

Saskatchewan Auto Fund Proposal for Rate Adjustment

Responses to First Round of Information Requests

RATES

Rate Comparison – Reference: Tab 6 Part 1 Page 10

1. Please list the specific 34 vehicle and driver profiles, and the 22 cities used in this comparison.

The cities used in the comparison are given below. For the vehicle and driver profiles, please see the Documentation for Information Request #1 that follows.

Province	City	Province	City	Province	City
British Columbia	Vancouver	Manitoba	Winnipeg	New Brunswick	Saint John
	Fort St. John		Portage	Nova Scotia	Halifax
	Penticton		The Pas	Prince Edward Island	Charlottetown
Alberta	Calgary	Ontario	Toronto	Newfoundland	St. John's
	Drumheller		Parry Sound		
	Grande Prairie		Kapuskasing		
Saskatchewan	Regina	Quebec	Montreal		
	Humboldt		Aylmer		
	Meadow Lake		Chicoutimi		

2. Please provide a spreadsheet with the full array of individual quoted premiums underlying the chart on Page 10.

Please see file 'SRRP 2013 RP IR#1 Q2.zip'.

Survey Background

The purpose of the Cross Canada comparison is to determine how much the same driver would pay for auto insurance across Canada given their current vehicle, driving record and claims history. It is based of a Consumers' Association of Canada (CAC) study from September 2003 called "Review of Automobile Insurance Rates". The original study can be found on the CAC website at http://www.consumer.ca/pdfs/030910_report.pdf.

The original study looked at 40 cities across Canada. The SGI comparison looks at 22 cities that were selected in 2005 by the Utility Crowns and the CIC. The cities were chosen to represent major centres, rural communities and northern communities in order to obtain a geographic representation within the province. In 2012, Aylmer, Quebec was selected to replace Gatineau by the CIC.

The survey will take the median quote from the seven largest auto insurers in each province, for each profile. The largest insurers in each province may be found in the "Canadian Underwriter", and the rates for each province are obtained from the following sources:

- Newfoundland and Labrador - CompuQuote
- Nova Scotia - CompuQuote
- Prince Edward Island - CompuQuote
- New Brunswick - CompuQuote

- Quebec – SAAQ and CompuQuote
- Ontario - CompuQuote
- Manitoba - Manitoba Public Insurance (MPI)
- Alberta – CompuQuote
- British Columbia - Insurance Corporation of British Columbia (ICBC)

Rates for British Columbia and Manitoba must be obtained from ICBC and MPI directly. In Quebec, *The Automobile Insurance Act* requires all licence holders and vehicle owners to contribute to the public insurance plan (No-Fault) which covers bodily injuries. We calculate this part of the Quebec rate based on information from the SAAQ website. The law also obliges vehicle owners to take out mandatory third-party insurance. This portion of the rate is available from the private sector, and we obtain it from CompuQuote.

For each month, a median value will be obtained for each of the 34 profiles, in each city. The median values for each profile are then entered into a monthly spreadsheet. The average for each city is taken, and is entered into the annual spreadsheet.

Explanation of Excel Files

Monthly Rates Folder

This folder contains the monthly rates for each profile, for each province. The CSV files are the output files, unaltered, from CompuQuote. The excel files are versions of the CSV files that have been formatted and summarized. Each Excel file contains:

1. The CSV output file with formatting to highlight different profiles and locations.
2. A summary tab listing the median rate for each profile (this tab feeds into the monthly spreadsheet).
3. A notes tab listing the carriers used in the survey as well as any notes as to why some quotes may have been excluded. Please see the next section for explanations as to why quotes may be excluded.

1. 2012 Pofiles.xls

This file holds the vehicle and driver profiles and is used to calculate Auto Fund rates for the survey.

2. 2012 January to 13. 2012 December

These sheets summaries the monthly results for each city. They show the median rate for each profile, for each location. The average of the 34 profiles for each location is calculated in row 41/42. These values feed into the annual spreadsheet.

14. 2012 Allmonths with 2013 - Updated w Capped MC 15%.xls

This file contains average of the 34 profiles for each month, for each location. These are the values that will be used in the chart included in the Rate Application.

Why Quotes May be Excluded from the Survey

Not every rate obtained by CompuQuote may be used in the survey. Issues with quotes may occur when the carrier:

- Requires a 6 digit postal code
 - Does not support vehicle rate group, age of driver, or TLP/Collision/Comp limits
 - A carrier may become ‘unavailable’ midway through the survey. It could be that the company was bought out, or may no longer be providing rates to CompuQuote.
3. Please provide a jurisdictional comparison of coverage levels (limits, deductibles, benefits) underlying the rate comparison.

For the cross-Canada comparison the third party liability limit is \$2,000,000 and the physical damage deductible is \$500. For a comparison on benefit coverage levels please see the Documentation for Information Request #3 that follows.

4. Please provide a comparison of current, indicated and proposed SAF rates with current Manitoba and British Columbia basic coverage Motorcycle rates for a representative cross-section of motorcycles, ensuring that the comparison is on an annualized basis.

Please see the Documentation for Information Request #4 that follows.

5. Please discuss the major differences between SAF coverages and benefits for Motorcycles vs. those available in Alberta.

Please see the response to Information Request #3 for a comparison of coverages and benefits.

Rates and Rate Rebalancing – Reference: Tab 6 Part 1

6. In view of the significant amount of public interest in Motorcycle rates, please discuss if SAF has considered other options to address rate adequacy, such as:
- a. phasing in increases over a set period of time to get to rate adequacy;
 - b. raising the deductible;
 - c. limiting / capping coverage;
 - d. reviewing the manner in which Motorcycles are classified and making corrections to better represent the classification of those vehicles;
 - e. mandating / enforcing the use of safety gear / equipment, with coverage being voided if the safety gear / equipment is not used;
 - f. mandating driver education;
 - g. reconsidering classifying some Motorcycles as not just recreational vehicles, but also as non-recreational vehicles;
 - h. allowing private insurers for Motorcycles;
 - i. inclusion of motorcyclists in the SDR program.
 - j. discuss which of the above changes could be approved by the SGI Board, which would require changes to regulations to existing acts, and which would require new legislation.

As part of the rate analysis, the Auto Fund considered various options to address rate adequacy, particularly for motorcycles. With the upcoming motorcycle review motorcycle safety programs, injury

benefit levels and the rating structure will all be reviewed in consultation with the motorcycle community.

- a. The Auto Fund felt that motorcycles should not be subsidized by other vehicle classes any longer. It was not a decision that was made lightly. However, the rate increase will now be phased in with all rate changes being capped at 15% where premiums are over \$1,000 and a maximum \$150 where premiums are less than \$1,001. The SGI Board, CIC Board and Cabinet would need to approve the phasing-in of rate increases.
- b. Deductible levels for all vehicle classes are going to be looked at as part of the Auto Fund coverage review. Any changes would require Board approval and regulation changes.
- c. Coverage levels will be reviewed in consultation with the motorcycle community. Any changes would require Board approval and regulation changes.
- d. The rating structure for motorcycles will be reviewed in consultation with the motorcycle community.
- e. Mandating/enforcing the use of safety gear/equipment will again be reviewed in consultation with the motorcycle community. Any changes made regarding the mandating of safety gear/equipment will need to be Board approved and have *The Automobile Accident Insurance Act (AAIA)* revised.
- f. Mandatory driver education will be reviewed in consultation with the motorcycle community. Any changes made regarding mandatory driver education will need to be Board approved and have the AAIA, and likely *The Traffic Safety Act (TSA)*, revised.
- g. "Recreational" is not one of SGI's vehicle groups; motorcycles are, and always have, belonged to their own vehicle group. The term recreational was used in conjunction with motorcycles to express that they are not usually the primary-use vehicle. Most people that own motorcycles also have another vehicle such as a car, truck or SUV, which is primarily used throughout the year.
- h. If private insurance were to be offered for motorcycles the AAIA would have to be revised.
- i. Motorcycles are currently included in the Safe Driver Recognition program. If a separate Safe Driver Recognition program is established for motorcycles then it would need to be Board approved and have the regulations revised.
- j. The response for question 6. j. has been provided with each point above.

7. Please provide the data respecting Motorcycle claims for the last five years stratified as follows:
 - a. Location of accident- urban, rural, etc.;
 - b. Age of motorcyclist involved;
 - c. Licensing status;
 - d. Degree of fault.

Please see the Documentation for Information Request #7 that follows.

8. Please provide a detailed description of the Motorcycle Graduated Driver's Licensing Program, and include any preliminary results or trends flowing from this program.

PROGRAM DESCRIPTION

A complete description of the motorcycle graduated driver license program in Saskatchewan can be found at the following link:

<http://www.sgi.sk.ca/individuals/licensing/getyourlicence/new/motorcyclegdl.html>.

The program was developed after considerable research regarding the driving and crash behaviour of motorcycle riders during the first years of obtaining the learner's permit.

Key elements of the program include night-time restrictions—½ hour after sunset to ½ hour before sunrise for Learner drivers and midnight and 5 am for Novice 1 drivers. There is zero alcohol restriction for those motorcycle drivers in the MGDL program who are also in the Class 7 or Class 5 GDL. If the motorcycle driver in the MGDL program is an experienced Class 1 to 5 license holder, they are allowed a limited amount of alcohol not exceeding 0.04 BAC. Such a driver will receive sanctions when they exceed a BAC of 0.04.

If a driver in the MGDL program receives a conviction, suspension or is involved in an at-fault collision while driving their motorcycle, they will be required to restart their Novice 1 or Novice 2 stage experience earning period. They will also receive the appropriate amount of infraction points under the [Graduated Driver's Licensing Improvement program](#), MGDL Improvement Program or [Driver Improvement Program](#). These incidents may also affect an individual's [Safe Driver Recognition \(SDR\) program](#) discount or result in an SDR financial penalty.

Severe offences involving a new motorcycle driver could result in the removal of the person's motorcycle endorsement and placed in the MCGDL Improvement Program. The following four offences are classified as severe:

- speed greater than 50 km/h over the applicable speed limit
- driving in a contest of speed
- racing with another vehicle on the highway
- driver performing an activity on a highway that is likely to distract, startle or interfere with other users of the road (stunting)

All drivers in the MGDL program that incur 1 of these high risk offences while on a motorcycle will be interviewed and, unless there are extenuating circumstances, their endorsement could be suspended for a period of 12 months, making them ineligible to operate a motorcycle.

All other traffic offences on a motorcycle are dealt with through the existing Class 5 [GDL Improvement Program](#) or the [Driver Improvement Program](#) if the driver is experienced.

