.7 million in 2012 and $4.5 million in 2013.

The auto physical damage catastrophe reinsurance program provides coverage for physical damage, excluding collision, upset, theft, fire, lightning, explosion, and road hazard glass, in the amount of $100 million. The $100 million was increased from $55 million in 2010. The

coverage provided by this program is for a 12 month period, commencing May 1st. Since 2005/06, this reinsurance program has had a $5 million retention and an annual $5 million aggregate deductible. The primary reason for this was to prevent significant rate increases that result from consecutive high claim years. It is primarily used to provide protection for weather related events. Premiums paid are based on a flat premium and the cost of future premiums are influenced by claims experience, which are difficult to forecast. From 2002/03 to 2012/13, premiums paid for this program amounted to approximately $22.6 million, while claim recoveries amounted to approximately $28.5 million.

Annual premiums paid and claim recoveries are shown below:

Auto Physical Damage Catastrophe Reinsurance		
Treaty Term	**Premium Paid**	**Claim Recovery Made**
2002-2003	2,091,650	1,706,851
2003-2004	1,921,288	882,058
2004-2005	1,977,064	-
2005-2006	1,334,986	-
2006-2007	1,626,320	-
2007-2008	1,616,500	-
2008-2009	1,551,000	-
2009-2010	1,552,600	-
2010-2011	2,151,700	6,760,148
2011-2012	3,217,412	19,145,343
2012-2013	3,588,143	-

The auto personal injury catastrophe reinsurance program provides coverage of $30 million in excess of the $20 million dollar retention. This program was terminated in 2001 as a result of drastic premium increases in response to the 11 September 2001 terrorist event. In 2001 the annual premium for this program was $100,000. SAF's current program was re-instituted in 2005 and was adjusted to a $20 million retention from the previous $5 million retention in order to mitigate premium increases. To date there have been no claims made to this program since its inception. Premiums since the program was reinstituted in 2005 amounted to almost $6.0 million in total. Annual premiums are now at $735,000 (from 1 April 2013 to 31 March 2014). SAF anticipates that premiums should increase by the rate of inflation given the claims free trends of past years.

11.3 INVESTMENT INCOME

SAF's investment income flows from its $1.4 billion portfolio. Approximately $130 million of the portfolio supports the Rate Stabilization Reserve. The remaining $1.3 billion is monies set aside and invested to meet future liabilities, which are mostly claims related.

SAF uses their investment income gains to reduce rates charged to customers. Over the 10 years ended 31 December 2012, investment income has been equal to about 10% of premiums annually and has resulted in customer rates being lower than they would have otherwise been. This is highly dependent on investment market returns, which is highly variable on an annual basis. A decrease in this ratio is expected due to steady premium growth and lower investment income (which is expected to decrease over the next 5 years due to rising interest rates creating capital losses within the Matching Portfolio). Equity investments in the Return Seeking Portfolio

are projected to generate annual returns of 7.44% over the entire investment horizon. This is calculated using a 5 year rolling average of Aon Hewitt's forecasted long-term prospective nominal equity returns and global small cap equity asset class returns.

The Automobile Accident Insurance Act authorizes the types of investments in which SGI is permitted to invest, subject to the restrictions and limitations outlined in *The Insurance Companies Act* of Canada.

The investment framework is reviewed and approved annually by SGI's Board of Directors and contains the details of permissible investments, quality and quantity guidelines, and asset mix parameters. In order to meet future claim obligations, legislation requires that a substantial amount be invested in fixed income investments.

The SAF and SGICL investment portfolios are guided by separate investment policies resulting in different asset mix weightings. SAF's investment strategy consists of a Matching Portfolio (accounting for about 75% of SAF's total investment assets) for all fixed income investments, including mortgages, and a Return Seeking Portfolio for all equity and real estate investments. The Investment Policy Review conducted in 2011 was presented to the Board of Directors and identified "optimal" portfolios that would improve the overall risk-return relationship. This was to invest in infrastructure and global small cap equities to replace some of the Canadian equities. The report indicated that this would reduce volatility and potential downside for the Return Seeking Portfolio without sacrificing returns. It should also provide increased diversification benefits and less reliance on the investment manager. The global small cap equity transition was completed in April 2012. The infrastructure transition has not yet been completed, but is expected to be in Quarter 2, 2013. There were no significant changes from the 2012 Investment Policy Review.

Return Seeking Portfolio Composition		
Asset Class	**Long-Term Target %**	**Current Target %**
Canadian Equities	27.5	37.5
U.S. Equities	15.0	15.0
Non-North American Equities	12.5	12.5
Global Small Cap Equities	12.5	12.5
Real Estate	20.0	20.0
Infrastructure	10.0	0.0
Short-term Investments	2.5	2.5

The purpose of SAF's Statement of Investment Policy and Goals is to provide a framework for the prudent investment and administration of the Saskatchewan Auto Fund investment portfolio. It provides a written statement of specific quality, quantity, and rate of return standards for the portfolio. The major goal is to establish ongoing communication with SGI and the investment manager. The statement is open to review at any time, but must be reviewed annually. It is a comprehensive document that, in addition to the purpose and goals, outlines the allowing Authorities, Nature of the Auto Fund, Liability Characteristics, Investment Beliefs, Investment Philosophy, and Risk Philosophy. The statement also outlines the Asset Mix Policy, Investment Guidelines, stipulates Permitted Investments, details minimum quality and quantity guidelines for the two portfolio types, lists prior permission required for specific investments not previously outlined, lists Prohibited Investments, and stipulates Securities Lending Guidelines. There were

no deviations to the Asset Mix Policy during 2012.

The statement also provides, in substantial detail, the various components of the Monitoring and Control of the Investment Portfolio Performance. This includes the Responsibilities of the Investment Manager, Compliance Reporting, and Performance Management for the Matching and Return Seeking Portfolios. It also addresses several other topics in the area of control, including standards of professional conduct and outlines the causes for the dismissal of the Investment Manager. In the Administration Section, the statement covers Conflicts of Interest, Related Party Transactions, Selecting and Monitoring of an Investment Manager, Voting Rights, Valuation of Investments not Regularly Traded, and the requirements for an Annual Review. An additional meeting was added by the Investment Committee in 2012 for monitoring and oversight activity purposes. The committee also established that complete investment policy reviews are to now be done on an annual basis instead of every three years. There were no other monitoring and control measure changes since last year.

To facilitate changes and monitor investment status and progress, SAF contracts with an investment consultant. A professional investment management firm has provided above average returns to date. The investment manager's performance is measured against similar size portfolios for benchmarking purposes. The investment manager has been questioned about its processes, personnel and investment style. The long-term under performance of Canadian equities has been identified as a concern, with a sell recommendation made by the investment consultant. Under performance in the medium term on U.S. equities was also identified as a concern. Basically, the investment manager has outperformed the benchmark for the Matching Portfolio and under performed on the Return Seeking Portfolio.

Investment earnings are derived from the cash flow of fixed assets and from realized and unrealized gains on investments.

Using asset class return forecasts prepared as at 31 August 2012, the following table summarizes the 2012 to 2015 expected returns for SAF'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 Conference Board of Canada forecast calls for increasing interest rates. This is expected to result in bond portfolio capital losses (Matching Portfolio) and lower overall total returns. Lower overall investment income will be generated.

11.4 OTHER INCOME

Other income for SAF is generated from premium payment options, monthly payment financing, and profit from salvage operations which generate recovery from total loss vehicles through sales of their parts. The table below lists these elements (Short Term-Registration, Auto Pay Income, and Salvage Net Profit) of Other Income from 2011 to 2012 as well as forecasts from 2013 to 2017:

Other Income (in $ thousands)							
Description	Actual		Forecast				
	2011	2012	2013	2014	2015	2016	2017
Short-Term Registration	8,673	9,820	10,261	10,374	11,059	11,733	12,416
Auto Pay Income	13,160	14,057	15,098	16,504	17,594	18,667	19,752
Salvage Net Profit	12,255	13,612	12,798	13,438	14,110	14,815	15,556

With regard to recent Other Income actual amounts, short-term registrations increased annually (as a percentage of total registrations) because more residents used them for vehicle registration financing purposes. Auto Pay fees also increased annually as a result of a growing number of vehicles being financed. Net profits from salvage increased significantly due to higher sales volumes (particularly in whole vehicles), stronger steel prices, and a new salvage management system / process (leading to increased efficiencies).

12.0 PROGRAM COSTS

12.1 CLAIM COSTS INCURRED

Claim costs represent about 80% of total costs. Estimated claim costs are determined by actuarial analysis which considers the historical trends of claim payments, economic conditions, inflation, and business class characteristics. Claims are grouped into the years in which the accident occurred (accident years) and then at year end, an actuarial estimate is made of the ultimate cost of claims by accident year (which includes both reported and unreported accidents).

A review of prior accident years is performed at each year end to see if prior estimates are still appropriate. If adjustments are necessary, they are included in the current year's financial statements. If prior estimates were too high then a redundancy exists (resulting in a decrease) and, if too low, a deficiency exists (resulting in an increase).

Claim costs are separated into 3 components:

1) Personal Injury for which customers have a choice between tort and no-fault (Note: less than 1% of drivers choose tort);

2) Third Party Liability which is subject to a $200,000 limit; and

3) Physical Damage for collision and comprehensive which is subject to a $700 deductible for most vehicles.

As part of the SAF stakeholder product review which commenced on 15 October 2012, both injury and physical damage coverages provided will be looked at. Generally, damage claims represent approximately 58% of total claims and are resolved fairly quickly. Approximately 74% of damage claims are resolved within the year of the accident occurring and about 99% of damage claims are resolved within 12 months of the end of the accident year. SAF identifies these claims as short-tailed claims.

Injury and Liability represent the remaining 42% of total claims costs and take much longer to resolve. SAF estimates that only 20% of injury claims are paid in the accident year and only 3% for liability claims. SAF identifies these as long-tailed claims. The time for ultimate settlement, combined with inflation, medical innovations, and rehabilitation programs, leads to uncertainty in estimating ultimate total costs for settlement.

SAF notes that although there is over 17 years of historical data and experience available for injury programs, the claim durations and reoccurrence rates are difficult to estimate, making changes in estimates inevitable as the claims mature.

SAF states that accident year costs will change significantly from year to year, but on average will increase. The reasoning behind this is that the costs for vehicle and property repairs will increase due to the costs to repair newer vehicles with their technologically advanced features. In addition, labour rates and costs of parts are subject to inflation and thus increase overall costs as well.

SAF notes that since 2000, the costs of damage claims have increased on average by 5.3% per year. Injury claims have also increased as certain accident benefits (tort and no-fault) are indexed with inflation. Since 2000, injury costs have increased on average by 4.1% per year. Although there are no plans to raise the deductible, if it was increased to $800 or $900 the result would be a decrease in first party physical damage claims by approximately 2.2% and 4.3%, respectively, on the 2007-2012 loss years.

12.2 OPERATING, MAINTENANCE & ADMINISTRATIVE EXPENSES

SAF's annual budget process, unchanged since the last Application, commences in May when corporate guidelines are established. Once departments prepare their budgets, they are reviewed by senior management and adjustments are made as deemed necessary. Budgets are updated in August to account for any changes which are deemed necessary from the previous drafted budget. In September, a review of the budget is conducted by the Audit and Finance Committee of SGI's Board. The budget will then be finalized, approved, and issued in October to be implemented in the following year. Any new projects or initiatives that arise during the course of the year are budgeted and reviewed separately.

Operating, Maintenance and Administrative (OM&A) expenses include salaries, infrastructure costs, and system support costs which are expected to account for approximately 15% of total costs in 2013. Expenditures related to Loss Adjustment Expenses, Administrative Expenses and Traffic Safety Expenses are included. On an overall basis, OM&A costs have increased by $11.8 million (9.04%) to an estimated 2013 total of $142.6 million, as shown below. As discussed in Section 12.6, Traffic Safety Costs account for about 3.1% of total costs ($21.8 million in 2012 and $27.2 million budgeted in 2013 - reference First Round IR # 83). Of the $11.8 million increase in OM&A for 2013, Wages & Salaries account for $3.3 million, Driver Education for $1.9 million, External Services for $3.0 million, Issuer Bank Charges for $2.3 million, and the remaining $1.3 million from various other cost components (a combination of both increases and decreases).