REPORTING AND EVALUATION OF PROGRAM

The ultimate expected outcome of the MGDL is a reduction in the number of at-fault collisions and associated claims when the program participants have completed a full cycle of 36 months without any incident in the Novice 1 and 2 Stages. Since the program was implemented on June 18, 2011, a full cycle will be achieved by year end in 2014, whereby sufficient data points would have been gathered to enable a meaningful analysis of the effect of the program to be conducted. The initial participants in the MGDL program are currently only halfway through the completion cycle. We have insufficient data at this time to draw any conclusions as to the effectiveness of the program.

SGI is monitoring the collision experience trends of learner/novice riders in the Graduated Driver Licensing program. This will be compared with those who held learner licenses in the period before program implementation.

MOTORCYCLE IMPROVEMENT PROGRAM

A feature of the MGD program is the Motorcycle Improvement Program that provides sanctions for the four severe offences outline above, that are known to contribute to motorcycle collisions in order to reduce fatalities and injuries. A total of 25 drivers motorcycle riders have been required to present themselves to the Motorcycle GDL interview (Improvement program) panel since June 18, 2011. Of these, eight had exceeded the speed limit by more than \$50 km/hr, one was found in violation of contest of speed, and sixteen had been stunting at the time. In all 21 attended and completed the interview out of which 17 drivers received suspensions. The success of the Motorcycle Improvement Program, however, is dependent on the level of law enforcement in Saskatchewan.

- 9. Please discuss the use of age or gender as possible rating factors for Motorcycles and other classes of vehicles, including a history of any use of these factors in SAF’s rate setting.

The Auto Fund does not consider driver age, gender, marital status or any other driver specific attribute when setting vehicle rates, nor has the Auto Fund ever used any of these factors. The Auto Fund sets rates based on vehicle attributes, not driver attributes. Rating based on vehicle attribute allows rates to be reasonably priced for all insureds in Saskatchewan. The only time that driver information affects vehicle rating is when Safe Driver Recognition and Business Recognition programs are applied to the rate when insuring.

Currently, anyone qualified can operate your insured vehicle and you will have full coverage. If age or gender were used as rating factors, then *The Automobile Accident Insurance Act* would have to be changed so that only named operators would have coverage when operating the vehicle.

- 10. Overall, how many vehicles will have the dollar cap applied as opposed to the percentage cap?

Of the 1,081,094 written exposures, 64,865 (6%) will receive dollar caps and 17,468 (2%) will receive percent caps. For detailed information, please see the Documentation for Information Request #10 that follows.

- 11. Previously, SAF has stated that a certain percentage of vehicles is currently within a specified percentage range of their indicated rate, and has provided an indication of how this situation is expected to improve over the next several years. Please provide an update.

Written Exposures Within 5% of Adequate	
Calendar Year	Proportion of Total
2012	50.5%
2013	79.5%
2014	94.4%
2015	96.1%
2016	98.0%

- 12.** Please indicate what the required annual rate increase for the Motorcycle class and sub-classes would be to bring the rates to within 5% of the indicated rates over 3 years and over 5 years.

This analysis measures the rate changes required to move Motorcycles to their currently calculated indicated rate.

(1) The annual cap given is the minimum cap that may be applied to the rates and still move all rates to within 5% of indicated in the given time period. The rate will either be increased by the amount required to move to adequate, or the cap, whichever is less.

(2) For classes with high loss trends, it is likely that the indicated rate will increase in the future, and thus require additional rate programs to get current rates to an adequate level.

For more detail, please see the Documentation for Information Request #12 that follows.

Within 5% of Adequate in 3 Years				
Body Style	Annual Cap	1st Year Rate Change	2nd Year Rate Change	3rd Year Rate Change
Cruiser	51.0%	47.0%	6.6%	0.5%
Dual	51.0%	43.4%	17.2%	3.1%
Sport	74.0%	74.0%	29.4%	1.6%

Within 5% of Adequate in 5 Years						
Body Style	Annual Cap	1st Year Rate Change	2nd Year Rate Change	3rd Year Rate Change	4th Year Rate Change	5th Year Rate Change
Cruiser	28.1%	28.1%	17.7%	3.4%	0.9%	0.1%
Dual	28.0%	28.0%	16.0%	11.0%	3.7%	1.4%
Sport	39.4%	39.4%	39.4%	14.4%	2.6%	0.3%

- 13.** With respect to the urban Taxi class and its sub-classes, please discuss the rationale for selecting a proposed rate, other than the indicated rate, which is not entirely related to capping.

In the revised rate application, the taxi class is now fully subject to the same capping process as all other classes.

- 14.** Within the urban Taxi sub-classes, what distinguishes “small cities” from “large cities”, how and how often is city assignment monitored, and have there been any changes in city assignments since the last Application?

- The definition of small cities on Table A is cities that have a population between 2,000 and 4,999.
- The definition of large cities on Table B is cities that have a population greater than or equal to 5,000, yet not as large as Regina and Saskatoon.
- It appears that Estevan, Weyburn and Yorkton used to be on Table B, however were moved to Table A at some point in time and it is not clear as to why.

- The population definitions have not been reviewed in a very long time. The Auto Fund has made 2 changes to these tables in the last 5 years when Martensville and La Loche reached the 2000 population threshold. Martensville was added to Table A in September 2010 and La Loche was added to Table A in August 2011.
- No changes have been made since the last Rate Application. The Auto Fund plans on taking a look at these definitions and classifications in 2013.

15. Please indicate what the required annual rate increase for the Taxi class and sub-classes would be to bring the rates to within 5% of the indicated rates over 3 years and over 5 years.

This analysis measures the rate changes required to move Taxis to their currently calculated indicated rate.

(1) The annual cap given is the minimum cap that may be applied to the rates and still move all rates with 5% of indicated in the given time period. The rate will either be increased by the amount required to move to adequate, or the cap, whichever is less.

(2) For classes with high loss trends, it is likely that the indicated rate will increase in the future, and thus require more rate programs to get current rates to an adequate level.

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

Within 5% of Adequate in 5 Years						
Location	Annual Cap	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%	15.1%
B - Large Cities	15.1%	15.1%	11.6%	0.0%	0.0%	0.0%
C - Regina & Saskatoon	15.1%	15.1%	2.4%	0.0%	0.0%	0.0%

For more detail, please see the Documentation for Information Request #15 that follows.

16. Please discuss the considerations that led to making urban Taxis a standalone class for rating purposes.

Urban taxis were established as a standalone class for rating purposes for two main reasons. The insurance risk of urban taxis differs significantly from rural taxis, and there is more loss experience available in the Auto Fund's history for urban taxis.

In many rural areas, a taxi doesn't operate in the same manor as an urban taxi. An individual drives the insured vehicle as their own personal vehicle, and only uses it as a taxi when they have a fare. It is less frequently used as an all-day taxi. As a result, when driven as a personal vehicle, its risk more closely

resembles that of a private passenger vehicle. Having its rate driven off the rate of an otherwise identical private passenger vehicle, plus a surcharge for the occasional operation as a taxi, makes sense.

An urban taxi, on the other hand, will often be used continuously as a taxi service throughout the day. Urban taxis are less likely to be used as personal use vehicles than rural taxis. Thus, urban taxis are more consistently operated at a higher level of risk - consistent with continuous taxi operations. A rating structure that better reflects this specific risk would be appropriate.

Urban taxis also have more claims history than rural taxis, which supports credible results as a standalone class. As an example, from 2004-2012 urban taxis have had 249 medical claims, whereas rural taxis have had only 17 medical claims (none since 2007).

- 17.** Please discuss the merits of the public policy considerations that could be applied in the selection of a proposed rate level change for the Taxi class (i.e., deliberate cross subsidization in recognition of the public service role filled by Taxis who drive when others choose to, or should not drive).

One of the Auto Fund's objectives is fairness in rating. Each class should be charged premium that, along with expected investment income, is sufficient to cover the expected losses and expenses of that class. The cost of utilizing the taxi services including insurance should be borne by the user and not subsidized by other vehicle owners that choose to not use this service.

- 18.** Please update the table provided in response to last year's First Round IR #13 related to urban vs. rural Taxis.

Please see the Documentation for Information Request #18 that follows.

- 19.** Please discuss SAF's view of utilizing different rate caps for premiums that are to decrease, as opposed to those that are to increase (as an example, a decrease cap of 5% and an increase cap of 15%).

By utilizing different rate caps the Auto Fund would also be treating one set of customers (those who require rate decreases) differently from another set (those who require rate increases). The Auto Fund strives for fairness in rating, and believes that this is best accomplished through applying the proposed capping structure consistently to customers who require increases or decreases.

- 20.** With respect to the 42% of Saskatchewan vehicles that would experience a rate decrease under the current proposal, please provide a breakdown by size of decrease (\$).

\$ Change	Written Exposures
-\$25 <= X < \$0	160,921
-\$50 <= X < -\$25	122,291
-\$75 <= X < -\$50	62,551
-\$100 <= X < -\$75	24,721
-\$125 <= X < -\$100	6,329
-\$150 <= X < -\$125	2,683
-\$175 <= X < -\$150	1,173
-\$200 <= X < -\$175	476
-\$225 <= X < -\$200	856
-\$250 <= X < -\$225	668
-\$275 <= X < -\$250	268
-\$300 <= X < -\$275	65
-\$325 <= X < -\$300	9
-\$350 <= X < -\$325	5
-\$375 <= X < -\$350	4
-\$400 <= X < -\$375	7
-\$425 <= X < -\$400	0
-\$450 <= X < -\$425	1
-\$475 <= X < -\$450	6
-\$500 <= X < -\$475	0
X < -\$500	6
Total	383,041

% Change	Written Exposures
-5% <= X < 0%	265,078
-10% <= X < -5%	78,685
-15% <= X < -10%	12,204
-20% <= X < -15%	5,505
-25% <= X < -20%	13,530
-30% <= X < -25%	4,241
-35% <= X < -30%	1,096
-40% <= X < -35%	2,700
-45% <= X < -40%	3
-50% <= X < -45%	0
-55% <= X < -50%	0
-60% <= X < -55%	0
-65% <= X < -60%	0
-70% <= X < -65%	0
-75% <= X < -70%	0
-80% <= X < -75%	0
-85% <= X < -80%	0
-90% <= X < -85%	0
-95% <= X < -90%	0
-100% <= X < -95%	0
X < -100%	0
Total	383,041

- 21.** Please discuss any practical alternatives to issuing premium refund cheques for very small amounts.