The following table summarizes SAF's OM&A expenses discussed in greater detail in the following sections as provided as part of the Minimum Filing Requirements for the 2013 Rate Application:

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%**

12.2.1 Salaries and Wages, Pensions, and Benefits

SAF states that salaries and wages have been relatively consistent between 2009 and 2011, averaging $66.6 million annually. The 2013 estimate of $72.5 million is up by $3.3 million over 2012, and is $5.9 million greater than the $66.6 million average for 2009 to 2011. Prior to 2009 there was a significant increase in salaries and wages due to the compounding effect of economic increases such as cost of living, unionized and management increments, as well as a substantial growth in the number of positions.

There was an overall increase in the salaries and wages expense of $3.31 million or 4.79% between 2012 and the budget for 2013. SAF reported this increase was due to economic increases, step unionized increments, merit (management) increments, and the impact of new claims positions.

SAF submits collective agreement negotiations increased the base wages of unionized employees by 2%, including 1.5% directly related to economic increases and 0.5% for predetermined pay level incremental increases.

Out-of-scope employee salary increases were 2.0% related to merit increases and a further 2.0% for economic increases.

Corporately, 42 additional FTEs (predominately related to SGI Canada and allocated accordingly to all SGI Canada lines of business, with little impact on SAF),for a total of 1,571, have been forecasted and budgeted for 2013 (2012 - 1,529 & 2011 - 1,459). Of these budgeted positions, increases occurred in the following Divisions: Corporate Affairs & Planning - 1; General Counsel - 4; Auto Fund - 5; Product Management - 2; Customer & Distribution - 9;

Chief Financial Officer - 4; Human Resources & Corporate Services - 15; and Systems & Facilities - 9. Decreases occurred in the following Divisions: President & CEO - 1; Internal Audit - 1; and Claims & Salvage - 6.

SAF contends that benefits and pensions have increased in step with wage increases and the retirement of an aging workforce. SAF attributes slightly higher pension expense increases, relative to salary increases between 2011 and the 2012 budget due to a higher pension load rate (0.25% higher due to collective agreement negotiations respecting pension contributions).

Pension expense is expected to increase in 2013 by 3.51%, which corresponds to the budgeted growth in wages and salaries.

Benefits have been budgeted for a 0.60% increase in 2013.

The following table displays the diversity of employees and management for 2008 to 2011:

Diversity of Employees and Management				
Category	**2008**	**2009**	**2010**	**2011**
Aboriginal People	11.3%	11.3%	11.6%	11.5%
Visible Minorities	4.6%	4.9%	5.5%	6.8%
Persons with a Disability	8.4%	7.6%	7.0%	6.3%
Under 30	14.0%	18.7%	18.6%	18.4%
External Hires Diversity Goal 25%	**28.3%**	**26.4%**	**30.9%**	**35.7%**

While statistics related to the individual groups were not available for 2012, the external hires diversity goal remains at 25% for 2012 and 2013, and 2012 external hires were at 35.4%.

12.2.2 External Services

External services relate to consulting or other support services for the most part and fluctuate year to year depending on what projects, studies and applications are required or implemented. External services expenditures were $3.8 million in 2011, deceasing to $3.6 million in 2012, and are now forecast to increase to $6.6 million for 2013, an increase of $3.0 million (84%). SAF states that the 2012 safety spending was reduced to accommodate a lower rate request and that the 2013 budget anticipates the budget returning to historical levels. As such SAF reports that this increase is related to Traffic Safety initiatives such as Wildlife solutions and enhanced enforcement at high risk intersections and locations. In addition to this, there was an increase in spending on infrastructure safety programs, red light cameras, automated licence plate readers, and highway safety signs. Traffic safety promotion increased from $1.8 million to $4.1 million, while other expenditures rose from $1.8 million to $2.5 million. Traffic safety programs and costs are further discussed in Section 12.6.

12.2.3 Capital Costs and Building Rehabilitation

SAF states that there have been no changes to their capitalization policy since their last Application in 2012. SAF notes that the amortization periods changed in 2011 when SAF adopted International Financial Reporting Standards (IFRS) which requires significant cost items such as heating and cooling systems be depreciated separately over their useful lives. Previously SAF applied Canadian Generally Accepted Accounting Principles (GAAP) and

amortized large capital expenditures such as buildings and all of the components over the course of the useful life of the building. IFRS requires the separation noted above and SAF has complied. Total depreciation was $1.16 million in 2011, $2.00 million in 2012, and $2.62 million projected in 2013.

Below is a listing of all capital projects undertaken in 2011 and 2012, and planned for 2013:

Capital Purchases			
Building Location	**2011**	**2012**	**2013**
North Battleford Claims	10,170	72,606	-
Regina NW Claims	27,959	-	-
Regina Operations Centre (ROC)	-8,300	30,558	-
Prince Albert Claims	29,115	-	-
Swift Current Claims	-	532,211	1,100,000
Weyburn Claims	-	-	-
Lloydminster Claims	709	9,053	-
Saskatoon Salvage	67,229	-	-
Yorkton Claims	-	19,247	-
Saskatoon East Claims	-	-	1,600,000
Saskatoon West Claims	-	5,000	1,400,000
Tisdale Claims	1,362,167	52,103	-
Regina East Claims	793,009	25,447	-
Weyburn Claims	856,278	13,006	-
Meadow Lake Claims	953,707	-23,136	-
Saskatoon Central Claims	336,365	93,763	-
Estevan Claims Centre	-	-	1,000,000
Fleet Street Salvage	-	6,276	-
Saskatoon Salvage	-	892	-
North Battleford Salvage	-	-	-
Regina South Claims	-	-	60,000
Saskatoon North	-	571,528	-
Sub – Total	**4,428,408**	**1,408,554**	**5,160,000**
Information Technology	1,519,764	1,252,718	2,153,400
Other Equipment & Vehicles	598,260	945,834	721,000
Total	**6,546,433**	**3,607,106**	**8,034,400**

Capital expenditures to 2017 were provided on a confidential basis, but are not expected to approach the 2013 budget levels.

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

Depreciation is recorded on a straight line basis, starting the year the asset is available to be placed in service, over its estimated useful life. The impact on the indicated rate is related to increased depreciation expense on all capital expenditures, and amounts to about 0.3% comprised of about 0.15% for IT projects and 0.15% for all other projects combined.

Building rehabilitation costs are forecast to decrease by $0.17 million from the 2012 level to $2.14 million in 2013.

12.2.4 Data Processing

2012 data processing costs of $11.6 million decreased from the 2011 expenditure of $12.4 million. 2013 costs are expected to decrease again by $0.18 million (1.5%) from 2012 expenditures. The anticipated decrease for 2013 is attributable to reduced AFRP and driver license related costs.

12.2.5 Issuer Bank Charges

In 2006 SAF started allowing customers to pay for transactions with credit cards. SAF reimburses issuers for credit card charges. Bank charges in 2006 were approximately $1.6 million and have increased annually to a projected 2012 total of $4.20 million and are anticipated to be $6.55 million in 2013. The increase for 2013 is projected to be $2.35 million or approximately 56%. SAF submits that the increase in issuer bank charges is directly related to a continued and increased use by customers of this method of payment mostly through MySGI. Premiums paid by credit card on MySGI increased by 218.8% in 2012 to $5.1 million. This is the primary payment method on the site and growth is expected to continue as additional transaction types are added.

12.2.6 Other Administrative Expenses

The various components of OM&A expense were reported by SAF as shown on the table in Section 12.2 of this report. The further breakdown showed the projected 2012 results and forecast 2013 amounts for these components, including “Other” expenses. The 2013 forecast anticipates an expenditure of $0.68 million compared to $0.75 million for 2012, representing a decrease of about 9%. SAF states that SGI allocates expenses between SGI Canada and SAF at the department level, not at the account level. SGI further manages expenses primarily at the department level. The manager of each department is accountable for managing all of the expenses of their department based on their budget. SAF could not provide a further breakdown of “Other” expense on an account level due to the deadline time constraints, difficulty and labour intensiveness that this process would require.

2013 advertising costs are projected to increase by $424,646 over 2012 expenditures of $407,492. The 2013 advertising increase is approximately 104% of related expenditures in 2012. The only explanation offered by SAF is that the additional budgeted costs were primarily related to promotion of MySGI and E-claim campaigns (extended hours for claims).

Employee training is forecast to increase over 2012 expenditures by $0.38 million (21.85%), due to new claims training initiatives and new corporate training materials. Other 2012 OM&A expenditures appear to be reasonable, for both those increasing and those decreasing.

Driver Education is expected to increase $1.9 million, from $6.4 million in 2012 to $8.3 million in 2013. SAF reports that this 30% increase is due to continued growth in the Province's Driver Education programs (which is entirely funded by SGI since September 2011), including funding for the First Nation Driver Education Program.

Safety Awareness has increased by 62% or $0.5 million in 2013. The increase from $0.9 million in 2012 to $1.4 million in 2013 is due in large part to additional province-wide advertising

promoting the RID program.

Travel is expected to increase by about 8.5% in 2013 due to an increase in expenses.

12.3 COLLISION REPAIR COSTS

In 2004, guidelines were established between SGI and vehicle repair shops agreeing to use aftermarket body repair parts. Procedures for aftermarket parts included the use of recycled (used) parts and other cost containment initiatives. The following table shows the costs of recycled, aftermarket, and OEM parts used in auto repairs from 2008 to 2012:

Costs of Recycled, After Market and OEM Parts					
Part Type	**2008**	**2009**	**2010**	**2011**	**2012**
Recycled	27,548,582	28,337,089	31,097,355	32,044,579	29,864,876
After Market	7,652,384	8,905,942	9,668,399	10,921,112	10,374,589
OEM	41,322,874	43,720,082	41,644,013	43,627,249	45,115,670
Total	**76,523,840**	**80,963,113**	**82,409,767**	**86,592,940**	**85,355,135**

The following table shows the estimated savings from using recycled and aftermarket parts instead of OEM parts for repairs:

Savings from Using Recycled and Aftermarket Parts					
Part Type	**2008**	**2009**	**2010**	**2011**	**2012**
Recycled	13,087,971	13,934,095	15,463,641	16,107,612	15,340,847
After Market	10,309,910	9,854,60	10,923,352	13,792,714	14,977,068
Total	**23,397,881**	**23,788,745**	**26,386,993**	**29,900,326**	**30,317,915**

The overall repair costs in labour, paint allowance, shop materials, and other costs for the 2008 to 2012 period are shown below:

Overall Repair Costs					
Description	**2008**	**2009**	**2010**	**2011**	**2012**
Labour	73,893,341	80,044,085	88,596,906	96,895,824	87,487,558
Paint Allowance	15,340,105	16,323,839	17,297,817	18,504,489	17,547,476
Shop Material & Other	4,688,324	4,044,954	3,893,473	3,612,177	4,581,790
Glass Repair	469,431	810,981	992,786	1,419,717	1,769,766
Total	**94,391,201**	**101,223,859**	**110,780,982**	**120,432,207**	**120,432,207**

12.4 LABOUR RATES

SGI negotiates labour rates annually for car and light truck repair with representatives of the Saskatchewan Automobile Dealers Association (SADA) and the Saskatchewan Association of Automobile Repairers (SAAR). Consideration is given to industry profitability, attraction and retention of employees, and development of techniques and requirements necessary to perform repairs on continuously advancing features in new vehicles.

The following table shows the schedule of labour rates paid for auto damage repair:

Hourly Labour Rates Paid for Auto Damage Repair Cars / Light Trucks						
Max body / paint hourly labour rate	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Accredited car / light truck	57.76	67.00	68.27	69.63	69.63	69.63
Accredited large truck (> 12,000 lbs GVW)	65.08	67.00	68.27	77.03	77.03	77.03
Accredited refinish	58.46	67.00	68.27	69.63	69.63	69.63
Non-accredited	35.35	35.35	46.50	46.50	46.50	46.50
Max frame / mechanical hourly labour rate						
Car / light truck frame	59.92	67.00	68.27	69.63	69.63	69.63
Truck > 12,000 lbs GVW frame	66.74	67.00	68.27	78.97	78.97	78.97
Mechanical labour rate for operations outlined in the appraisal policies	85.70	67.00	68.27	69.63	69.63	69.63

On 1 January 2011, a blended rate of $69.63 per hour for framework and mechanical labour was agreed to and remains in effect for 2013. It is expected that the rates will be renegotiated with SADA and SAAR to be in effect for 2014.

12.5 MEDICAL SERVICE RATES

SAF is under contract with and reimburses the Ministry of Health for hospital and physician services as a result of injuries in motor vehicle collisions on a quarterly basis. This amounts to almost $30 million per year. In 2012, SAF reimbursed the Ministry of Health $24.8 million and $3.1 million to medical providers. These amounts were $22.3 million and $3.1 million, respectively, in 2011. On 1 April 2010, SGI became responsible for the full costs of chiropractic treatments where Saskatchewan Health does not provide coverage or determine rates. As of 1 April 2013, SAF stopped global funding of the SRHA Chronic Pain Centre, opting to pay on a fee for service basis.

SGI negotiates rates with the health care provider associations for the various medical services that are provided to victims of vehicle collisions and accidents.

The following table displays the Medical service rates from 2008 to 2012:

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

12.6 TRAFFIC SAFETY PROGRAMS

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

In January 2011, SAF Directors approved a 5 year Traffic Safety Program for 2011 through 2015 and an increased funding goal to be in the range of 2% to 3% of premiums written. The current cost of Traffic Safety Programs is about 2.9% of net premiums written. The approved strategy focuses on using a combination of education, engineering, and enforcement to reduce the amount of vehicle accidents occurring. Each of the following areas will be considered for traffic safety and each will have a cost benefit analysis conducted to determine which programs are selected and implemented.

The 2011 Traffic Safety Program focused on 7 primary areas:

1) Impaired Driving – including drugs as well as alcohol;

2) Vehicle Collisions – involving wildlife;

3) Distracted Driving – including cell phone usage and text messaging;

4) Seatbelt Education, Use, and Enforcement – in both urban and rural areas;

5) Speed Management;

6) Intersection Safety; and

7) New Driver Accidents.

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

12.6.1 Traffic Safety Costs

Traffic safety budgets are prepared for initiatives, pursuant to the Traffic Safety Strategy (TSS) objectives. Budgets for near-term initiatives are for program maintenance and ongoing programming. Initiatives requiring legislative changes are considered as mid-term initiatives, while initiatives that require implementation over many months or years are considered to be long-term. Amounts budgeted for each of these initiatives are based on previous budget experience and cost estimates.

In 2012, all Traffic Safety Costs, including costs for specific programs, sponsorships, and advertising, accounted for about 2.6% of total claims and expenses, while in 2013 it is estimated that traffic safety will represent about 3.1% of claims and expenses.

All Traffic Safety Costs are funded by SAF and the Traffic Safety Program Evaluation group within SAF is responsible for evaluating the loss-reduction and cost-effectiveness of current and prospective safety programs. The following table summarizes actual and projected traffic safety costs for 2011, 2012, and 2013:

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**

Included in the Regulatory Program Administration costs for 2012 and 2013 are indirectly allocated costs to Traffic Safety of $1.40 million and $1.49 million, respectively.

Traffic safety programs are being continuously monitored and effectiveness measured, albeit sometimes, by necessity, on a qualitative bases. As a result, individual programs change year over year. The total 2013 budget ($28.7 million) increased over the 2012 projected amount of $23.2 million by $5.5 million, or about 23.7%. SAF submitted that the First Nations High School Driver's Education initiative was deferred from 2012 to 2013 because of a request to trim the safety budget as part of the rate proposal. This initiative is now scheduled for 2013, at an estimated cost of $1.5 million.

SAF has been in contact with Aboriginal Affairs and Northern Development Canada, as the agency responsible for First Nations funding for education services, but has received no commitment to date.

The following programs were eliminated from or added to the 2013 initiatives, from the 2012 program:

1. Traffic Safety promotion: None deleted, Safety awareness ($0.12 million) and Highway Safety Signs ($0.12 million) added,

2. Traffic Safety Program evaluation: None deleted or added,

3. Driver Programs: None deleted or added,

4. Driver Development: None deleted, Translation service for driver training ($0.12 million) and Driver Education ($0.9 million) added, and

5. Traffic Safety Advertising: None deleted, RID Advertising ($0.4 million) added.

Existing programs enhanced for 2013 include intersection enforcement, and Automated License Plate Recognition. The Seat Belt Challenge has been replaced with the First Nations school contest.

The total amount budgeted for programs added for 2013 is approximately $2.08 million.

12.6.2 Program Monitoring

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

In January 2011, SAF Directors approved a Traffic Safety Strategy with the goal of reducing the number and severity of traffic crashes and resultant claims costs, by creating a new environment respecting traffic safety, including any change in social welfare. The TSS proposed a decision-making framework for assessment of safety measures developed as part of the TSS. Evaluation factors considered include comparison of alternative measures, accounting for duration / analysis times for initiatives, geographic scope of analysis, and societal viewpoint.

A Cost Benefit Analysis (CBA) is used to estimate the economic welfare effects of the safety measures. Two metrics of a safety measure, Net Present Value (NPV) and Benefit-Cost ratio, are used to determine the efficiency of any CBA. NPV is defined as the present value of all benefits minus the present value of all costs. The Benefit-Cost ratio is defined as the present value of all benefits divided by the present value of implementation costs. When the project benefits exceed costs, the NPV is positive and the Benefit-Cost ratio is greater than 1. Not all projects can be evaluated by the use of a CBA, as some benefits clearly cannot be quantified.

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

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

In response to an information request, SAF provided the following information related to the measurement of the effectiveness of safety initiatives since 2007.

Vehicle Impoundment

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

Ignition Interlock

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

Addictions Screening

About 75% of drivers who go through the addiction screening process are referred to the DWI program, while 25% are screened into the recovery program. Between 1996 and 2009, about 26,025 drivers were referred to DWI. Among first-time offenders who participated in DWI, 92% did not re-offend three years following program participation. For those who did not attend the screening or did not participate in any program, only 73% did not re-offend. With respect to repeat offenders, 86% did not re-offend three years after participating in DWI compared to 64% of those who neither screened nor participated in any remedial program.

Driver Improvement Program (DIP)

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

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

Graduated Driver Licensing (GDL)

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

Program restrictions appeared to be effective, posting reductions in associated crashes. Night crashes reduced by 11%, single-vehicle night crashes (which is a proxy for alcohol-related crashes) decreased by 38%, while crashes involving more than one passenger on the vehicle reduced 37%. The greatest reduction in risk for the GDL drivers occurred among casualty crashes with a 49% reduction; the PDO crash rate also declined by 40%. A comparison according to age groups between pre- and post-GDL revealed that 15 year-old GDL drivers seemed to be most impacted by the program, showing a reduction in their crash involvement up to 28%. GDL drivers over the age of 19 showed very little change in their overall crash rate (2%).

The results in this study validate the findings from the initial 2007 program evaluation – the extended Learner stage provides safety benefits. The Learner stage is a major contributor to the overall safety effectiveness of the program.

Intersection Improvements

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

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

Red Light Cameras

In 2000, red light cameras were installed at three intersection sites in Regina. Their effectiveness was evaluated in 2008 with a focus on the reduction of right-angled collisions as a result of red light running. Such collisions were reduced by approximately 44% over the study period. While rear-end collisions increased at the camera sites, the results indicate that rear-end collisions would have increased regardless of whether red light cameras had been installed or not. The observed increase in rear-end collisions could be attributed to the fact that at all the intersections, rear-end collisions were twice as likely to occur as right-angled collisions, which was the case before red light cameras were installed.

Distracted Driving

A comprehensive Program Evaluation Framework has been developed to be initiated in 2013 that will form the basis for assessing the impact of Saskatchewan's cell phone ban on traffic safety since implementation. Until the full evaluation is conducted, initial program effects on deterring cell phone use while driving have been investigated through an observational study.

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

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

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

Seatbelt Challenge

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

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

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

Deer Fencing

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

12.7 APPEAL PROCESS AND COSTS

Appeal commission costs include costs associated with the Automobile Injury Appeal Commission such as Board member salaries, administrative expenses, and legal fees. These costs are assigned to vehicle classes based on appeal claim costs for each class. All appeal costs are funded by SAF, which was just under $1 million in 2012 and estimated to be just over $1 million in 2013.

12.8 PREMIUM TAXES

Premium taxes continue to be collected as 5% of gross premiums (premiums written less premiums ceded and remitted to the Province). They are paid to Saskatchewan Finance Revenue Division by March 31st of each year and based on the prior year's gross premiums written. In 2012, the premium taxes were $39.3 million, based on projected gross premiums of $785.7 million. Gross premiums are expected to increase to $828 million in 2013, with a resulting premium tax of $41.6 million. The current total 5% premium tax is comprised of a 4% levy under *The Insurance Premiums Tax Act* and a 1% levy under *The Motor Vehicle Insurance Premiums Tax Act*. The 4% levy was last increased from 3% in 2000, while the 1% levy has remained unchanged since 1979.

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

It is noted that other fee collections and remittance to the government is made by SAF as well as commissions received by SAF for doing this (reference First Round IRs # 88 and 89).

12.9 ISSUER FEES

After negotiations and the subsequent Issuer Accord Agreement with the Insurance Brokers Association of Saskatchewan (IBAS), issuers were compensated on a 4.75% commission basis for in-person transactions (and 3.75% for on-line transactions) rather than on the previous flat rate basis for new and renewal vehicle registrations, Change Registration Terms, and Registration Eligibility Declaration transactions. All other transactions related to Customers, Driver Licenses, and other vehicle types continue to be based on a flat fee, with some fees being reduced to partially offset the increase in commission fees. There is no charge to Issuers for SAF computer hardware and software. Issuer Fees (Commission and Flat fees) accounted for approximately 4.2% of total Auto Fund costs in 2012. Issuer operation costs, for which there is no cost recovery, was reported to be $2.8 million in 2012, which is $7,006 per issuer (399 total issuers). The 2013 amount is estimated to be $3.5 million or $8,765 per issuer (399 total issuers).

The Issuer Accord Agreement stipulates that existing commission rates and flat fees would not be subject to negotiation unless there was a substantive change in the nature of work associated with the transactions. This should bring certainty and stability to issuer fees on an annual basis, and the projections are consistent with the expected growth in the business. Actual issuer fees for 2012 and forecasted fees for 2013 to 2017 are shown below:

Issuer Fees (in $ thousands)						
Year	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Net Premiums Written	781,167	858,261	938,507	1,000,702	1,061,875	1,123,820
Total Costs	891,050	927,530	950,407	978,902	1,075,569	1,170,182
Issuer Fees	37,795	43,638	47,155	50,270	53,333	56,435
% of Premiums Written	4.8%	5.1%	5.0%	4.7%	5.0%	5.0%
% of Total Costs	**4.2%**	**4.7%**	**5.0%**	**5.1%**	**5.0%**	**4.8%**

Projected issuer fees after 2012 range from 4.7% to 5.1% of total SAF operating costs and 4.7% to 5.1% of net premiums written.

13.0 PERFORMANCE MANAGEMENT PLAN

A long-term strategic plan for 2011-2015 was approved in 2010 by the Board of Directors. This strategic plan identified key areas of focus, along with supporting strategies and plans. The Performance Management Plan was filed in confidence with the Panel, as it includes information related to SGI Canada. Based on a consultant's review of SGI's strategic plan in 2012, a decision was made to return to a classic balanced scorecard structure. The aim is to now select measures that give clear visibility into overall company performance at a corporate level. Corporate goals are intended to show the end result that SGI plans to achieve (i.e. numerical goal and year). These targets are set five years out and made to be achievable by pushing the company to excel. Differences from the 2012 to 2013 balanced scorecard include adding a rate adequacy measure, combining the value index and service satisfaction measures, and removing the traffic fatality / injury, environmental responsiveness, external diversity hiring, and training investment measures.

For the Auto Fund, Saskatchewan's strong economy means more drivers and vehicles on the roads, increasing demand for Auto Fund services. SAF intends to meet this increased demand for services in part by leveraging its recently developed computer systems and the recently launched MySGI online interface to improve customer access to products and services.

Increased drivers and vehicles increase the risk of collision and resulting claims costs. Therefore, traffic safety initiatives also become more important. Improved effective programming and promotion to build awareness of safety risks and mitigating poor driving practices can help keep the increase in economic activity from translating into a spike in traffic collisions, injuries and deaths. As discussed in Section 12.6 of this report, SAF has developed a long-term traffic safety strategy to guide this work.

13.1 WARD GROUP STUDY

In 2011, SGI retained the services of the Ward Group to conduct a study related to the benchmarking of SAF's operation of the Auto Fund against the results of a peer group of insurance companies. SAF filed this report in confidence.

The benchmarking framework analyzed 31 core functional areas for property-casualty companies. These core functional areas were grouped into 7 categories including: Acquisition; Personal Lines; Commercial Lines; Claims; Corporate Support; Occupancy; and Taxes / Assessments.