In accordance with section 21 of *The Automobile Accident Insurance Act* regulations, refunds of less than \$5 will not be issued. Customers that are on AutoPay with refunds of \$5 or more will have the amount applied against the remainder of their term to reduce their remaining monthly payments. For those non-AutoPay customers receiving a refund of \$5 or more a cheque will be sent.

If cheques were not produced and the refund was placed as a credit on account, the Auto Fund would have to send notification of the credit to the customer which would incur the same postage costs as sending a cheque. For this reason, the Auto Fund has decided to send the cheque rather than sending the notification to the customer and then having the customer phone in and request the refund cheque anyway.

- 22.** With respect to the 55% of Saskatchewan vehicles (excluding Motorcycles) that would experience a rate increase under the current proposal, please provide a breakdown by size of increase (\$).

\$ Change	Written Exposures
\$0 < X ≤ \$25	298,292
\$25 < X ≤ \$50	158,754
\$50 < X ≤ \$75	83,464
\$75 < X ≤ \$100	42,433
\$100 < X ≤ \$125	34,035
\$125 < X ≤ \$150	34,653
\$150 < X ≤ \$175	13,427
\$175 < X ≤ \$200	3,396
\$200 < X ≤ \$225	2,143
\$225 < X ≤ \$250	429
\$250 < X ≤ \$275	365
\$275 < X ≤ \$300	207
\$300 < X ≤ \$325	304
\$325 < X ≤ \$350	377
\$350 < X ≤ \$375	13
\$375 < X ≤ \$400	2
\$400 < X ≤ \$425	51
\$425 < X ≤ \$450	22
\$450 < X ≤ \$475	120
\$475 < X ≤ \$500	1
X > \$500	318
Total	672,805

% Change	Written Exposures
0% < X ≤ 5%	267,770
5% < X ≤ 10%	118,281
10% < X ≤ 15%	60,290
15% < X ≤ 20%	30,360
20% < X ≤ 25%	35,031
25% < X ≤ 30%	22,007
30% < X ≤ 35%	8,116
35% < X ≤ 40%	1,936
40% < X ≤ 45%	2,123
45% < X ≤ 50%	18,263
50% < X ≤ 55%	16,211
55% < X ≤ 60%	2,039
60% < X ≤ 65%	0
65% < X ≤ 70%	76,694
70% < X ≤ 75%	24
75% < X ≤ 80%	0
80% < X ≤ 85%	0
85% < X ≤ 90%	0
90% < X ≤ 95%	11,312
95% < X ≤ 100%	180
X > 100%	2,169
Total	672,805

23. With respect to the 25,600 Saskatchewan Motorcycles that would experience a rate increase under the current proposal, please provide a breakdown by size of increase (\$).

\$ Change	Written Exposures
\$0 < X ≤ \$25	0
\$25 < X ≤ \$50	0
\$50 < X ≤ \$75	0
\$75 < X ≤ \$100	548
\$100 < X ≤ \$125	957
\$125 < X ≤ \$150	339
\$150 < X ≤ \$175	927
\$175 < X ≤ \$200	791
\$200 < X ≤ \$225	744
\$225 < X ≤ \$250	1,116
\$250 < X ≤ \$275	4,510
\$275 < X ≤ \$300	716
\$300 < X ≤ \$325	348
\$325 < X ≤ \$350	124
\$350 < X ≤ \$375	65
\$375 < X ≤ \$400	6
\$400 < X ≤ \$425	0
\$425 < X ≤ \$450	0
\$450 < X ≤ \$475	0
\$475 < X ≤ \$500	0
X > \$500	0
Total	11,192

% Change	Written Exposures
0% < X ≤ 5%	0
5% < X ≤ 10%	0
10% < X ≤ 15%	0
15% < X ≤ 20%	9,391
20% < X ≤ 25%	543
25% < X ≤ 30%	816
30% < X ≤ 35%	276
35% < X ≤ 40%	166
40% < X ≤ 45%	0
45% < X ≤ 50%	0
50% < X ≤ 55%	0
55% < X ≤ 60%	0
60% < X ≤ 65%	0
65% < X ≤ 70%	0
70% < X ≤ 75%	0
75% < X ≤ 80%	0
80% < X ≤ 85%	0
85% < X ≤ 90%	0
90% < X ≤ 95%	0
95% < X ≤ 100%	0
X > 100%	0
Total	11,192

24. Other than the payment of premium refunds for rate reductions, what if anything else accounts for the decrease in earned premium in 2013 under the current proposal as shown in Appendix B.

The 2013 earned premium is reduced in the five-year forecast including rate change as compared to the five-year forecast without the rate program only because of the anticipated impact of rebated premium. The rebated premium is expected to reduce 2013 earned premium by approximately \$6.8M. Without that rebate, the 2013 earned premium with the proposed rate increase (including RSR surcharge) would be \$835.2M.

Ratemaking Model – Reference: Tab 6 Parts 2, 3 and 4

25. Please provide a comparative summary of the selected past and future premium trend assumptions by class of vehicle, and provide supporting rationale for any significant differences between related past and future selections, or between corresponding selections across classes of vehicles.

Please see the Documentation for Information Requests #25-#29.

Selected premium trends do not differ significantly between past and future selections. Additionally, the past trends have no impact on the indication as the most recent complete year of premium is the only historical year of premium that is used to project rating year premiums. The premium trend selection differs between classes of vehicles entirely as a result of differences in historical trends up to May 31, 2012.

Selected exposure trends differ for 2013-2014 as compared to 2012, notably for LV – Police Cars, Trucks, Vans & SUVs, LV – Udrive, A – Power Units, PT – Urban Taxis. In all of these cases, the most recent year of data shows significant deviation from the longer-term past trend, and the 2012 selection incorporates some of this experience into the selection. The 2013-2014 trend has been selected using longer-term averages of historical exposure trends for the class. The 2013-2014 exposure trend for motorcycles is selected as lower than the 2012 exposure trend as it is expected that the rate increases will lead to a slower growth in motorcycle registrations. The difference in selections between classes is entirely due to differences in historical exposures between classes.

Selection of differences between past and future claims frequency and severity trends is detailed in the exhibits that follow. The most significant difference involves the selection of the future severity trend for light vehicles (excluding ambulance and motorcycles), where the future trend has been selected as 0.5% higher than the corresponding past trends for claim cover codes 21, 31, 41, and 42. These damage coverages all involve the repair of damaged vehicles, and the Auto Fund has accumulated both internal and external evidence that the light vehicles' parts costs are likely to grow at a greater rate than they have in the past. Internally, the most recent year's claims severity on these coverages has increased well above the historical average, and the Consumer Price Index for the cost of vehicle repairs has grown above its past average in 2011-2012.

The claims frequency and severity trends are selected differently between heavy vehicles, light vehicles (excluding motorcycles and ambulances), motorcycles, ambulances, and trailers. Specifically, ambulances don't have an out of province trend since they don't operate outside of Saskatchewan. The damage trends for heavy vehicles differ from those of light vehicles which differ from those of trailers

due to differences in the processes to have those vehicles repaired as well as differences in past loss history. The care, income replacement, medical, and permanent impairment trends for motorcycles differ from the other classes due to significantly different loss experience and the more severe nature of the injury claims of that class. In any cases where there was enough loss experience to indicate a trend but not enough experience for it to be fully credible, the selected trend was credibility weighted against the selection of a larger group (all vehicles excluding trailers, as an example).

The selection of pure premium trends is determined as the compounded combination of the corresponding selected frequency and severity trends.

- 26.** Please provide a comparative summary of the selected past and future exposure trend assumptions by class of vehicle, and provide supporting rationale for any significant differences between related past and future selections, or between corresponding selections across classes of vehicles.

See response to Information request #25.

- 27.** Please provide a comparative summary of the selected past and future claim frequency trend assumptions by coverage by class of vehicle, and provide supporting rationale for any significant differences between related past and future selections, or between corresponding selections across classes of vehicles for a given coverage.

See response to Information request #25.

- 28.** Please provide a comparative summary of the selected past and future claim severity trend assumptions by coverage by class of vehicle, and provide supporting rationale for any significant differences between related past and future selections, or between corresponding selections across classes of vehicles for a given coverage.

See response to Information request #25.

- 29.** Please provide a comparative summary of the selected past and future pure premium trend assumptions by coverage by class of vehicle, and provide supporting rationale for any significant differences between related past and future selections, or between corresponding selections across classes of vehicles for a given coverage.

See response to Information request #25.

- 30.** Please provide the basis for the budgeted yield on equities of 7.39% (before adjustment for investment expenses).

The yield on equities of 7.39% was used in the May 2012 valuation as well as the 2012 budget. It was calculated using a five-year rolling average of Aon Hewett's forecasted long-term prospective nominal equity returns. Their forecasts for Canadian, US, and non-North American equity classes are weighted by the Auto Fund's target equity portfolio mix to get a blended forecast. See the following table for the derivation of the 7.39%:

Asset Class Returns	2008	2009	2010	2011	2012	5 Yr Avg
Canadian equities	7.70%	7.00%	7.30%	7.90%	7.00%	7.38%
U.S. equities	7.30%	7.40%	8.10%	7.50%	7.20%	7.50%
NNA equities	7.80%	8.00%	8.30%	7.80%	7.90%	7.96%
Real estate	6.40%	6.90%	6.70%	7.20%	6.40%	6.72%
Weighted Rate of Return	7.43%	7.22%	7.50%	7.70%	7.08%	7.39%

The yield on equities used in the 2013 rate application as well as the 2013 budget is 7.44%. It was calculated using the same process as the 7.39% rate, but updated with Aon Hewitt’s 2013 equity yields and the addition of the Global Small Cap equity asset class:

Asset Class Returns	2009	2010	2011	2012	2013	5 Yr Avg
Canadian equities	7.00%	7.30%	7.90%	7.00%	7.60%	7.36%
U.S. equities	7.40%	8.10%	7.50%	7.20%	7.10%	7.46%
NNA equities	8.00%	8.30%	7.80%	7.90%	7.86%	7.97%
Global Small Cap equities					8.34%	8.34%
Real estate	6.90%	6.70%	7.20%	6.40%	6.27%	6.69%
Weighted Rate of Return	7.50%	7.70%	7.08%	7.39%	7.44%	7.44%

31. From Page 59 of Tab 6 Part 2, please provide row definitions for Table C and a definition of “current bucket”.

Table C

Future Months	Weight on 18 year	Weight on current bucket	Weight on 0%
0-12	7%	57%	36%
13-36	52%	48%	0%
37-60	76%	24%	0%
61-120	92%	8%	0%
121-180	63%	37%	0%

The weight on the current bucket refers to the weight placed on a representative Conference Board of Canada Future Spot Rate Curve (Risk Premium Added) yield of similar duration to the given discount rate. The 0-12 calculation applies the “current bucket” weight to the CBOC 6-month forecasted rate, the 13-36 calculation applies the weight to the 2-year CBOC rate, the 37-60 calculation applies it to the 4-year CBOC rate, the 61-120 calculation applies it to the 8-year CBOC rate, and the 121-180 calculation applies it to the 13-year CBOC rate.