There were 12 key performance metrics identified. SAF did not rate well on Personal Lines Loss Ratio, Personal Lines Retention Ratio, Commercial Lines Retention Ratio, Net Premiums Written to Surplus Ratio, and Return on Total Revenue. SAF's not-for-profit and monopoly status contributed to these unfavourable ratings. SAF rated favourably on measures related to gross expenses as a percentage of gross premiums written; Commercial Lines Loss Ratio, net paid LAE as a percentage of net premiums earned; and staff to management ratio. It is noted that the Ward Group defines management differently than SGI. As a result, the Ward Group staff to management ratio is more favourable than the SGI calculated ratio. The Ward Group also showed that SGI's average compensation per FTE is lower than the industry average for

both salary (management) and hourly (union).

An additional assessment examined the efficiency of 26 functions by comparing headcount and expenses to premium (Operational Heat Index). Of these functions, Claims Reporting and Support, Adjusting and Appraising, Human Resources, and Occupancy were above the benchmark averages based upon the normal distribution of performance within 3 standard deviations of the mean. SAF's not-for-profit status and classification differences impact these unfavourable ratings. Other factors having an impact are use of in-house staff, unionization, and geographic area. Most other functions were significantly below the average, indicating operational efficiency.

13.2 MEASUREMENT

One of SAF's key areas of focus in the 2012 strategic plan is to work with customers to understand and provide the protection they need. More specifically, this involves working directly with customers and brokers, so that both the customer and SAF understand their insurance needs. Insurance products will then be provided that are right for the customers. In 2012, a more robust SAF value index was introduced with an established target of 74%. The 2013 target is now 75%.

The second key area is to make every service experience excellent for everyone doing business with SAF, i.e., make it fast, easy, and convenient. Measures for this include the Consolidated Claim Service Satisfaction Survey (2012 & 2013 Target 90%); Broker Service Satisfaction (2012 & 2013 Target 90%); and Auto Fund Service Satisfaction (2012 Target 56% & 2013 Target 57%).

Another key area is to operate to benefit customers, owners, and their communities. This includes helping customers reduce the risk of suffering a loss, and supporting vibrant, thriving, safe communities. Measures for this include capital adequacy as measured by the MCT (2012 & 2013 Target Range 75% to 150%); traffic fatalities and injuries per 100,000 Saskatchewan residents (2012 fatalities Target 14.4, 2013 fatalities Target 14.1, 2012 injuries Target 636.9, 2013 injuries Target 624.1); and environmental responsiveness, primarily through its salvage operations.

The last key area of focus is continually improving how SGI does business. This is to be done by building an information savvy business, attracting and retaining employees to help achieve its goals, creating an environment that encourages employees to be innovative, creative, accountable, and strategic, and improving processes, productivity, and efficiency. Measures for this include Implement Business Intelligence (2012 Target Phase 2, 2013 Target TBD); Employee Engagement and Enablement (2012 & 2013 Target at or above the Hay Norm); External Diversity Hiring (2012 & 2013 Target 25%); Training Investment Compared to Conference Board of Canada (2012 & 2013 Target +/-5% of average); Licensed Drivers and Policies per FTE (2012 & 2013 Target 717); and Administrative Expense Ratio (2012 Target 7.0%, 2013 Target 6.9%).

In order to change corporate culture, the PEP Squad was established to help bring awareness to the need and desire for change. In 2013 the PEP Squad committed to working on one large corporate reengineering project related to print and distribution as well as 10 smaller scale

efficiency projects.

SAF classifies productivity and efficiency gains into 4 categories: Operational Efficiency Gains (i.e. through technology advances and preventative maintenance), Crown Collaboration (i.e. joint efforts), Partner Leverage (i.e. private sector partnerships), and Company / Customer / Employee Benefits. In 2012, savings were estimated to be approximately $850,000 and projected to be about $843,000 each year for the next five years. With regard to Second Round IR # 31c), total estimated savings from efficiencies were reported to be just over $4 million in both 2012 and 2013.

14.0 COST ALLOCATION

SAF filed, on a confidential basis, the SGI Cost Allocation Methodology and the assignment / allocation of inter and intra common costs to related companies. Unchanged from the previous Application, the SGI group of companies consists of SGIC, administrator of the SAF and parent company for SCISL, Coachman, and ICPEI. This group incurs more than $170 million of administrative and traffic safety expenses annually. SAF accounts for about 65% of these costs, with the balance related to the competitive operations for SGIC.

The cost allocation methodology has not changed since 2006 and SAF submits that the current methodology is fair and reasonable and that it does not plan to review the current approach. SAF did indicate that the current process is labour intensive, but are of the view that little added efficiencies could be achieved absent a major review of the methodology, which is not a high priority at this time.

SGI continues to allocate costs to each of the companies, and within each company to their products, using a 3 step cost allocation methodology introduced in 2007 effective 1 January 2008. The 3 steps are: direct cost allocation; step down allocation of indirect costs; and remaining indirect cost allocation.

The first priority in the cost allocation process is to ensure that expenses are being charged to the appropriate company, with the second priority being to properly charge the expenses within the company to its products. SAF submits that proper expense allocation accurately determines product cost and, where applicable, profitability of each product line.

Approximately 70% of expenses are direct costs of a specific company / product and are assigned directly to that company with a high degree of certainty. The remaining 30%, representing less than 5% of the annual combined premiums of the SGI group of companies, is the cost allocation focus for SGI. Expenses are allocated monthly using formulas based on various cost drivers. The formulas are reviewed usually on a semi-annual or annual basis.

SGI allocates two types of expenses: administrative and loss adjustment. SGI's allocation of LAE and administrative costs amongst its various companies remains unchanged from the 2012 Application. Administrative expenses are expenditures required to manage the company and provide staff support for its operations. They include all operating costs not related directly to the settlement of claims. Administrative expenses (direct and indirect) are assigned to the appropriate company product line based on various cost drivers. Cost driver factors are reviewed annually to ensure costs are being charged to the appropriate company and that they are properly categorized. The current cost allocation process is considered fair and reasonable.

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

As is evident from the above, the cost allocation process is very detailed and considers year

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

The 2012 cost driver annual review for direct and indirect administrative expenses as well as loss adjusting expenses displayed little variance (all within -0.2% to +1.3%), with the largest variance in LAE, which are largely related to variances in overall claims costs.

The following tables summarize the cost allocation results for 2010, 2011, and 2012, as well as those forecasted for 2013:

Overall Cost Allocation (in $ thousands)

Company	2010		2011		2012		2013	
	$	%	$	%	$	%	$	%
SAF	119,145	65.3	124,117	64.8	130,744	64.6	142,565	64.4
SGIC	48,324	26.5	51,137	26.7	53,860	26.6	59,208	26.7
SCISL	6,526	3.6	6,873	3.6	7,623	3.7	8,644	3.9
Coachman	4,991	2.7	5,701	3.0	6,419	3.2	6,975	3.2
ICPEI	3,503	1.9	3,698	1.9	3,848	1.9	4,025	1.8
Total	182,489	100.0	191,526	100.0	202,494	100.0	221,417	100.0

SAF Cost Allocation (in $ thousands)

Expense	2010		2011		2012		2013	
	$	%	$	%	$	%	$	%
Admin. Direct	25,057	21.0	26,260	21.2	25,237	19.3	28,253	19.8
Admin. Indirect	26,708	22.4	26,518	21.4	26,309	20.1	27,181	19.1
LAE	50,095	42.1	50,792	40.9	56,571	43.3	58,409	41.0
Traffic Safety	17,285	14.5	20,547	16.5	22,627	17.3	28,722	20.1
Total	119,145	100.0	124,117	100.0	130,744	100.0	142,565	100.0

15.0 RECOGNITION PROGRAMS

15.1 SAFE DRIVER RECOGNITION

SAF's Safe Driver Recognition program is designed to reward safe drivers who own or lease a vehicle in the LV, PV, or F (light) vehicle classes by providing discounts on their vehicle insurance. The program parameters remain mostly unchanged since last year. The program also ensures drivers who demonstrate risky behaviour and who are involved in at-fault accidents pay their share through a financial penalty for each incident for which they are held responsible. For every year of accident free driving, one safety rating point is awarded.

Each point in the Safety Zone (safety rating greater than 0) corresponds to a 2% discount on basic insurance, to a maximum discount of 20%. The SDR considers driving history since 1995. Effective 1 January 2013, drivers are now able to earn up to 18 points (up from 17 points last year). Although the discount remains subject to a 20% maximum, points in excess of 10 (Platinum customers) provide protection against the financial penalties of future incidents.

Under the SDR, drivers lose points for unsafe driving behaviour, such as at-fault accidents (-6 points) or certain convictions and roadside suspensions (-3 or -4 points). As well, driving disqualifications (arising from Criminal Code offences, for example) move drivers to at least -20 points. Each point in the Penalty Zone (safety rating less than 0) attracts a $25 penalty. A rating of -20 attracts the maximum financial penalty of $500, except for Criminal Code offences resulting in injury or death, when the penalty is $2,500. In 2012, of 1,074,773 customers, 782,866 customers (72.8%) were eligible for SDR discounts while 98,307 (9.2%) fell within the penalty zone and 193,600 (18.0%) were in the neutral zone. In 2012, the SDR discounts amounted to $100.7 million and are expected to be $111.6 million in 2013, while the Malus penalty in 2012 is projected to be $11.2 million and estimated at $13.5 million in 2013. By comparison, in 2006 there were 699,424 (71.9%) drivers eligible for the rebate, 86,798 (8.8%) were in the penalty zone and 187,724 (19.3%) were in the neutral zone. These ratios have remained fairly consistent year over year.

15.2 BUSINESS RECOGNITION

As was the case in 2009, SAF's Business Recognition program is designed to reward businesses with safe driving records (with basic insurance discounts of up to 10%). This program is for heavy vehicles in the Commercial and Farm classes as well as any vehicle registered to a company.

SAF has determined that a capped loss ratio of 70.1% to 80% is their break even range. The break even range is calculated by subtracting all administrative costs, premium taxes, issuer fees, and traffic safety program costs from the total premiums paid for all vehicles. Losses are capped in this calculation to ensure that the impact of a single claim bears a reasonable and fair relationship to the size of the vehicle fleet.

Companies with a capped loss ratio of 70% or less in the past five years are eligible for a discount, to a maximum of 10% for a capped loss ratio of 0%. Companies with a capped five year loss ratio greater than 80% are subject to financial penalties, to a maximum of 200% for a capped five year loss ratio of 350.1% or greater. It is noted that IRP customers with 6 or more

registered vehicles and a loss ratio greater than 80% are reviewed individually by SGI. They are subject to varying financial penalties and capping of losses may not apply. In 2012, of the total 66,415 customers, 60,599 (91.2%) received discounts, while 1,026 (1.6%) paid a surcharge. The BR net discounts for 2012 were $8.1 million and it is forecast to be $9.1 million in 2013. By comparison, in 2006, 83,034 (92.8%) customers received discounts and 1,202 (1.3%) received a surcharge with 5,242 (5.9%) paying the base premium. SAF initially indicated that when the BR program was introduced in 2004, the “break even” loss ratio was calculated at 80%, and it has remained unchanged since then. Subsequently, SAF explained that the impact of using capped losses to determine the BR loss ratio reduces the loss ratio by about 7%, and therefore the use of the 80% loss ratio as the break even point as opposed to claims cost being about 85% of premiums is consistent with the approximate impact of capping the losses.

15.3 COMMENTARY

Discussion to some degree has been taking place primarily with BR stakeholders with respect to the parameters, and perceived shortcomings of the programs since 2009. As was noted in last year's report, a formal review of these programs is considered to be long overdue, and it is anticipated that considerable dialogue would occur with the customers of these programs, and other interested stakeholders.

SGI is currently undertaking a review of both the SDR and BR programs as part of the SAF stakeholder product review which commenced on 15 October 2012, to ensure they continue to meet the needs of customers (i.e., fair and appropriate discounts and penalties / surcharges). These programs had not been reviewed since their inception (SDR 2002 and BR 2004). Recommendations are expected by the fall of 2013. This may include scale adjusting and removal of individual advantages in the BR program as well as at-fault claim threshold revisions and increasing HTB authority / discretion in the SDR program. The earliest any proposed changes would likely be implemented is for 2014. Depending upon the nature and extent of recommended changes, they may be able to be adopted by the SGI Executive without a requirement for Board approval. There is currently no time line if legislative or regulation changes are required.