The 181-240 row doesn’t appear in the above table because it is forecast as proportional to the 18-year CBOC spot rate (not weighted with any other rate).

The discount rates are a function of bonds maturing at the duration of the discount rate, as well as coupons paid from bonds with longer durations than the discount rate. As such, it is required to consider both the yield on bonds at the duration of the discount rate as well as the yield on bonds longer than the discount rate when forecasting future discount rates.

- 32.** From Page 59 of Tab 6 Part 2, please describe how the Table C weights account for the changing shape of the forecasted yield curve, any changes in corporate bond spreads, and the expected payout of future claims.

The changing shape of the forecasted yield curve as well as the changes in corporate bond spreads are considered in the Conference Board of Canada future spot rates in Table A. The expected payout of future claims is considered in the selection of the payment patterns to which the discount rates in Table B are applied. The objective of Table C is to include a consideration that both bonds maturing at a particular time as well as coupons from longer maturity bonds will contribute to cash flows in a group of future months; the yield on the current-duration future rates as well as longer-duration future rates should both be considered in the calculation of discount rate for a particular duration group.

- 33.** With reference to the Relativity Analysis for CLEAR-Rated Vehicles provided in Tab 6 Part 3, please provide explanatory narrative for the analysis, including discussion of the basis for underlying assumptions and identification of changes in approach, if any, since the last Application.

The CLEAR-rated vehicles relativity analysis has three parts:

1. The indication and selection of damage relativities by rate group,
2. The indication and selection of injury relativities by body style, and
3. The indication and selection of discounts and surcharges for the classes whose rates are based off of the private passenger vehicle rates.

Damage Relativities

In order to calculate and select damage relativities, the Auto Fund's loss history is divided into vehicle rate groups based on the Auto Fund's modified Insurance Bureau of Canada's (IBC) Canadian Loss Experience Automobile Rating (CLEAR) system (starting with model year 1998, the Auto Fund reduces CLEAR rate groups by one until rate group 0 is reached).

The weighted average pure premium (loss per year of exposure) from the past six years of Auto Fund data is calculated for each rate group, and then the resulting pure premiums are scaled relative to rate group 29. The IBC-calculated relativities are also included and scaled relative to rate group 29.

The Auto Fund's calculated relativities are then credibility-weighted against the IBC-calculated relativities to calculate the indicated relativities. The proposed damage relativities by rate group are selected from the indicated relativities, with some smoothing to ensure an increasing progression of relativities for higher rate groups.

Since the 2012 Rate Application, the only difference in the process of calculating and selecting damage rate group relativities was the removal of a cap at a 10% change from the current relativity. Since the final premium change by vehicle are capped using the capping guideline, an additional level of capping at the damage relativity level was considered redundant and unnecessary.

Injury Relativities

To calculate and select injury relativities, the Auto Fund's loss history is divided into vehicle body styles. The pure premium for each body style is calculated relative to the four-door car pure premium using a Poisson-Gamma model for frequency and severity, and then credibility-weighted against the current body style relativity. The calculated relativities are then selected to be used as the body style relativities for the injury portion of the rate.

Since the 2012 Rate Application, a couple changes have been made to the injury body style relativities' calculation. First, the current relativity used in the calculation has been re-calculated using the same analysis from the 2012 rate application but with corrected exposures. Second, the previous calculation did not use credibility as described above. Last year, the relativities were implemented for the first time, and so there were no current body style relativities to credibility weight against.

Class Discounts and Surcharges

The class discount/surcharge is required because not all classes based on CLEAR-rated vehicle rates have the same relative loss experience. To account for this, the relative pure premium of each class is calculated, adjusted for the effects already captured in the relativities, and compared to the private passenger vehicle pure premium. The relative pure premium of each class is used to calculate the indicated surcharge/discount for that class; however, the actual selected discount/surcharge is limited to a 15% compounded change from the current discount/surcharge.

The calculation of the class discount/surcharge is very similar to what was included in last year's rate application with a couple adjustments to increase the accuracy of the calculation. The adjustment for the effect of injury relativities was added. The adjustment for the effect of damage relativities was correctly scaled down for the proportion of the final rate that is from damage losses. This scaling for both damage and injury relativity adjustments is required because the selected discount/surcharge is applied to the final overall rate, but the damage and injury relativities are determined using only the damage and injury portions of the loss experience.

- 34.** With reference to the Relativity Analysis for Motorcycles provided in Tab 6 Part 3, please provide explanatory narrative for the analysis, including discussion of the basis for underlying assumptions and identification of changes in approach, if any, since the last Application.

The Motorcycle relativity analysis has two parts:

1. The indication and selection of damage relativities, and
2. The indication and selection of injury relativities

Damage Relativities

In order to calculate and select damage relativities, the Auto Fund's 2004-2012 loss history is divided by body style, model year, and engine size (by CC). A Poisson-Gamma model for frequency and severity is used to find the relativities that best simultaneously fit all three variables to the Auto Fund's historical data. Pure premiums (loss per year of exposure) are also calculated for each loss grouping in a one-way analysis as a reasonability check.

Although current relativities are quoted, and credibility-weighted relativities are calculated by weighting the calculated relativities against the current relativities, this analysis is not used in the final selection of relativities. The current relativities have to be estimated as weighted averages of current rates because,

due to the capping of past rate changes and inadequacy of current rates, the current rate system for motorcycles is far from a base rate / relativity system. Even with these weighted-average estimates, the numbers used as current relativities are distorted and unreasonable estimators of the appropriate rate classification system for motorcycles.

As an example, the current damage relativity for sport motorcycles is calculated as 114.9188. This number does not indicate abysmally poor past damage experience that was included in the current rates; rather, the damage portion of the current rate for sport motorcycles is much more negative (or inadequate) on average than cruiser motorcycles are negative (or inadequate) on average. Putting any weight on this number as a valid estimator for the selected classification system would be inappropriate. Once the rates are closer to adequate, the Auto Fund intends to credibility-weight calculated relativities against valid current relativities.

Injury Relativities

The process of calculating and selecting injury relativities is the same as the process for damage relativities, with one exception. The Poisson-Gamma calculated relativities by model year group do not show a clear pattern of relativities either growing or declining as model years become more recent. In fact, there is no explanation for the relativities that peak somewhat at 1997-2000 and decline below 1.000 after 2007 and before 1997. As a result, the injury portion of the motorcycle rate does not vary by model year; all injury model year relativities are selected as 1.000.

There have been no changes in the process of calculating damage or injury relativities since the past rate program.

This process assumes that the variables body style, engine size, and model year are appropriate predictors of motorcycle damage loss experience for damage, and that body style and engine size are appropriate predictors of motorcycle injury loss experience. Given the patterns of indicated relativities and differences from 1.000, this assumption is appropriate.

This process also assumes that the Poisson and Gamma distributions are appropriate to model the frequency and severity of motorcycle claims. This assumption has been verified through statistical goodness-of-fit measures.

MCT RATIOS AND CAPITAL MANAGEMENT POLICY

Reference: Tab 6, Tab 15

35. Please confirm that the MCT ratios shown in Tab 6 Part 1 Appendix B continue to be as of December 31st of the given year.

Yes, the MCT ratios shown are calculated based on the December 31 forecast for the given year.

36. Please discuss any changes to SAF's Capital Management Policy and/or principles since the last Application.

There are no changes to the Auto Fund's Capital Management Policy and/or principles since the last application. An appendix was added to the Capital Management Policy document providing clarity on the surcharge implementation as follows:

- The surcharge will be identified as a percentage to be applied to the base insurance premium. Actuarial Services will incorporate the surcharge in the base rates after application of any capping of rate changes;
- The surcharge will be included in the base insurance dollar amount and will not be split out separately on the vehicle registration certificate. Rather, the generic insert sent to all customers will include wording identifying the surcharge percentage included in the base insurance amount;
- To ensure equity among all customers, the surcharge will be applied over full-year periods. That is, once the MCT of the RSR reaches a level where the surcharge is no longer required, it will continue to be applied until all customers have been charged the surcharge for their full annual renewal cycle; and,
- With the surcharge being incorporated in to the base premium, it will be accounted for as premiums written. That is, the surcharge revenue will not flow directly into the Rate Stabilization Reserve but instead will be included in the earned premium process.

- 37.** Please confirm that this Application requests an RSR surcharge of 1.23% per year for the next 3 years (not compounded), and provide SAF's view of any required annual approvals (SAF Board, CIC, Government, the Panel) to accommodate this request.

We confirm that the application requests a RSR surcharge of 1.23% per year for the next three years not compounded. At present, we have approval from the SGI Board of Directors and the CIC Board of Directors for the rate program which includes the three-year surcharge. In our view, no further approvals are required in subsequent years to maintain the existing surcharge. We are seeking approval from the Rate Review Panel and ultimately Cabinet for this rate program. Similarly, if there are no changes to the level of the surcharge, it is the view of the Auto Fund that no further approvals are required for subsequent years.

- 38.** Under the proposed 3 year RSR surcharge, how would SAF propose to deal with unanticipated material changes in the MCT ratio during this period due to other circumstances, which cause the 1.23% surcharge level to become meaningfully inadequate or redundant to achieving its original objective?

The level of capital in the RSR and the resulting required surcharge will be looked at in conjunction with the annual rate adequacy analysis. If a change in the level of the RSR surcharge is required in a subsequent year, the Auto Fund will include the change in a Rate Application. That is, any revision in the RSR surcharge, either up or down, will be included in a formal Rate Application. Note that the surcharge will be applied for full years in order to ensure that all renewals are charged the same surcharge amount. This means that the surcharge will not be changed mid-year in any of the three years.

- 39.** Please describe the extent of disclosure with respect to the RSR surcharge SAF intends to provide to:
- a. Ratepayers upon each renewal subject to surcharge and the first year thereafter;

The Auto Fund will advise all customers, via a letter with their vehicle renewal, that the premium they are paying includes a 1.23% surcharge. This disclosure will take place each year that the surcharge is in effect.

- b. The Panel in the financial information provided with future Applications.

As directed by our auditors, the surcharge will appear as premiums in the Auto Fund financial statements and will not be separately disclosed. For future Rate Applications, the Auto Fund will disclose separately the amount of the surcharge in terms of the impact on premiums written and earned.

- 40.** Please discuss what the necessary RSR surcharge would be, on an annual basis, for the next 3 years, to bring the MCT ratio to the target level of 112.5%.

It would be necessary to have an RSR surcharge of 6.31% in effect from August 1, 2013 to July 31, 2016 in order to reach an MCT ratio of 112.5% at the end of 2016. According to the Auto Fund’s capital management policy, however, the capped RSR surcharge would be 5.00%.

- 41.** Please provide the actual month-end MCT ratios underlying the chart provided in Tab 15, extended to the latest available month.

The actual month-end MCT ratios underlying the chart in Tab 15 were provided in the table labeled Auto Fund Historical MCT Ratios and RSR Balances within Tab 16. The continuation of this table to the most current month is as follows:

Month/Year	MCT	12-month Average MCT	RSR Balance
January 2013	46%	59%	\$122,252,000
February 2013	55%	58%	\$141,747,000

- 42.** Please discuss and quantify the impact of the changes to the MCT ratio introduced by OSFI that took effect 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 Deviation portion of the claim liabilities. SGI has not quantified the impact after implementation in January 2012. However, at December 31, 2011, taken together, the three changes resulted in a \$5 million increase in capital required, resulting in a relatively immaterial drop to the MCT ratio from 60.4% to 59.1%. The impact at December 31, 2012 is expected to be similar.

- 43.** Please discuss and quantify the expected impact of any changes, including IFRS considerations, currently expected to the MCT ratio to take effect after 2012.

OSFI issued a revised MCT guideline effective January 1, 2013. The changes had minimal impact on the Auto Fund. The most significant changes were the adjustments to capital available and required due to changes in the accounting treatment of defined benefit pension plans as a result of amendments to IAS 19 Employee Benefits, and the increase in the interest rate risk shock factor from 50 bps to 75 bps. The changes resulting from the amendments to IAS 19 had no impact on the Auto Fund. The increase in the interest rate risk shock factor resulted in a \$10.3 million increase in capital required resulting in a decrease to the MCT of approximately 2.0%. OSFI’s draft MCT guideline for 2014 isn’t expected until mid 2013.

CONTINGENCY MARGIN/BREAK EVEN MARGIN

Reference: Tab 6 Part 1 Page 14

44. Confirm that this Application does not request the inclusion of any contingency margin, but instead requests the inclusion of a break even margin of 0.81%.

This application does not request the inclusion of a contingency margin, but instead requests the inclusion of a break even margin of 0.81%.

45. Please provide the analysis that supports the 0.81% selection for the level of the proposed break even margin, and describe and quantify each element of the calculation.

The calculation of the 0.81% break even margin may be found in the Documentation for Information Request #45 that follows.

The projected PfAD growth comes directly from the 2013 budget's 5-year forecast and is the expected calendar year impact to claims incurred of the growth in this account. As this is the first application to include a break-even margin, the Auto Fund investigated what other accounts should be included in a break-even margin.

Four premium accounts are now included in the break even margin calculation, as they are not considered elsewhere in the rate indication. The 24 hour / 8 day permits as well as permit office permits provide additional premium for temporary registrations or exceptions to normal limits (oversize/overweight vehicles, etc). There is also an account that includes a series of premium adjustments for various corrections and reversals (unallocated premiums which have consistently reduced total net written premiums) and another that considers the income from the cancellation of policies (cancellation retention).

In order to achieve a true break-even measure, the income from these premium sources is netted off of the additional loss from the PfAD growth to calculate the break-even margin of 0.81% (these premium sources reduce the break-even margin).

46. Please discuss whether the break even margin will be recalculated for each rate application, and the extent to which it is expected to vary from year to year.

Yes, the break even margin will be recalculated for each rate application. It can be expected to vary according to expected changes in future bond yield rates.

Although the provision for adverse deviation (PfAD) reserve is expected to grow over time as the Auto Fund adds injury reserves to its long-tailed claims reserves, the size of the PfAD reserve is also affected by changes in the discount rate applied to claims liabilities. When the discount rate changes, it increases or decreases the size of the discounted claims liabilities on older loss years. Since the calculation of the PfAD reserve is largely proportional to the level of the discounted claims liabilities, then the PfAD reserve will also increase or decrease.

The changes in discount rates as a result of expected future changes in bond yield rates provides the largest source of volatility for the forecasted change in PfAD reserve. An increase in the discount rate of 0.5% from future bond yield changes in the rating year causes the projected PfAD to be approximately \$5 million lower and the break even margin can be expected to decrease by about 0.58%.

PERFORMANCE MEASURES

Reference: Tab 5

47. Please update the response provided with respect to the variance between budgeted amounts and actual results for each year from 2006 to 2012 for Number of Claims, Number of Policies, Claims Expense per Claim, Administrative Expenses per Policy (First Round IR #50).

Please see Documentation for Information Request #47 that follows.

48. The Ward Group performance metrics for the staff to management ratio in the 2013 Performance Management Plan were reported on Page 13, and SGI provided ratio information (Tab 19) that is different. Please reconcile these two sets of numbers.

Using the in-scope/management staffing levels provided in Tab 19 will not result in the same staff to management ratio determined by the Ward Group because the Ward Group defines management differently than SGI. SGI considers management to be non-union employees outside of the scope of the collective bargaining unit, or out-of-scope. The Ward Group does not consider in-scope versus out-of-scope, but defines management as an employee that has staff reporting to them. In making this determination, the Ward Group looks at each individual position within SGI. It calculates this ratio consistently for each company on which it reports.

49. With regard to the Ward Group Study, please explain the reasons for the ratings in the following Key Performance Metrics: Personal Lines Loss Ratio; Personal Lines Retention Ratio; Commercial Lines Retention Ratio; Net Premiums Written to Surplus Ratio; Return on Total Revenue.

Personal Lines Loss Ratio – The loss ratio is higher than the benchmark because the benchmark consists primarily of “for-profit” insurance companies. Because the Auto Fund’s premiums do not include a profit component, they are lower, resulting in a higher overall loss ratio.

Personal Lines and Commercial Lines Retention Ratio – This is a standard Ward Group calculation applicable only to insurance companies operating in competitive environments. It is not a relevant ratio for the Auto Fund because the Auto Fund is a monopoly requiring registration for all Saskatchewan vehicles.

Net Premiums Written to Surplus Ratio – This is a capital measure similar to the Net Risk Ratio. It indicates that the Auto Fund’s capital is significantly less than its benchmark peers. The Auto Fund’s capital policy results in the Auto Fund carrying less capital than a typical P&C insurer, due primarily to its monopoly nature.

Return on Total Revenue – This measure is calculated as net income (Increase/decrease to the RSR) divided by net premiums earned. As the Auto Fund’s goal is to break-even, the result will typically be unfavourable for this measure, as it is benchmarked against for-profit companies.

50. With regard to the Ward Group Study, please explain the high expenses and headcount for the Operational Heat Index for the following functions: Claims Reporting & Support; Adjusting & Appraising; Human Resources; and Occupancy.

The Operational Heat Index illustrates the efficiency of the operational functions relative to the peer groups. Efficiency is assessed by looking at both expenses and headcount relative to premium. In looking at the analysis, the above noted functions appear to be inefficient. Firstly, overall the Auto Fund is at a disadvantage in this analysis compared to its peer group because its average premium is low, particularly because it doesn't include a profit portion. Secondly, certain individual functions will appear inefficient partially a result of classification differences. When the broader functional areas are combined, the totals are generally at or below the benchmark groups. Specifically, loss adjustment expenses – when Claims Reporting and Support, and Adjusting & Appraising are combined with Corporate Claims and Claims Legal, the result is favourable. In addition, SGI performs the vast majority of its work using in-house staff, while many other insurers do not. While this is unfavourable from a headcount perspective, overall it is more efficient than using external resources.

Human resources appears unfavourable, however SGI requires higher resources due to being unionized, while most insurers in the benchmark are not. The headcount also appears high due to using minimal external resources compared to other insurers.

Occupancy appears unfavourable due to maintaining several claims offices over a geographically dispersed province. Headcount appears unfavourable as the Auto Fund owns its buildings and therefore maintains more facilities staff than those insurers that lease facilities.

51. Please explain how the corporate goals and targets were established for the performance indicators in the 2013 Performance Management Plan?

CONFIDENTIAL

52. With regard to the 2013 Balanced Scorecard, please provide a summary of any changes from the 2012 Balanced Scorecard.

CONFIDENTIAL

53. Please provide SAF's average compensation per employee for both salaried and hourly personnel, and indicate how this compares with the industry averages.

Average compensation per FTE:

	<u>SGI</u>	<u>Industry</u>	<u>Variance</u>
Salaried (management)	\$134,120	\$145,710	(8.0%)
Hourly (unionized)	\$69,702	\$73,908	(5.7%)

Source: Ward Group 2012 Report
 Industry is Canada Benchmark established by Ward Group

54. Please provide details on the 10 efficiency initiatives that the PEP Squad is targeting to implement and the re-engineering of one large corporate project for this year, as well as 10 smaller projects, mentioned in Tab 23, including estimated costs and savings and/or efficiencies for SAF.

PEP Squad has committed to working on 1 large corporate re-engineering project and 10 smaller scale efficiencies. For 2013, the focus of the corporate re-engineering project is print and distribution. In 2011, a consulting company provided recommendations on a number of opportunities they saw for efficiency gains.

In March 2013, PEP Squad investigated the option of using digital letterhead on white paper versus colour preprinted letterhead. Auto Fund uses approximately 2.6 million sheets of letterhead annually, 84% of all letterhead used in SGI. By switching all correspondence to a digital template for letterhead, Auto Fund could potentially save **\$38,000**.

The digital template will be implemented for vehicle renewals by end of May 2013. This first implementation will be a cost savings of **\$15,000**. PEP Squad will be looking at other areas that this digital template could be implemented to further decrease the preprinted colour letterhead costs.

Based on numbers in 2011, SGI sends approximately 52,000 pieces of mail annually, 19,000 pieces specific to Auto Fund business. 27% of Auto Fund mail is returned annually resulting in wasted postage, time processing returned mail and then resending the mail. PEP Squad will be looking at all areas of this mail out process to find ways to decrease the returned mail by 50% with a target hard savings of **\$2,535** in postage. This does not include the resource savings of not having to deal with returned mail.