Both the SDR and BR programs are factors which the Panel is to consider as given in this review, so no further comment will be made, other than to encourage a timely and detailed review of both programs.

16.0 INTERNATIONAL FINANCIAL REPORTING STANDARDS

SAF adopted IFRS in place of Canadian Generally Accepted Accounting Principles on 31 December 2011 (Transition Date), a conversion that commenced in early 2009. The conversion previously impacted SAF in four specific areas:

1. SAF's constructive obligation to SGI CANADA;
2. Property and equipment;
3. Reclassification of unrealized gains on investments; and
4. Discounting of provision for unpaid claims.

The changes resulting from the adoption of IFRS with respect to comprehensive income and SAF's operations were booked as at 31 December 2010 and there are no further IFRS-related impacts arising from these aspects of IFRS.

17.0 RATE STABILIZATION RESERVE

The RSR represents the accumulation of all profits and losses for SAF since its inception, net of any policyholder rebates paid. The RSR acts as a savings account to cover emergencies, ensuring customers are protected against significant rate changes due to much higher than expected claim costs and much lower than expected investment income. The Government of Saskatchewan injects no capital into SAF, and neither does it receive any dividends from SAF. A key operating principle for the Auto Fund is ensuring consistency and stability in rates so that customers are not subject to ongoing price fluctuations or large rate increases. The Rate Stabilization Reserve gives the Auto Fund a financial resort to draw on when adverse financial events occur.

SAF's Capital Management Policy sets the Minimum Capital Test (MCT) range between 75% and 150%, which indicates an adequate RSR balance. If the 12 month rolling average MCT ratio falls below 75%, then a surcharge is considered. If the 12 month rolling average MCT ratio rises above 150%, then a rebate is considered.

The MCT at 31 December 2012 was 47%. Based on the actuarial analysis, the RSR needs to be replenished by about $32 million in order to reach the Capital Management Policy's MCT minimum target range of 75%. As a result, SGI is proposing a 1.23% RSR surcharge be applied effective 31 August 2013 for a 3 year period to achieve the MCT minimum target range. The surcharge will be applied proportionally to every vehicle rate.

The RSR balance at the end of 2012 was $127.1 million as reported in the 2012 Annual Report. The Application had estimated the 2012 balance to be $119.0 million, compared to a 2011 balance of $134.3 million. SAF submitted that, without any rate increases the 2013 RSR balance would be decreased by $12.2 million. Even with the 1.03% overall rate increase and the 1.23% RSR surcharge, the 2013 RSR balance is still expected to decrease by $16.8 million. Without the rate increases, the underwriting loss is projected to be $94.4 million and with the increase is $99.1 million. The further deterioration in the 2013 RSR balance is due, in part, to the fact that the requested rate increases would not be implemented until 31 August 2013 and the positive effects on the RSR are dampened for 2013. The following tables illustrate the change to the RSR from 2012 to 2017, with and without the requested 2013 rate changes:

RSR Changes – Without 2013 Rate Changes (in $ millions)						
	2012	2013	2014	2015	2016	2017
Premiums earned	$773.9	$833.0	$891.1	$950.2	$1,013.2	$1,080.3
Claims & Expenses	$900.9	$927.3	$948.7	$976.7	$1,073.6	$1,169.0
Underwriting Loss	($127.0)	($94.4)	($57.6)	($26.5)	($60.4)	($88.6)
Investment Income	$72.4	$44.1	$25.7	$15.5	$58.5	$95.2
Other Income	$35.0	$38.0	$39.7	$42.1	$44.7	$47.4
Change in RSR	($19.6)	($12.2)	$7.7	$31.1	$42.8	$53.9
RSR Changes – With 2013 Rate Changes (in $ millions)						
	2012	2013	2014	2015	2016	2017
Premiums earned	$773.9	$828.4	$904.8	$971.9	$1,034.8	$1,093.8
Claims & Expenses	$900.9	$927.5	$950.4	$978.9	$1,075.6	$1,170.2
Underwriting Loss	($127.0)	($99.1)	($45.5)	($7.0)	($40.8)	($76.4)
Investment Income	$72.4	$44.1	$25.7	$15.6	$59.6	$97.7
Other Income	$35.0	$38.2	$40.3	$42.8	$45.2	$47.2
Change in RSR	($19.6)	($16.8)	$20.4	$51.3	$64.0	$69.1

An appendix was added to SAF's Capital Management Policy to clarify the proposed implementation of the surcharge. The policy stipulates 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.
- Be 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.
- Be applied over full year periods to ensure equity among all customers.
- Be accounted for as premiums written and will not flow directly to the RSR but instead will be included in the earned premium process.

A sample customer renewal notice and insert are included as an Appendix to this report.

SAF indicated that in future rate Applications the contribution to the RSR balance would be shown as a discrete amount in the financial statements and other documents filed with the Panel.

18.0 CAPITAL MANAGEMENT POLICY AND MINIMUM CAPITAL TEST

18.1 CAPITAL MANAGEMENT POLICY

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

SAF's policy states that adequacy is measured by the Minimum Capital Test, a common industry measurement. The MCT ratio is calculated by dividing the capital available, which is primarily the excess of assets over liabilities, by the capital required, which is comprised of various margins applied to unpaid claims, unearned premiums, and investments. The current target of SAF's MCT is 112.5% and the acceptable range of the MCT is between 75% and 150%. As of 31 December 2012, the MCT was at 47% while the 12 month rolling average MCT was at 61%. In response to First Round IR # 41, SAF reported the February 2013 month end MCT to be 55% and the 12 month rolling average MCT to be 58% with an RSR balance of $141.75 million. In response to Second Round IR # 13, SAF reported the March 2013 month end MCT to be 61% and the 12 month rolling average MCT to be 57% with an RSR balance of $157.5 million.

The policy states that if the MCT is below 75% when calculated on a moving 12 month average basis, a proposal to address the shortfall is brought to the SAF Directors defining how to obtain additional revenue to replenish the RSR.

Should the replenishment require a rate surcharge be applied, once the MCT is back within the defined acceptable range the rate surcharge would be removed. SAF has capped the amount of any rate surcharge that can be imposed to a maximum of 5%. Effective 31 August 2013, SAF proposed a 1.23% RSR surcharge be applied each year for the next 3 years (not compounded). This surcharge is expected to bring the MCT to the minimum range level of 75% in 2016. It is noted that in order to bring the MCT to the target level of 112.5% in 2016, an RSR surcharge of 6.31% would need to be applied for the next 3 years effective 31 August 2013.

SAF's policy states that if the MCT is above 150% when calculated on a 12 month moving average basis, a proposal to address the excess is brought to the Directors which would include a rebate to customers. In the event of a rebate, the rebate will only be issued to bring the MCT back to the target of 112.5%.

Although there have been no changes to the Capital Management Policy since the 2012 Application was submitted, an Appendix to the policy has been added which clarifies the manner in which an RSR surcharge is to be implemented.

18.2 MINIMUM CAPITAL TEST

To determine the appropriate level of funds in the RSR, SAF uses an industry regulatory solvency measurement called the Minimum Capital Test. Insurance regulators require an MCT ratio for regulated companies to be 150% or higher. By adopting a target range for its RSR

below this level (112.5%), SAF is recognizing its distinct situation as a monopoly and Crown corporation insurer. The MCT is the Minimum Capital Test that is prescribed by the Office of the Superintendent of Financial Institutions Canada (OSFI) with alteration as prescribed by the SAF Board of Directors. In 2012, OSFI refined the asset risk margins for fixed income investments, introduced an interest rate risk margin for interest sensitive assets and liabilities, and removed the margin factors on the Provision for Adverse Deviations (PfAD) portion of claim liabilities. OSFI issued a revised MCT Guideline effective 1 January 2013, which had a small impact on SAF related to an increase in the interest rate risk shock factor from 50 to 75 bps. This resulted in an increase of $10.3 million in required capital thus decreasing the MCT by approximately 2.0%. OSFI's draft MCT Guideline for 2014 is not expected until mid-2013. Monitoring of the MCT is a monthly activity for SAF which uses this information to plan for the future and to determine what are the necessary actions to ensure the MCT remains within the parameters outlined and established in SAF's Capital Management Policy.

Finally, SAF states that the Board has final say in all actions related to the MCT. Specifically, should the Board choose to change the parameters of the range of acceptable limits or the target MCT ratio due to circumstances, they are entirely entitled to make that decision as they deem appropriate.

19.0 INDUSTRY NORMS

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

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

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

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

20.0 CORE ISSUES AND RECOMMENDATIONS

20.1 BREAK EVEN MARGIN

The 0.81% Break Even Margin loaded into the rates to offset expected losses from the increased risk provision is reduced by expected permit premiums and cancellation retention amounts. SAF has calculated the rating year PfAD growth to be $9.5 million. The rating year permit / cancellation fees are $2.4 million, leaving a net of $7.1 million, which based on a rating year expected net written premium of $876.6 million results in the 0.81% Break Even Margin. This margin is to be recalculated every year, and can be expected to vary according to bond yields that impact discount rates used in the calculation. As an example, an increase in the discount rate of 0.5% from future bond yields in the rating year will cause the projected PfAD to be about $5 million lower, resulting in a Break Even Margin decrease of about 0.58%.

In last year's report, we stated that while we could not support the inclusion of a Contingency Margin based on SAF's rationale, a margin recognizing the expected growth in claims costs in this regard was reasonable. The Break Even Margin introduced with this Application arose from that recommendation, building on it to include other revenue sources not previously recognized in the ratemaking model.

Accordingly, we recommend inclusion of a Break Even Margin, estimated at 0.81% of net written premium, based on SAF's estimate for 2013/14 rating year. Calculations for any future requested Break Even Margins should be a component of the MFR.

20.2 PROPOSED CHANGE IN AVERAGE RATE LEVEL

SAF has adopted a different approach to the selection of future trend assumptions. In the prior Application the selection of future frequency and severity assumptions were dominated by mostly judgmental overrides of corresponding past trend assumptions, which are in turn mostly based on an analysis of experience. The overall indicated change in average rate level was quite sensitive to these assumptions and the future trends selected differed significantly, in most cases, from past trends.

In our 2012 report, we recommended that SAF stay focused on development of best estimate rate indications, and enhance the level of support and documentation for judgmental overrides of experience-driven assumptions.

In this Application, SAF provided considerable detail related to the analysis leading to the selection of frequency and severity trends, including future trends. More emphasis was placed on 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. As a result, selected future trends do not tend to differ significantly from past trends unless supported by the experience.

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.

Although it was not practical for us to undertake an exhaustive review of every underlying

assumption because there are so many, our review of methodologies and underlying assumptions was comprehensive and focused on those areas with the greatest overall sensitivity, and gave rise to no significant concerns in the aggregate. We concur with the conclusion that the work was done in accordance with accepted actuarial practice in Canada, as stated in the the Application's Certificate of the Actuary.

Accordingly, we recommend an overall rate level change of 1.03% (before RSR surcharge), as proposed in the Application.

20.3 RATE REBALANCING

Rate rebalancing reflects the process of allowing proposed rates to be reasonably responsive to indicated rates at refined levels of classification, without triggering concerns over policyholders experiencing undue rate shock, all the while preserving an overall change in average rate level consistent with the indication.

The original Application requested a rate cap of 15% (on rates over $1,000) for all vehicle classes except Motorcycles which were to achieve break even rates in a single year and PT - Taxis - Small City Taxis which were to be capped at 30%, all prior to the RSR surcharge. The request was amended so that all vehicle classes would be subject to a rate cap of 15%, prior to the RSR surcharge.

In the 2012 Application the cap applied to the Motorcycle class was the same as that applied to other vehicle classes, except for Sport Motorcycles, for which higher capping levels were selected. This class of vehicle continues to show a very large rate need, and in the absence of any exception to the capping rule, concerns over unfair cross subsidization may otherwise arise.

We note that, given the factors which the Panel is to consider as being given, namely that the compulsory insurance coverage is provided through legislative mandate, and that vehicle risk groups are to remain as currently defined, the data underlying the development of the Motorcycle indications is valid and shows that premium revenues for Motorcycles are substantially below costs, especially for the Sport Motorcycles. We also recognize and appreciate the significant displeasure expressed by motorcyclists in general, including coverages, premiums, assigning of fault, and perceived lack of co-operation by SGI in resolving issues of a long standing nature.

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.

Considering the magnitude of the current rate inadequacy and the extent of cross subsidization that implies, and the uncertainty of the outcomes from the Motorcycle Review process, both with respect to timing and quantum, we recommend that all vehicle classes be subject to the same rate cap rules, including Motorcycles and Taxis.