It was observed in the mailroom that there are multiple deliveries being made to the same address within the same timeframe. PEP Squad will be investigating ways to consolidate same address mail outs and decrease the postage and envelopes required. At this time, it is unknown at total savings that will be targeted.

In 2011, PEP Squad provided LEAN training to various levels of management in SGI. AS part of that training each group had to come up with 5 LEAN efficiency ideas that could be worth pursuing. From this list, PEP Squad has chosen 4 projects to focus on in 2013;

- a. On Boarding – 3 processes
 - i. Hiring and termination processes
 - Reduce the turnaround time and potentially number of people involved
 - ii. CLA Process
 - Reduce the turnaround time and ensure accuracy in set ups
 - iii. Move Process
 - Improve customer satisfaction, ensure a move is done on time and that the client has everything required on day one
- b. Legal Department Paper Review
 - The PEP Squad was requested to review the Legal Department’s processes and reduce the amount of paper used. At this time, this project has not been scoped for cost savings.

In 2013 PEP Squad will be delivering LEAN training sessions for employees within SGI. As part of that training, we will be asking participants for a new list of LEAN opportunities and we will be focusing on six of those throughout the rest of the year.

55. The financial statements included in Tab 5 show actual investment income for 2011, budgeted and forecast amounts for 2012 and forecast amounts for 2013 through to 2017. Recognizing

this information to be confidential, please provide the total investment income, overall rates of return, and explanations for the variances between SGICL and SAF on a confidential basis.

The overall rates of return and total investment income for SAF and SGICL investment portfolios are as follows:

Rate of Return (%)	Budget 2013	Budget 2014	Budget 2015	Budget 2016	Budget 2017
Auto Fund	2.93	1.60	0.91	3.25	4.88
SGI CANADA	3.27	2.90	3.22	4.49	5.07
SCISL	2.91	2.69	3.13	4.33	4.83
Coachman	2.62	2.28	2.68	4.08	4.67
ICPEI	2.32	1.75	2.09	3.78	4.50

Investment Earnings (\$000)	Budget 2013	Budget 2014	Budget 2015	Budget 2016	Budget 2017
SAF Investment Earnings	44,132	25,670	15,573	59,581	97,715
SGI CANADA	18,084	16,695	18,683	25,242	28,618
SCISL	2,687	2,795	3,476	5,017	6,118
Coachman	5,767	6,046	7,593	11,335	13,875
ICPEI	962	879	1,048	1,697	2,107
SGICL Investment Earnings	27,500	26,415	30,800	43,291	50,718

The SGICL investment earnings include approximately \$6 to \$7 million annually of premium finance and broker loan revenue, compared to none for the SAF investment portfolio.

The SAF and SGICL investment portfolios are guided by separate investment policies resulting in different asset mix weightings. The variance between SAF and SGICL is due primarily to differences in expected returns on bond investments, as the rates of return for all other similar asset classes (short-term investments, Canadian equities, U.S. equities, non-North American equities and mortgages) are constant.

The differences in expected bond returns are due to the different structures of the fixed income portfolio. The Auto Fund Matching Portfolio follows a cash flow matching strategy which results in an average portfolio duration of 7.4 years. The SGICL portfolios follow a short-term bond mandate that carries an average portfolio duration of 2.3 years. The lower the duration, the less sensitive the bonds are to changes in interest rates. With interest rates expected to increase over the investment horizon, the SAF portfolio is expected to generate comparatively higher capital losses and subsequently lower total returns on its bond investments:

SAF - Bonds (%)	Budget 2013	Budget 2014	Budget 2015	Budget 2016	Budget 2017
Bonds	5.24	1.35	(1.35)	(2.96)	1.25
-Interest Income	3.08	2.19	2.93	3.89	4.13
-Gains (losses)	2.16	(0.83)	(4.27)	(6.85)	(2.88)

SGICL - Bonds (%)	Budget 2013	Budget 2014	Budget 2015	Budget 2016	Budget 2017
Bonds	2.25	2.00	1.27	1.59	3.58
-Interest Income	2.34	2.53	3.23	4.13	4.43
-Gains (losses)	(0.09)	(0.53)	(1.96)	(2.54)	(0.85)

REINSURANCE

Reference: Tab 6 Part 1 Page 13

56. Please confirm that the “Ceded Premium” amounts shown in Tab 6 Part 1 Appendix B are the premiums paid by SAF for the two reinsurance programs.

The “Ceded Premium” amounts shown in Tab 6 Part 1 Appendix B are the premiums forecast and budgeted as part of the August 2012 forecast to be paid by SAF for the two reinsurance programs.

57. Please describe how the ceded premiums are determined and/or estimated.

The Auto Fund projects future expected ceded premiums by inflating current reinsurance contract premiums by 5% per year, provided there is no adverse experience to the program. Should there be losses, the estimate would be adjusted to reflect expected increases. This is consistent with long-term historical increases in reinsurance contract premiums.

58. Please update the data provided in response to last year’s Second Round IRs #19 and #20, explaining any significant changes.

Update to Last Year’s Second Round IRs #19

The losses on the 2011 and 2012 damage catastrophes are as follows at the end of February 2013. Note that catastrophe number 201101 did not occur in Saskatchewan. Although catastrophe number 201104 does not have any expected recoveries, it affects the 2011 reinsurance program because it is large enough to use some of the 2011 annual aggregate deductible.

2012 Catastrophes

Catastrophe Number	Direct Ultimate Loss	Ceded Ultimate Loss	Net Ultimate Loss	Ceded LAE Recoveries
201201	\$563,393	\$0	\$563,393	\$0
201202	\$5,853,973	\$0	\$5,853,973	\$0
201203	\$2,500,000	\$0	\$2,500,000	\$0
201204	\$3,000,000	\$0	\$3,000,000	\$0
Total	\$11,917,366	\$0	\$11,917,366	\$0

2011 Catastrophes

Catastrophe Number	Direct Ultimate Loss	Ceded Ultimate Loss	Net Ultimate Loss	Ceded LAE Recoveries
201102	\$739,264	\$0	\$739,264	\$0
201103	\$488,959	\$0	\$488,959	\$0
201104	\$5,107,057	\$0	\$5,107,057	\$0
201105	\$10,079,483	\$186,540	\$9,892,943	\$821,600
201106	\$4,430,751	\$0	\$4,430,751	\$0
201107	\$4,228,107	\$0	\$4,228,107	\$0
201108	\$5,827,555	\$827,555	\$5,000,000	\$213,300
201109	\$21,345,847	\$16,345,847	\$5,000,000	\$750,500
Total	\$52,247,024	\$17,359,943	\$34,887,081	\$1,785,400

Last year, the 2011 catastrophe estimates as of March 31, 2012 were provided. Since then, only the direct ultimate loss estimate for catastrophe number 201105 changed a significant amount. The estimated average severity of claims from this catastrophe has come down. As a result of the decrease in the direct ultimate loss estimate, the expected ceded recoveries have come down accordingly.

The following tables summarize how the catastrophe estimates have changed from those provided last year.

2011 Catastrophe Estimates Provided Last Year (as of March 31, 2012)

Catastrophe Number	Direct Ultimate Loss	Ceded Ultimate Loss	Net Ultimate Loss	Ceded LAE Recoveries
201102	\$593,106	\$0	\$593,106	\$0
201103	\$540,561	\$0	\$540,561	\$0
201104	\$5,140,286	\$0	\$5,140,286	\$0
201105	\$11,221,433	\$1,361,720	\$9,859,714	\$284,400
201106	\$3,846,531	\$0	\$3,846,531	\$0
201107	\$4,564,103	\$0	\$4,564,103	\$0
201108	\$6,148,069	\$1,148,069	\$5,000,000	\$217,250
201109	\$21,842,038	\$16,842,038	\$5,000,000	\$726,800
Total	\$53,896,127	\$19,351,827	\$34,544,301	\$1,228,450

Increase/(Decrease) in 2012 Catastrophe Estimates Compared to Last Year

Catastrophe Number	Direct Ultimate Loss	Ceded Ultimate Loss	Net Ultimate Loss	Ceded LAE Recoveries
201102	\$146,158	\$0	\$146,158	\$0
201103	-\$51,602	\$0	-\$51,602	\$0
201104	-\$33,229	\$0	-\$33,229	\$0
201105	-\$1,141,950	-\$1,175,180	\$33,229	\$537,200
201106	\$584,220	\$0	\$584,220	\$0
201107	-\$335,996	\$0	-\$335,996	\$0
201108	-\$320,514	-\$320,514	\$0	-\$3,950
201109	-\$496,191	-\$496,191	\$0	\$23,700
Total	-\$1,649,103	-\$1,991,884	\$342,780	\$556,950

Update to Last Year's Second Round IRs #20

Auto Physical Damage Catastrophe Reinsurance Program

Treaty Term	Premium Paid for SAF Portion of Auto Physical Damage Catastrophe Excess Treaty Including Reinstatement	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	-

Personal Auto Injury Insurance Excess of Loss Cover Reinsurance Program

Treaty Term	Premium Paid
July 1, 2001 to June 30, 2002	\$100,000
Oct 15, 2005 to March 31, 2007	\$984,375*
April 1, 2007 to March 31, 2008	\$705,360
April 1, 2008 to March 31, 2009	\$700,000
April 1, 2009 to March 31, 2010	\$700,000
April 1, 2010 to March 31, 2011	\$700,000
April 1, 2011 to March 31, 2012	\$715,000
April 1, 2012 to March 31, 2013	\$725,000
April 1, 2013 to March 31, 2014	\$735,000

*This rate is for 17.5 months. The amount charged for 12 months would translate to \$675,000.

59. Please confirm that there have been no changes in the treatment of ceded premiums and claims recoveries for rate making and in the process used to select reinsurers for the 2 programs.

There have been no changes in the treatment of ceded premiums and claims recoveries for rate making and in the process used to select reinsurers for the two programs.

INJURY RATE GROUPS

60. Please update the summary of the differences in experience indications for CLEAR injury rate groups between Industry advisory rate group differentials vs. those based on SAF experience, to reflect the most recent data.

Since the last time a comparison was made between the Auto Fund experience and IBC rate groups, the industry injury rate groups have been expanded. In one of the two formats provided by IBC, experience is split between 7 rate groups. This is the format and assignments that have been used to compare to Auto Fund's loss experience. The following result is based on 9 years worth of Auto Fund injury data mapped to CLEAR accident benefit rate group assignments.