20.4 MOTORCYCLE ISSUES

There has been considerable focus on Motorcycle rates in this Application, including the Application revision which changed the requested rate for the class from achieving break even status in one year, to imposing a 15% cap on all indicated rates over $1,000 for all vehicle classes, including Motorcycles. The revenue shortfall for the Motorcycle class was replaced with a loading on the rates for all CLEAR-rated vehicles, as done in the normal rate rebalancing process. 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%

SAF has attempted to mitigate motorcycle claims costs in two primary ways: use of a loss transfer mechanism and with the Motorcycle Graduated Driver License program.

With respect to loss transfer, a data review sorts all 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 claims are transferred 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. Incidents that only involve vehicles that are "Less than 50% at-fault" are not affected by this process.

The following table illustrates the impact on the Motorcycle class of assigning claims to the at-fault party, as opposed to just 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%**

For Motorcycles, the impact in 2011 flowing from this loss transfer measure 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, the reduction has been 36% from $866,047 to $555,833. Since 2001, the amount of reduction has been 25%, from $122.5 million to $91.9 Million.

The second measure, the Motorcycle Graduated Driver License (MGDL) program, was developed upon review of the driving and crash-related behaviour of Motorcycle riders during the first years of obtaining a learner's permit, in particular introducing night time usage and alcohol consumption restrictions.

Implemented on 18 June 2011, the MGDL program is expected to reduce the number of at-fault collisions and associated claims. Insufficient data currently exists to enable a meaningful analysis of the effect of the program.

Additionally motorcyclists, as other drivers, are in the SDR program that rewards good drivers and penalizes drivers with bad driving records. In 2012, there were 26,164 customers who registered Motorcycles. Of those registered customers, 20,769 (79.4%) received discounts under the SDR program and 4,008 (15.3%) paid a surcharge. The maximum discount under this program is 20%, while the maximum surcharge is $2,500 per year.

As discussed in Section 1.8 of this report, premium comparisons with other jurisdictions must recognize their inherent limitations. SAF is obligated to insure all drivers, regardless of driving record, and to pay legislated benefits, as is Manitoba Public Insurance (MPI) and the Insurance Corporation of British Columbia (ICBC) for compulsory basic insurance. Other competitive jurisdictions are not constrained in this manner. In our view, comparisons with MPI and ICBC premiums, while still not "pure", are the only jurisdictions that can reliably be used for comparison. The competitive jurisdictions should not be considered in any comparative analyses, as the market dynamics and underlying parameters are significantly different.

SAF provided the following data in the response to Second Round IR # 3 respecting Motorcycle premium comparisons with MPI and ICBC. Because of the approach used by MPI to earn Motorcycle premiums over an assumed 5 month riding season, MPI Motorcycle premiums are

less sensitive to the typical shortened riding season compared to the premiums for SAF and ICBC.

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.

As well, the Minister's Order directs that vehicle classifications are to be considered as a given. It is within these constraints that the Panel is to make its recommendations.

20.5 TAXIS AND THE BUSINESS RECOGNITION PROGRAM

The Panel requested a specific recommendation to address its concerns with respect to the reported challenges of the Taxi fleet owners under the BR program, as particularly raised at the public meetings during the Panel's review process for the current and prior Applications.

The Taxi industry does face unique challenges, including in some instances a transient driver force and a limited ability to pass increased costs through to its customers due to the regulated environment in which they operate. In particular, when increased operating costs arise due to unbudgeted increases in insurance costs, perhaps due to previously unknown poor driving records of new taxi drivers, then financial strain arises for Taxi fleet owners, for which there is no immediate relief available.

We note the evidence provided by SAF in this regard in its response to Second Round IR # 49.

Of the $1.675 million of 2012 written premium for Taxis under the BR program, only about 9% or about $153,000 was subject to any surcharge under the BR program as a result of the claims experience of Taxis specifically. SAF noted that actual assessments under the BR program will encompass all BR-eligible vehicles for a customer, and so may differ from these results to the extent they are affected by BR-eligible vehicles other than Taxis for a given customer. SAF noted that removal of Taxis from the BR program would result in increased rates for the Taxi fleets with better experience, and reduced rates for the Taxi fleets with poorer experience, and furthermore may lead to less incentive for loss prevention.

In its response to Second Round IR # 50, SAF noted that withdrawal of Taxis from the BR program at the customer's option would likely result in those customers subject to penalties opting out of the BR program, to the detriment of those remaining in the BR program, in addition to increasing the complexity and costs of handling these policies, and creating an environment where other BR-eligible classes may demand the same option.

Accordingly, at this time we cannot recommend any targeted actions be taken to address the specific concerns raised by Taxi owners in the BR program, but rather we recommend SAF be urged to complete its comprehensive review of the SDR and BR programs at the earliest opportunity, on a fully consultative basis involving all stakeholders and including the Panel as an interested observer, bringing forward the results of that review and the actions taken in response to that review, in the earliest practical next Application.

20.6 CAPITAL MANAGEMENT POLICY

SAF's current Capital Management Policy, unchanged since 2010, involves application of the most recent Minimum Capital Test as defined by the Office of the Superintendent of Financial Institutions Canada (OSFI). This test has been recently changed in 2012 and again in 2013. Further changes are expected in 2015, but not reflected the current Application.

An Appendix outlining the principles upon which the proposed 1.23% RSR surcharge over a three year period would be applied was approved by the Rate Management Steering Committee (effectively, senior management) on 8 August 2012. That is, the strategic policy decision was approved by the Board while the tactical implementation of the policy was left with management. In addition, while the Appendix did not go to the Board for approval, the application of the surcharge was approved by the Board at its 13 December 2012 meeting.

In response to IRs, SGI provided the results of sensitivity testing done for specified changing circumstances affecting SAF operations. The following tables summarize the results of this sensitivity testing, first with respect to adverse conditions, and second with respect to favourable conditions:

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%

While the Capital Management Policy and MCT parameters are to be considered as being given factors, we offer the following observations, consistent with our comments in last year's report.

The Capital Management Policy has a direct bearing on ratepayers because application of that policy can trigger the need for an RSR surcharge or rebate. Based on consideration of the results of the sensitivity analysis provided by SAF as summarized above, there is considerable uncertainty around the forecasting of MCT ratios, and therefore considerable uncertainty around the level of RSR surcharge required to replenish the RSR over a defined period. Any number of "adverse" circumstances could lead to a further deterioration of the RSR and the MCT ratio. On the other hand, "favourable" circumstances could result in an improvement in the RSR and the MCT ratio. Variances in claims incurred costs impact the MCT ratio most significantly, and projected claims incurred cost increases are one of the primary drivers cited by SAF for the requested rate change.

We note that the regulatory target capital levels for ICBC rely on the MCT, and that MPI makes a practice of using the MCT to monitor and manage its capital levels, including its Basic RSR.

We further note that the current RSR surcharge request is only expected to be adequate to

bring the MCT ratio to the minimum requirement of 75%, and if continued at the rate of 1.23% the minimum will not be reached until 2016.

As well, changes to the MCT as initiated by OSFI will impact the relative measurement of capital adequacy for SAF, in the context of its Capital Management Policy. These factors raise the issue that the MCT target range should be assessed on a regular basis.

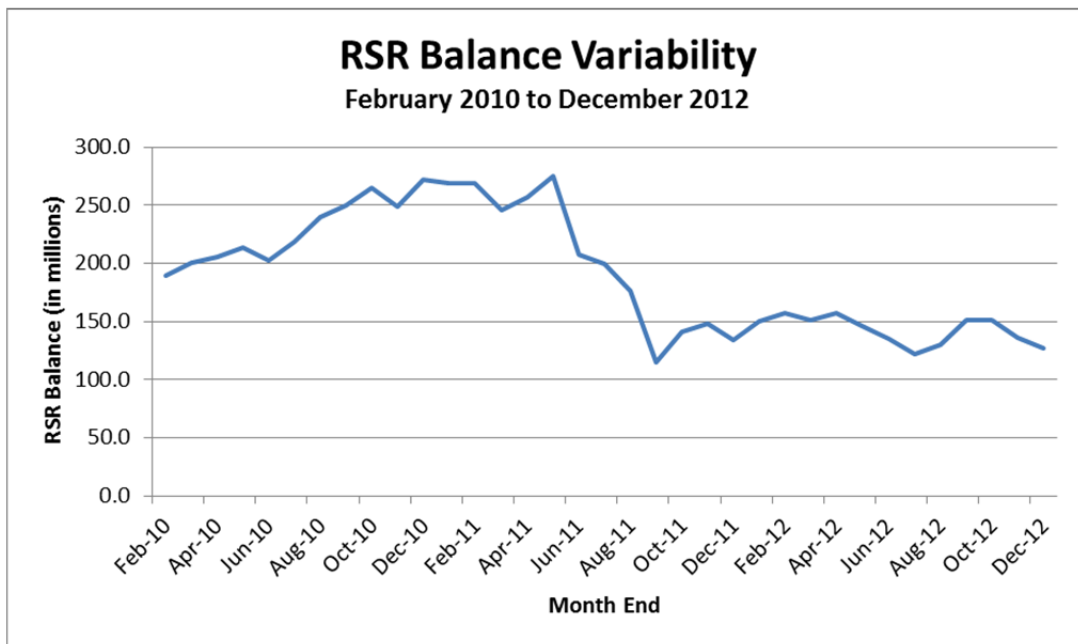
Because of this risk for the Capital Management Policy to fall out of step with the MCT as it evolves, we recommend SAF provide explicit documentation of the monitoring of the Capital Management Policy as it is affected by any actual or known planned changes to the MCT, as a regular part of its rate Applications.

With respect to the Capital Management Policy, we again recommend that it would be appropriate to bring the review of this policy within the Terms of Reference for the Panel in reviewing future Applications.

20.7 RATE STABILIZATION RESERVE

SAF's Capital Management Policy requires implementation of actions to replenish the RSR when the 12-month rolling average MCT ratio falls below 75%. As of 31 December 2012, the MCT was at 47% while the 12 month rolling average MCT was at 61%, and an update showed the February and March 12 month rolling average MCT ratios to be 58% and 57%, respectively, with an RSR balance of $157.5 million at the end of March 2013.

Actual RSR levels can fluctuate meaningfully from month-to-month, in response to changes in SAF's financial position, as illustrated in the following graph:



SAF requested that an RSR surcharge of 1.23% be recommended for approval for a full three year period. It was SAF's view that if the proposal were to be approved by the Minister, no

further approval would be required by the Boards of SGI or CIC in subsequent years to maintain this surcharge. SAF also indicated that if future analyses of the adequacy of the level of capital in the RSR showed a change to the surcharge to be necessary, the required change would be included in a formal rate Application.

We note that SAF provided the impacts on RSR levels and MCT ratios under a number of scenarios, as further discussed in earlier sections of this report. While not all impacts are likely to be in one direction, there can be a significant swing in RSR balances and MCT ratios, and the uncertainty involving the adequacy of the level of capital in the RSR to maintain the minimum required MCT ratio is compounded for years beyond the year of an Application. SAF indicated that the necessary RSR loading to achieve an MCT ratio of 112.5% in three years, as originally contemplated by the Capital Management Policy, would be 6.31% from 31 August 2013 to 31 August 2016.

With respect to disclosure of the portion of any specific premium that is to be dedicated to the RSR surcharge, SAF indicated that it would be identified to ratepayers as a percentage to be applied to the base insurance premium, but not otherwise separately identified on renewal notices. In accordance with accepted accounting principles, the surcharge revenue is to be included as earned premium revenue. SAF also stated that the actual dollar amounts arising from the RSR surcharge would be shown as a discrete line item in future rate Applications.

SAF indicated that there were a number of practical considerations that resulted in the decision not to show the RSR surcharge as a discrete line item on customer's renewal notice. The current notice is two pages in length and SAF considers that including more information on year over year changes may cause customer confusion. As well, since the proposal is to have the surcharge as a temporary measure, tying up resources to program and test changes to the renewal notice would not be efficient. An insert with all renewal notices advising of average changes in rates and the amount of the surcharge is to be included with the renewal notice, as will contact information for customers requiring more details specific to their premiums.

We recommend that a level of RSR replenishment loading of, at a minimum, 1.23% is necessary. This will, all else being equal, result in the RSR balance being such that the MCT ratio will only achieve the minimum 75% in 2016. Given the potential for significant variances to the RSR balances, such variances being assured with only the amount of variances being in question, we would recommend that the 1.23% surcharge be approved only for one year. 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.