<u>CLEAR AB Rate Group</u>	<u>IBC Relativities</u>	<u>SGI Relativities</u>
0	0.700	0.978
1	0.800	0.971
2	0.900	0.852
3	1.000	1.000
4	1.100	1.027
5	1.200	1.106
6	1.350	1.254

61. Please discuss if there has been any change in the consequences for premium dislocation for CLEAR-rated vehicles with respect to the introduction of injury rate groups based on SAF experience since the last Application.

Change in Non-Capped Indicated Injury Premium

% Change in Injury Premium	Exposure Distribution	\$ Change in Injury Premium	Exposure Distribution
<= 50%	0%	<= - \$125	1%
(-40%, -50%)	0%	(-\$100, -\$125)	2%
(-30%, -40%)	8%	(-\$75, -\$100)	7%
(-20%, -30%)	31%	(-\$50, -\$75)	26%
(-10%, -20%)	10%	(-\$25, -\$50)	14%
(0%, -10%)	7%	(-\$0, -\$25)	8%
X = 0%	0%	X = \$0	0%
(0%, 10%)	8%	(\$0, \$25)	10%
(10%, 20%)	11%	(\$25, \$50)	9%
(20%, 30%)	6%	(\$50, \$75)	6%
(30%, 40%)	1%	(\$75, \$100)	5%
(40%, 50%)	4%	(\$100, \$125)	8%
(50%, 60%)	8%	(\$125, \$150)	0%
>= 60%	5%	>= \$150	5%

Change in Non-Capped Fully Adequate Rate, Overall Rates by Body Style

% Change	Convertible Car	Four Door Car	Sport Utility Vehicle	Station Wagon	Truck	Two Door Car	Van	Grand Total
<= 30%	0%	0%	0%	0%	0%	0%	0%	0%
(-10%, -20%)	28%	0%	0%	0%	0%	16%	0%	1%
(0%, -10%)	68%	3%	81%	45%	95%	64%	18%	55%
X = 0%	0%	0%	0%	0%	0%	0%	0%	0%
(0%, 10%)	4%	43%	18%	44%	5%	20%	70%	27%
(10%, 20%)	0%	44%	0%	10%	0%	0%	12%	14%
(20%, 30%)	0%	9%	0%	1%	0%	0%	0%	3%
>= 40%	0%	0%	0%	0%	0%	0%	0%	0%

\$ Change	Convertible Car	Four Door Car	Sport Utility Vehicle	Station Wagon	Truck	Two Door Car	Van	Grand Total
<= -\$125	0%	0%	0%	0%	0%	23%	0%	2%
(-\$100, -\$125)	42%	0%	0%	0%	0%	0%	0%	0%
(-\$75, -\$100)	27%	0%	32%	0%	0%	14%	0%	7%
(-\$50, -\$75)	23%	0%	27%	16%	54%	24%	10%	26%
(-\$25, -\$50)	4%	0%	17%	0%	28%	18%	7%	15%
(-\$0, -\$25)	0%	3%	5%	28%	12%	0%	0%	6%
X = \$0	0%	0%	0%	0%	0%	0%	0%	0%
(\$0, \$25)	3%	9%	8%	29%	0%	20%	14%	7%
(\$25, \$50)	1%	14%	6%	2%	4%	0%	44%	11%
(\$50, \$75)	0%	17%	4%	9%	0%	0%	12%	7%
(\$75, \$100)	0%	10%	0%	14%	0%	0%	6%	4%
(\$100, \$125)	0%	4%	1%	0%	0%	0%	0%	1%
(\$125, \$150)	0%	25%	0%	1%	0%	0%	6%	8%
>= \$150	0%	17%	0%	0%	0%	0%	0%	5%

REVENUE

Reference: Tab 6 Part 1; Tab 18

62. Please discuss the impacts, if any, related to revenues (and premiums) as a result of rates being calculated assuming an effective date of 3 August 2013, while new rates are to actually be implemented on 31 August 2013.

From the perspective of the five-year forecast, the timing difference would lead to a decrease in 2013 earned premiums of less than \$800,000.

From the perspective of the rate indication, it would cause an insignificant change in the rate indication since it would only delay the rating year in question. Both premium and loss forecasts would grow as they are trended forward, but these effects would largely offset. The difference between the dates is just too short to have a material impact. In other provinces, it is common for the filed implantation date for a rate change to occasionally differ from the final implementation date, even by several months.

63. Please confirm that the forecasts are for calendar years and that the forecasts account for the August 2013 implementation of the proposed rates.

The forecasts in the five-year forecast are calendar years and the forecasts do account for the August 2013 implementation of the proposed rates. However, consistent with our original budget and the indication, the five-year forecast assumes that the rate change comes into effect at the start of August 2013 instead of August 31, 2013. As explained in the response to IR #62, the expected impact of this difference is minor.

- 64.** Please provide a breakdown of net premiums written showing each year's increment due to rate changes, vehicle drift, and fleet growth, including budgeted amounts compared to actual results, as provided last year in First Round IR # 59.

Please see the Documentation for Information Request #64 that follows.

- 65.** Please provide the number of motorcyclists that have utilized partial premiums or temporary registrations in lieu of annual registrations and premiums from 2006 to 2012.

Accident Year	Earned Exposures		
	Total	Partial Term Registrations	Proportion of Partial Registrations
2006	7,647	3,583	47%
2007	8,662	3,906	45%
2008	10,052	4,458	44%
2009	10,764	4,758	44%
2010	11,433	5,046	44%
2011	11,123	5,105	46%
2012	2,929	1,148	39%

Year	Number of Days	
	24 Hour Permits	8 Day Permits*
2006	1,734	NA
2007	2,237	NA
2008	3,033	NA
2009	3,494	NA
2010	2,789	13,200
2011	1,522	10,136
2012	768	4,800

* 8 day permits have been offered since February 2010.

CLAIMS

Reference: Tab 6

- 66.** For each year from 2006 to 2012, provide a breakdown of claims incurred by cover, including a separation into frequency and severity components, showing budgeted and actual values as well as the forecasted values from 2012 to 2016.

Please see the Documentation for Information Request #66 that follows.

- 67.** Please discuss any changes in the process used to determine the indexing of annual benefits since the last application.

There have been no changes in the process used to determine the indexing of annual benefits since the last application.

Injury Claims

- 68.** Please describe any changes in the claims interaction processes between SAF and Workers Compensation.

There have not been any changes.

Deductible Levels

- 69.** Please discuss whether there have been or are anticipated to be increases in the level of deductible, now or in the future, and provide an estimate of the impact on claims costs of raising the current \$700 deductible level to \$800 and to \$900.

There are no plans to increase the level of the deductible. If the deductible were raised from \$700 to \$800 and \$900, claims would decrease by approximately 2.2% and 4.3% respectively on the 2007 to 2012 loss years.

No-Fault vs. Tort

- 70.** Please confirm that there have been no changes in coverage or determination of premiums between the No-Fault and Tort options, and in how the claim settlement process functions within and between the two options.

The only changes in No-Fault and Tort coverages is that the level of benefits have been inflated for the consumer price index, as is done every year which is effective January 1st.

There have been no changes made in the determination of premiums between No-Fault and Tort options, nor have there been any changes made in the claim settlement process.

- 71.** Please provide an historical perspective of the No-Fault vs. Tort option, including the number of drivers opting for each option, since inception to the end of 2012.

The number of Saskatchewan residents choosing the Tort option since its inception in 2003, as at December 31st each year is as follows:

2012 - 6,249
2011 - 6,206
2010 - 6,170
2009 - 6,095
2008 - 5,982
2007 - 5,809
2006 - 5,656
2005 - 5,393
2004 - 5,053
2003 - 4,231

All other Saskatchewan residents would have No Fault coverage.

COST ALLOCATION

Reference: Tab 21

72. For 2009 to 2011 actual, 2012 projected, and 2013 forecasted, please provide a summary of the results of SGI's cost allocation to SGI, SAF, SGIC, SCISL, Coachman, and ICPEI in terms of dollars and percentage of total for the following (including the influence of the Product Management Department created in 2012) :
- a. Admin direct costs,
 - b. Admin indirect costs,
 - c. Loss adjustment expenses.
- As well, please provide the total cost amounts that were assigned directly and that were allocated for each entity.

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73. Given that the last cost allocation methodology review was conducted in 2006 and that the 2013 Business Plan appears to be focused on SGI Canada, please discuss if SGI is proposing to revisit this matter. Please summarize, and explain, as necessary, those controls in place that can assure the Panel that there is no subsidization of SGI Canada operational costs by SAF. In the response please address the matter of any advantages flowing from SAF operations to SGI Canada related to use of SAF computer/information systems, product recognition, market share and any other matters.

The cost allocation process is very detailed, and takes into consideration changing priorities year over year so that costs are always allocated appropriately between companies. The key control over the process is that cost driver factors are reviewed annually to ensure costs are being charged to the appropriate company and the costs are properly categorized as loss adjustment expense, direct administrative expense, indirect administrative expense or traffic safety program costs.

The annual cost driver review is performed for all departments. During the fourth quarter, the Finance department staff request cost driver updates from all department managers, then update the cost allocation formulas. Cost allocation is then run parallel with both the old and new cost drivers. This allows the Finance department to analyze changes on a department by department basis to ensure the new allocations are reasonable and consistent with SGI's business priorities that year. For example, beginning in 2012 certain systems departments began to spend more time on SGI CANADA and less on Auto Fund due to upgrades to the general insurance system, the ebusiness strategy and business intelligence. As such, these departments' 2012 allocation indicated this and was accounted for accordingly.

At this time, SGI does not have any plans to revisit the cost allocation methodology. If the cost allocation process were to be revisited, it would not be for the purpose of determining a more accurate allocation, as Management is confident that the current allocation process is fair and reasonable. However, the current process is labour intensive, and as such a review would be to look at a more efficient process.

In regards to advantages flowing to SGI CANADA, it receives access to driver history information from the Auto Fund for autopak policy purposes. SGI CANADA, and other insurers, pay a fee for access to driver history information. In addition, SGI relies on the Auto Fund's claims adjusting process in

adjusting auto extension claims. The same adjusting information is provided by the Auto Fund to other private insurers.

OPERATING AND ADMINISTRATIVE EXPENSES

Administrative, Capital, and Budgeting – Reference: Tab 6 Part 1 Appendix B; Tabs 21, 24

- 74.** Please explain why the table on the last page of Tab 21 is confidential and should not be public.

The year-end 2012 numbers provided in the table have yet to be made public.

- 75.** Please confirm that there have been no changes in the budgeting process and accounting treatment for capital projects, including IFRS considerations, since the last application.