While recognizing the need for transparency in terms of the make-up of a customer's renewal notice, and that time is short, we suggest that SAF be asked to further consider

the inclusion of a discrete line on each renewal notice, and to estimate time and resource requirements to accomplish this.

From the standpoint of the Panel's review of a rate Application, we note that the intent is to include a discrete item identifying the actual amount of the RSR surcharge revenue which would be, in our view, adequate.

20.8 TECHNICAL IMPROVEMENTS

The technical improvements introduced with this Application are many, and of considerable significance to the underlying analysis. We applaud the progress made in this regard, and encourage SGI to continue its pursuit of enhanced methodologies and assumptions. In this regard, we offer the following thoughts for future consideration:

- **Changes in Methodology or Basis of Selection of Assumptions.** Any significant changes in this regard should be specifically highlighted in the Application, including a rationale for the change and an estimate of the impact of the change, in accordance with accepted actuarial practice in Canada.

- **Tort vs. No-Fault.** 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 should it be justified by the experience. Alternatively, considering the low demand for the tort option, the possibility of discontinuing this option might be explored.

- **SDR / BR Programs.** In keeping with the statement made in the Application's Certificate of the Actuary that "the risk classification system is just and reasonable, reasonably predictive of risk and distinguishes fairly between the classes", the Bonus and Malus features of these programs should be tested against the underlying experience, and appropriately changed in response to that experience.

20.9 INVESTMENT INCOME

SAF's Investment Policy is reviewed periodically and revised as market circumstances change or are anticipated to change. In 2012 an additional meeting was set to supplement oversight and monitoring activities. It was also decided to conduct a complete policy review, including portfolio mix optimization annually instead of every three years. SAF employs the services of an Independent Investment Advisor to administer the policy, with specific quantified objectives required to be met, based on a benchmark portfolio. In 2012 the investment manager added value to Canadian equities, but longer term performance is a concern for SAF. SAF is currently reviewing certain recommendations made by the investment manager related to this underperformance, including all potential remedial options. The investment manager also underperformed in Canadian equities over the medium term, but has demonstrated an ability to add value within US equities.

Lines of communication are defined and open, written and verbal, and monitoring, compliance and exception reporting of the portfolio's performance and investment manager's activities are frequent to provide adequate controls. Also, the investment manager can be changed.

Investment returns have decreased primarily because of decreased bond yields as impacted by interest rates and terms of various issues. Decreased investment returns are cited by SAF as a primary cause for the requested rate increase. SAF provided a summary of budgeted and actual investment incomes since 2004. The results show the expected cyclical nature and volatility in income. Since 2004, investment income was budgeted for a total of $380.5 million, while actual income has been $437.1 million. In 2008 and 2009 the actual results were 52% and 39% less than budget, while in 2010, 2011 and 2012 the actual incomes were 135%, 94% and 69% over budget. Recognizing that SAF's investment portfolio is approximately $1.4 billion and the current economic market performance variance of for example $50,000,000 which could be double that of an original estimate still represents a reasonable approach, in our view. SAF has stated that a review of market projections since the Application was filed does not further impact the expected 2013 and future years returns. SAF has also stated that projections will be re-evaluated in August in conjunction with the next budgetary process. While disappointing, returns are generally in line with what other comparable companies are currently experiencing.

Using asset class return forecasts prepared as at 31 August 2012, the following table summarizes the 2012 to 2015 expected returns for SAF's investment portfolio:

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

We understand that SAF is mandated to maintain at least 65% of total assets in fixed income securities, and 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).

Our view is that the amount of detail in the scrutiny of and the performance of the investment portfolio is adequate and has responded to changing and challenging market forces and circumstances. SAF recognizes the underperformance of certain aspects of its portfolio, and is attempting measures to improve in those areas.

We recommend that the Investment Committee continue to review its current portfolio mix (both matching and return seeking portfolios), especially given the forecasts of returns over the next five years, recognizing the need for SAF to balance returns with risk.

20.10 TRAFFIC SAFETY

SAF continues to take the lead in promoting traffic safety within the Province and bears all associated costs. Annually, initiatives are reviewed and various programs completed, discontinued, or refined, as well as new programs being added. Budgets are prepared for short, mid and long term initiatives, and guidelines are followed pursuant to the Traffic Safety Strategy and more clearly defined in the 5 year (2011 to 2015) Traffic Safety Program. SAF budgets for 3% of total premiums written for safety expenditures, and annual programs generally are in this range. We note SAF's intention is to annually budget an amount for Traffic Safety between 2% and 3% of premiums written. From 2013 to 2016 these budgets reflect traffic safety costs between 2.5% and 2.8%.

SAF conducts thorough reviews of its annual programs and utilizes cost benefit analyses for program justification and to evaluate alternatives. It monitors the results of its programs and considers these results in reviewing annual programs. SAF submitted extensive material related to analyses, justification, monitoring and measurement of the effectiveness of its various initiatives and programs. We remain of the view that SAF's commitment to, and emphasis on traffic safety, is commendable and that an effective and dynamic program will, in the long term achieve the objective to, reduce costs, injuries and deaths. We also recognize that the number of traffic fatalities and deaths is increasing, but also recognize that SGI is one of many involved in these matters, including law enforcement and legislative changes. SAF is aware of these statistics and has developed an annual Traffic Safety Information system which will publish such information annually. As well, an all-party committee was established to re-examine traffic safety in Saskatchewan. Recommendations to address traffic fatalities and injuries are expected in August of this year.

We consider the overall program currently envisioned within the 2013 to 2017 time frame to be focused on the major safety issues faced by SAF, but recognize that it may well change as circumstances dictate from time to time. The level of annual expenditure in the range of 2% to 3% of premiums written is considered to be reasonable within the five year financial forecast.

20.11 COST ALLOCATION

SAF included SGI's cost allocation policy, on a confidential basis, as part of its 2013 rate change Application, as it contains information related to SGI's entire group of companies, several of which operate in a competitive environment. It remains unchanged from that used in 2013. During the last quarter of each year, formulas are reviewed and updated based on actual work performed to ensure that the allocation is the most appropriate. The cost allocation process is reviewed by SAF's auditors.

Administrative and LAE expenses continue to account for approximately 12.7% of all claims costs and expenses, while traffic safety costs, assigned directly to SAF represent 2.5% of all costs. On an overall basis approximately 70% of these costs are assigned directly to the various companies, while 30% are subject to the cost allocation process.

We note that in 2010, SAF's portion of total administrative and LAE expense was 65.3%, and this has been relatively constant although slightly decreasing, representing 64.6% of the 2012 expenses and forecasted to be 64.4% in 2013. Total administrative and LAE expenses and traffic safety costs allocated or assigned increased from $119.3 million in 2010 to $142.6 million in 2013 (approximately 19.7%). SAF's portion of these expenses increased from $25.1 million (or 21.0% of the total) to $28.3 million (or 19.8% of the total) or approximately 12.7%. We believe that the cost allocation methodology and the monitoring and control systems are satisfactory, generally comply with industry cost allocation methodologies, and SAF does not unduly subsidize SGI's non-regulated companies.

20.12 ADMINISTRATIVE EFFICIENCIES AND PERFORMANCE MEASURES

The AFRP became operational in 2011, and 2012 efficiencies resulting entirely from the implementation of the systems were estimated to be $1.74 million, that included $0.6 million in increased PST collections. In this Application the revised numbers are $3.4 million of which

$2.1 million is related to PST collections. Total efficiencies from AFRP implementation and various other initiatives were estimated to be $1.92 million in 2012 and $1.89 million in 2013, exclusive of increased PST collections.

The increased PST collections are attributable to the implementation of the AFRP but do not impact SAF's financial statements. We also understand that the year over year efficiency savings consist of a one-time cost savings or avoided expenses that are realized every year. We are of the view that efficiencies ought to be measured on an incremental basis, i.e. the amount of savings or avoided expenses that result from management initiatives in employee efficiencies and controllable expenses, beyond those resulting from a significant system enhancement, funded by the customers, through the RSR.

We recommend that 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 implementation be included in the base year costs, against which future efficiencies will be measured.

We note that the measures of corporate performance, pursuant to the Ward Group Study are reviewed annually, in conjunction with the Performance Management Plan. The plan is applicable to all SGI companies, and is filed in confidence with the Panel. Its measurement parameters are primarily structured for the competitive companies, but several are applicable to comparing SAF against other public insurers. Measures applicable to SAF include that 98% of all auto premiums be within 5% of indicated rate by 2016 and current forecasts are that this goal will be achieved. The newly structured Auto Fund value index (a measure of customer and stakeholder satisfaction with SAF), currently at 69%, achieves 75% by 2019. As well, efficiency measures include a goal that 717 or more drivers be served by a single FTE and that the administrative expense ratio fall below the industry norm of 13.7%. SAF's current ratio is below the goal, at 12.9%.

20.13 OM&A EXPENSES

Salaries, Wages and Benefits

The 2013 budget for wages and salaries is forecast to increase by 4.8% comprised of a wage increase of approximately 2% pursuant to the current collective bargaining agreement. As well the budget allows for an additional 42 FTEs allocated amongst various SGI Canada departments which have little impact on SAF, as discussed in Section 12.2.1. The 42 FTEs represent a growth in staffing of about 2.7%. Additional wages and salary expenses are 1.5% for merit increases and 0.5% for predetermined pay level commitments. Increases for salaried personnel generally follow the increases anticipated for unionized personnel, at 4%. Pensions and benefit increases appear to be in step with the estimated increase for wages and salaries.

By way of comparison, 2013 claims costs are expected to increase by 6.2% with a corresponding 8.0% increase in LAE. SAF submitted that the average annual compensation package for SGI management employees is $134,120 compared to an industry average of $145,710, while the numbers for unionized employees are $69,702 for SGI, with the industry average being $73,908. This data source for this is the Ward Group Study performed in 2011.

In terms of overall average wages and salaries, a simple calculation shows that the average annual amount per FTE to be as follows: 2011 - $45,814; 2012 - $45,233; 2013 forecast - $46,213.

SAF has an aging staff and submits expenditures for wages and salaries and accompanying benefits are also necessary to accommodate succession planning and training.

Thus, on balance, we are of the view that the budgets for Wages, Salaries, Benefits and Pensions for 2013 are reasonable given the growth in business, the aging staff necessitating additional training, and the continued growth of services provided to the customer by new on line applications, extended hours of service and other service enhancements.

External Services

The most significant expenditures for external services relate to the promotion of traffic safety programs. Of the $6.6 million expenditure for 2013, $4.1 million is directly related to traffic safety initiatives. SAF states that the total 2012 safety spending was reduced to accommodate a lower rate request and that the 2013 budget anticipates the budget returning to historical levels. We estimate this reduction to have been approximately $3.0 million, some of which related to reduced external services. The increase in other expenditures rose from $1.8 million to $2.5 million. The majority of these costs are allocated support service costs from other departments including information technology, financial, actuarial, audit and legal consulting services. Traffic safety programs and costs are further discussed in Section 12.6.

Capital Costs and Building Rehabilitation

Capital costs for buildings and information systems will vary from year to year. The approved capital budget is the greatest expenditure anticipated over the time planning horizon to 2017 included in this Application. Annual depreciation costs are included in operating expenses and are recovered from customers, and are forecast to be $2.62 million for 2013, representing a 0.3% contribution to the indicated rate. Recognizing the aging infrastructure of SAF’s claim centres and other buildings as well as system hardware, we consider the 2013 capital program to be reasonable.

Data Processing

The 2013 forecasted decrease in data processing costs of $0.18 million flows from the AFRP implemented processes and shows a continuing decline in this expense category since 2011.

Issuer Bank Charges

The increase for 2013 projected to be $2.35 million or approximately 56% is directly related to a continued and increased use by customers of this method of payment mostly through MySGI, and growth is expected to continue in the future. This is a cost of doing business in the current business environment and should lead to future increased efficiencies and decreased costs.

Other Administrative Expenses

The various components of OM&A expense were reported by SAF as shown on the table in Section 12.2 of this report. The further breakdown showed the projected 2012 results and forecast 2013 amounts for these components, including "Other" expenses. The 2013 forecast anticipates an expenditure of $0.68 million compared to $0.75 million for 2012, representing a decrease of about 9%, for various miscellaneous and relatively small expenditures. A major new advertising campaign in the amount of an estimated $250,000 for 2013 is to raise public awareness of SAF's proposed extended hours of service when that service is available. This is a province-wide campaign and the specific advertising mediums have not yet been determined. The balance of the additional budgeted costs was primarily related to promotion of MySGI and E-claim campaigns.

Other 2012 OM&A expenditures appear to be reasonable, for both those increasing and those decreasing.

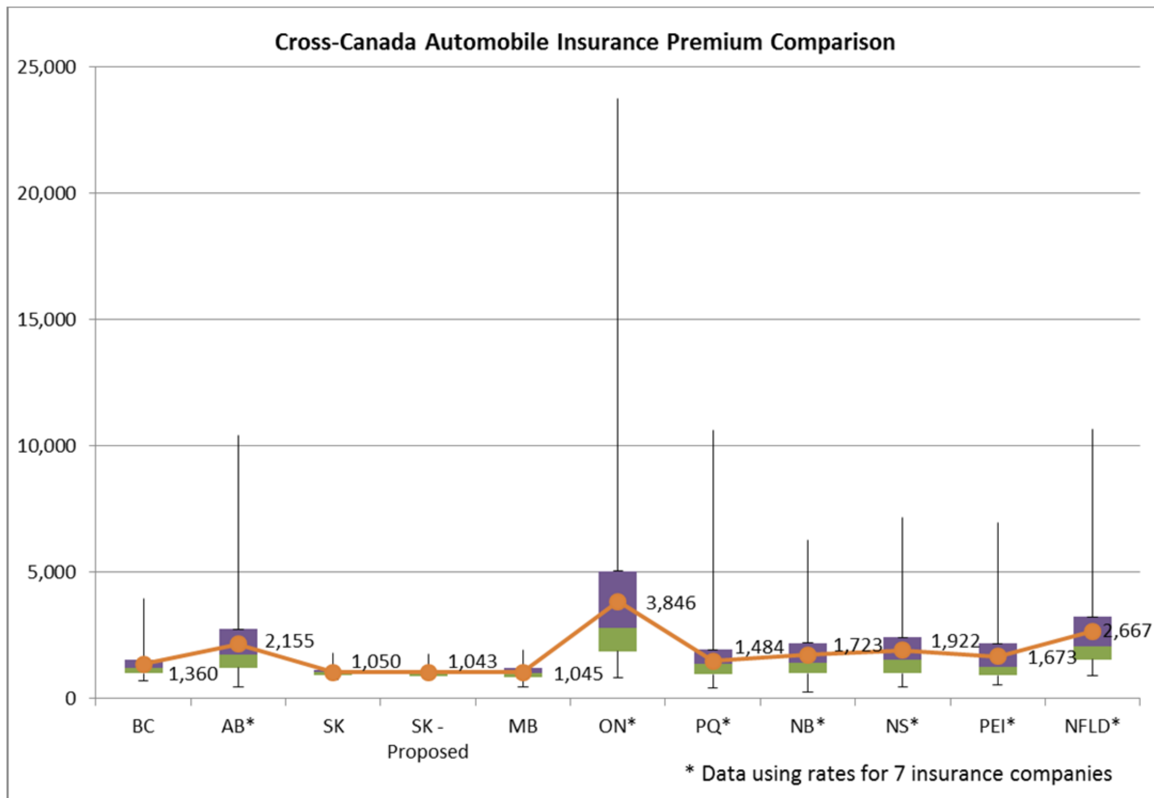
We do recognize the need to consider materiality in detailing all projects or initiatives that are forecasted and budgeted in the manner employed by SAF. However, it is our view that the budgets for other expenditures may be conservative, especially with regard to bad debt expense, as mentioned by SAF.

20.14 CROSS-CANADA RATE COMPARISON

We understand that the inclusion of a cross-Canada rate comparison in the Application is a requirement for SGI. We also understand that SAF recognizes the limitations of the comparison.

Accordingly, we recommend that the graphical presentation be enhanced, to show the diversity and concentration of the rates underlying the averages in each province, and that accompanying narrative be added to improve disclosure about the inherent limitations of the comparison.

An illustration of an enhanced graphical presentation is provided below, using the premium data provided by SAF as underlying the comparison made in the Application. This illustration uses a box graph style to show the full range of observed premiums and the observed 25th, 50th (median) and 75th percentile levels, for each jurisdiction. This presentation illustrates the extent of the increased dispersion of actual premiums in the competitive jurisdictions, and raises the possibility that some extremely high premiums, though offered in the competitive market, may not be purchased by actual policyholders.


Cross-Canada Automobile Insurance Premium Comparison
25,000
20,000
15,000
10,000
5,000
0
1,360
2,155
1,050
1,043
1,045
3,846
1,484
1,723
1,922
1,673
2,667
BC
AB*
SK
SK - Proposed
MB
ON*
PQ*
NB*
NS*
PEI*
NFLD*
* Data using rates for 7 insurance companies

21.0 GLOSSARY OF ACRONYMS

AFRP	Auto Fund Redevelopment Project
BR	Business Recognition (Program)
CBA	Cost Benefit Analysis
CIC	Crown Investments Corporation
CLEAR	Canadian Loss Experience Automobile Rating
CMP	Capital Management Policy
CPI	Consumer Price Index
DIP	Driver Improvement Program
FTE	Full Time Equivalents
GAAP	Generally Accepted Accounting Principles
GDL	Graduated Driver Licensing
GVW	Gross Vehicle Weight
IBAS	Insurance Brokers Association of Saskatchewan
IBC	Insurance Bureau of Canada
ICBC	Insurance Corporation of British Columbia
ICPEI	Insurance Company of Prince Edward Island
IFRS	International Financial Reporting Standards
IRP	International Registration Plan
IR	Information Request
IT	Information Technology
LAE	Loss Adjustment Expenses
MCT	Minimum Capital Test
MGDL	Motorcycle Graduated Driver License
MFR	Minimum Filing Requirement
MPI	Manitoba Public Insurance
OM&A	Operating, Maintenance and Administrative (Expenses)
OSFI	Office of the Superintendent of Financial Institutions Canada
PfAD	Provision for Adverse Deviations

PIPP	Personal Injury Protection Plan
PPV	Private Passenger Vehicles
RSR	Rate Stabilization Reserve
SAAR	Saskatchewan Association of Automobile Repairers
SADA	Saskatchewan Automotive Dealers Association
SAF	Saskatchewan Auto Fund
SCISL	SGI CANADA Insurance Services Ltd.
SDR	Safe Driver Recognition (Program)
SGI	Saskatchewan Government Insurance
SGIC	SGI CANADA
TSS	Traffic Safety Strategy

22.0 APPENDIX – ILLUSTRATIVE RENEWAL NOTICE

2260 11th Avenue • Regina, SK S4P 2N7 • www.sgi.sk.ca

Licence Plate

Email: ______________________________

Renewal Notice

The registration and insurance for the vehicle below expires on **07 Jun 2013**:

Year	Make and Model				
2010	DODGE RAM 3500 MEGA CAB 4WD DIESEL				
Vin		Class	RGVW (Kg)		
		LV	10000		

If any of the above information is incorrect please contact a motor licence issuer.

How to renew

To renew your registration and insurance:

- Stop by any motor licence issuer with this notice; or
- Renew online using MySGI (**www.sgi.sk.ca/mysgi**). Your updated certificate will be mailed to your current address on file (note, not all registrations are eligible for renewal through MySGI); or
- Mail a cheque or money order made payable to SGI in the amount owing along with the completed and signed Registration Eligibility Declaration (included below) to the address listed above.

Annual Fees:

Registration Fee	Insurance Premium	Insurance Discount	Total
$183.00	$1,064.00	$0.00	$1,247.00

We've made every effort to provide a correct and up-to-date estimate of fees, premiums and any outstanding money owed to SGI that apply. If there are any changes they will be adjusted when you renew.

Additional amounts owing to SGI as of 24 Apr 2013: $50.00CR

Registration Eligibility Declaration

If you are mailing this renewal, please answer the question(s), sign below and include your cheque or money order for any outstanding balance. Your answer to this/these question(s) may affect your eligibility for registration and insurance; therefore it's important you represent your situation accurately. A false declaration could result in loss of your insurance coverage.

If the answer is YES to any question you must contact a motor licence issuer.

[ ] Yes [ ] No During the registration term, will the vehicle leave Saskatchewan for any of the following reasons: for use while attending school; travelling to and from work; or for business use?

[ ] Yes [ ] No Will the vehicle be outside of Saskatchewan for more than 30 consecutive days for any reason other than school, work or business (i.e., snowbird, extended vacation, full-time traveller)?

X____ ____________________

(Signature of registered owner(s) or authorized representative declaring information is true and correct) Date

Payment Options

- Register your vehicle for an annual term or a short-term of one to 11 months, and make a single payment for the annual term amount or the pro-rated short-term amount; or
- Use AutoPay monthly withdrawals. If you are choosing this option for the first time, please bring a void cheque into any motor licence issuer.

Option	Reg. & Ins. Discounted	Variable Term Fee	Admin. Fee	Total Cost	Expiry Date
1)Annual payment	$1,247.00	$0.00		$1,247.00	07Jun2014
2)Monthly payment	$103.75	$4.15		*$107.90	
3)Short-term:					
11 Months Term	$1,141.00	0.20%	$11.00	$1,154.00	07May2014
10 Months Term	$1,038.00	0.40%	$11.00	$1,053.00	07Apr2014
9 Months Term	$933.00	0.60%	$11.00	$950.00	07Mar2014
8 Months Term	$837.00	0.80%	$11.00	$855.00	07Feb2014
7 Months Term	$731.00	1.00%	$11.00	$749.00	07Jan2014
6 Months Term	$625.00	1.20%	$11.00	$644.00	07Dec2013
5 Months Term	$523.00	1.50%	$11.00	$542.00	07Nov2013
4 Months Term	$417.00	1.60%	$11.00	$435.00	07Oct2013
3 Months Term	$314.00	1.80%	$11.00	$331.00	07Sep2013
2 Months Term	$209.00	2.00%	$11.00	$224.00	07Aug2013
1 Months Term	$102.00	2.20%	$11.00	$115.00	07Jul2013

*The amount shown is an estimate only and subject to change based on the selected funds available day.

For more details on these payment options, please refer to SGI's rate calculator at **www.sgi.sk.ca**, visit any motor licence issuer or call 1-800-667-9868.

Recognition program

You have earned a safety rating of -18 as a result of your driving record. Due to your rating, you are not eligible for a discount on your vehicle insurance premium at this time.

Address changes

If you change your address, you must notify SGI within 15 days. To change your address, visit any motor licence issuer, access MySGI (**www.sgi.sk.ca/mysgi**), or go to **www.expressaddress.com**. You may be asked for your physical/civic address if it differs from your mailing address. This new information will help SGI meet national licensing standards.

For more information

For more information on additional coverage to reduce your deductible and/or increase your liability coverage, contact your independent insurance broker.

If you have questions about your vehicle registration and insurance, please contact any motor licence, call SGI at 1-800-667-9838 or 306-775-6900 in Regina, or visit **www.sgi.sk.ca.**

Rate Changes

SGI rate changes effective Aug. 4, 2012

SGI is implementing a 1.6% increase, with rate rebalancing, for its basic licence plate insurance rates.

Rebalancing means that not every vehicle receives a 1.6% increase. Rates are determined based on the claim costs for each vehicle make and model. As a result:

- 45% of Saskatchewan vehicle owners are receiving a rate increase, on average $7 per month.
- 37% are receiving a rate decrease, on average $6 per month.
- 18% won't have any change to their rates.

basic auto insurance

How does this affect you?

The new rates are effective as of Aug. 4, 2012. Rate increases are applied the next time a vehicle transaction takes place on or after that date (usually the next time you renew your plates). Rate decreases, on the other hand, were applied immediately on Aug. 4 and eligible vehicle owners automatically received a refund for the difference between their old rate and new rate for the remainder of their registration term.

The rates in the attached notice may differ from the rates you paid for your last renewal because of the rate rebalancing. If you want to see how vehicles you own are affected, please visit www.sgi.sk.ca/rates.

Why did SGI increase rates?

We're seeing rising claim costs for both injuries and vehicle damage, combined with declining investment income. An increase was needed to ensure SGI is financially positioned to cover all of its operating expenses and claim obligations.

Have questions?

Please visit the SGI website at www.sgi.sk.ca or call our Customer Service Centre toll free at 1-800-667-9868 or 775-6900 in Regina.

slb294 07/2012 100m – 0168

SGI

www.sgi.sk.ca