There have been no changes to the budgeting process and accounting treatment for capital projects, including IFRS considerations, since the last application.

- 76.** Please provide details of the capital project estimates, including any engineering, design and inspection services costs capitalized, finance costs and any other costs included beyond estimated construction costs and the accounting treatment of such costs.

Please see Documentation for Information Request #76 that follows.

- 77.** Please discuss how capital projects are funded and how the debt is retired over the years.

The Corporation generally funds capital projects using cash from operations, or in the case of the redeveloped information system, from an allocation from the Rate Stabilization Reserve. SGI, including the Auto Fund, has never held debt to fund capital projects.

- 78.** Please list the amortization periods for the various types of capital expenditures undertaken by SAF, and confirm that amortization expense is increased annually to equal the amount of the prior year's expense, plus an amount for any new projects brought into use, less any amount for prior projects fully amortized in that year.

Depreciation is recorded on a straight-line basis, commencing in the year in which the asset is available to be placed in service, over their estimated useful lives.

Building and improvements	20-40 years
Building components	15-30 years
Computer hardware and other equipment	3-5 years

- 79.** Please confirm that the existing collective agreement(s) expire on 31 December 2013.

Yes, the existing collective agreement with COPE Local 397 expires December 31, 2013.

- 80.** With regard to productivity and efficiency gains, please provide actual and projected cost savings for 2012 & 2013 initiatives for those that can be quantified.

Please see the Documentation for Information Request #80 and #105 that follows.

81. With regard to SAF Administrative Expenses:

- a. Please elaborate on the reasons for the significant Driver Education cost increases: 2011 actual - \$2,495,022; 2012 actual - \$6,368,769; 2013 budget - \$8,251,074;

SGI assumed all responsibility for funding driver education in provincial high schools from the Ministry of Education effective September 1, 2011, therefore 2011 includes only four months of funding. The increase in funding from 2012 actual to 2013 budget is due to new expenses for the First Nations high school students' driver education funding, which was deferred from 2012 to 2013.

- b. Please elaborate on the reasons for the significant External Services cost increases: 2012 actual - \$3,594,804; 2013 budget - \$6,612,697;

The increase in External Services from 2012 to 2013 is due to increased funding expected to Traffic Safety Strategies such as increased funding for wildlife solutions, enhanced enforcement at high risk locations/intersections, infrastructure safety programs, red light cameras, and highway safety signs.

- c. Please elaborate on the reasons for the significant Issuer Bank Charges cost increases, including resultant reduced operating costs: 2012 actual - \$4,203,255; 2013 budget - \$6,551,729;

Issuer bank charges are primarily related to the reimbursement of credit card fees incurred by issuers. Issuers are reimbursed for credit card fees at SGI's credit card rate. There are three primary components in the calculation of the budget for issuer credit card fees: (1) premiums written, (2) the credit card rate, and (3) the expected credit card usage (the percentage of premiums written paid for by credit card). The budget for 2013 incorporates the 2013 budgeted premiums written, a small increase in the credit card rate, and a large increase in the expected credit card usage. The increase in credit card usage anticipates growth in online transactions, through MySGI. Premiums paid on MySGI by credit cards increased 218.8% in 2012 to \$5.1 million, and continued growth is anticipated as additional transaction types are added to the site. Credit cards are the primary payment method for transactions completed on MySGI.

- d. Please elaborate on the reasons for the significant Issuer Advertising cost increases: 2012 actual - \$407,492; 2013 budget - \$832,138, amounts related to MySGI and associated cost savings.

The advertising increase in the 2013 budget is related primarily to budgeting for potential advertising costs that may be required if Claims moves to extended hours, which would require a province wide campaign to inform customers.

- e. Please provide a general commentary on the reasons for the variances in other line items listed on this table.

Certain of the larger variances that remained were related to Employee Training, Travel and Pensions. Employee training is expected to increase due to new claims training initiatives and purchases of certain new corporate training materials. Travel is budgeted higher for increased auto, lodging and meals expenses, while pensions have increased commensurate with the budgeted growth in wages and

salaries. These and the remaining variances are relatively minor when considering the overall administrative expenses budget of over \$142 million. Actual expenses will fluctuate compared to budget, and year over year, in the normal course of business due to uncontrollable factors, such as weather. For instance, an extremely busy claims year may result in more travel than budget, and less time for training.

- 82.** Please provide the deployment of additional staff added in 2012, including explanations of variances from budgeted FTEs and the justification for all staff increases proposed for 2013.

In 2012, an FTE count of 1,529 represents growth of 70 FTE's from 2011 levels (1,459) and is the combination of a corporate re-organization and new positions largely related to product management.

The re-organization sees 71 FTE's related to the newly established Customer & Distribution Strategy area incorporated into the FTE number which drives the FTE count up for 2012. Prior to 2012, 57 of these FTE's had been part of the SGI CANADA Operations Division and excluded from the FTE count. The remaining 14 were included as part of the Marketing and Communications group. While the 57 FTE's are now included in the overall FTE count, these FTE's are related predominately to SGI CANADA, and are charged to the SGI CANADA lines of business accordingly.

Product Management FTE's grew by 9 in 2012, due to a combination of 8 new positions being created during the year and fewer positions being vacant in 2012 as compared to 2011 – all positions were exclusively related to SGI CANADA property and casualty business and are being charged to SGI CANADA.

So overall, the impact of the re-organization and product management growth results in an increase of 66 FTE's for 2012, with the remaining 4 largely being a result of positions being full in 2012 as compared to 2011.

- 83.** Please discuss which of the line items listed in the table "Auto Fund Administrative Expenses" are related to Traffic safety and what portion is attributable to Traffic Safety (e.g. Promotions, Advertising, Drinking and Driving Awareness, Driver Education, External Services, Safety Awareness, Other Expenses) and the portion of these costs that are attributable to Safety.

Traffic Safety Expenses	2011	2012	Budget
	\$	\$	2013
Wages & Salaries	9,490,220	9,650,458	10,110,327
Drinking and Driving Awareness	2,654,809	2,658,717	2,717,624
Driver Education	2,495,022	6,368,769	8,251,074
External Services	1,631,581	1,635,584	4,148,696
Safety Awareness	3,411,208	861,168	1,392,865
Travel (including vehicle costs)	535,841	585,887	610,168

- 84.** Please confirm the savings from the Auto Fund Redevelopment project for 2012 and if any additional revenue has been generated from the sale of the system and cost savings resulting from implementation of the one part licence.

The staffing cost savings for 2012 amounted to approximately \$635,000. These savings were reflected in Regular Salaries expense accounts throughout various Auto Fund Departments. The ongoing maintenance cost saving is \$263,000 annually as the Auto Fund no longer has to pay maintenance costs for the old Permit Office and IRP systems. These savings are reflected in the Data Processing expense account in the Systems Divisions budget. There was also a reduction in remuneration to issuers of approximately \$216,000 due to 48,500 customer transactions being completed online. These savings are reflected in the Issuer Fees expense on the Auto Fund's Statement of Operations.

There has been no sale of the system and therefore no additional revenue has been generated to date.

By implementing the 5 year One Part Drivers licence the Auto Fund would have saved approximately \$700,000 in 2012 due to less renewals needing to be mailed (postage, paper & handling savings), less renewals needing to be processed by an issuer (remuneration savings) and less paper being used due to the elimination of the paper portion of the licence. In addition, the new one part licence card is actually cheaper than the old photo card resulting in savings each time a driver licence or photo ID card is printed. There are higher costs, however when certain "change" transactions are processed with the new licence. In the past, only when certain personal information changes were done was the photo card reprinted. Otherwise, just the paper portion was reprinted. Now, all changes result in a new photo card being produced which offset some of our savings. In addition, the Auto Fund stopped receiving the \$1.3 million dollars annual funding from the Ministry of Finance for administering driver licenses in Saskatchewan. This loss of funding has offset the savings from the implementation of the 5 year licence resulting in an increased net cost of approximately \$600,000.

Repair Costs and Rehabilitation Costs – Reference: Tab 6 Part 1

- 85.** Confirm that there have been no changes in the method for determining labour and repair remuneration rates and medical/rehabilitation rates or controls respecting re-registration of written-off vehicles since the last application.

No Changes.

- 86.** Since 2006, please provide a breakdown of the amounts (approximately \$30 million per year currently) that SAF reimburses the Ministry of Health, as well as the amounts paid to medical providers. Also include the rationale for the elimination of a pain rehab treatment facility in Saskatoon.

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- 87.** Please update the response provided to last year's First Round IR #93 respecting total loss vehicles.

SAF does track the number of total loss vehicles on an annual basis. Listed below are the number of total loss vehicles (TLV) and the number of TLV's re-registered for the past five years. SGI only tracks re-registered TLV's that are required to go through an inspection before returning to the road.

	2007	2008	2009	2010	2011	2012
Total Loss Vehicles (TLV)	19,440	20,636	22,532	24,054	24,379	24,077
TLV's re-registered	3,024	3,225	4,628	4,678	4,436	4,667
% of TLV's re-registered	15.6%	15.6%	20.5%	19.4%	18.2%	19.4%

Taxes, Other Payments to Government – Reference: Tab 20

88. Please confirm that, outside of normal routine business operations, SAF collects and remits entirely to the Province only for registration fees and GFR's portion of short-term financing fees, provincial sales tax and prorated vehicle fuel tax, and snowmobile trail fees.

The Auto Fund operates on a self-sustaining basis and neither receives money from, nor pays dividends to, the Province. No payments are made to or received from the Province outside of normal routine business operations. In general, the Auto Fund collects and remits to Saskatchewan Ministry of Finance:

- Registration, driver's license, administration and the GRF's portion of financing and cancellation fees
- Provincial sales tax, prorated vehicle tax and fuel tax
- Snowmobile trail fees

These fees and taxes are collected on behalf of the Province and are remitted in their entirety, and they are not recorded as revenue of the Auto Fund. Additionally other routine business payments are made for services such as operating expenses, traffic safety funding and driver programs.

89. Please discuss whether SAF receives any commissions for the collection and remission of these fees.

The Auto Fund receives commissions on tax collections. It retains \$2,500.00 per month for the collection of prorated vehicle taxes and 7% on the first \$300.00 of Provincial sales tax collected and 1% on the balance of Provincial sales tax collected through branch Issuing offices. All commissions are deducted from revenue sent to the Ministry of Finance.

90. Please provide a record of premium taxes (and other payments, if applicable) made by SAF or SGI on behalf of SAF from 2006 to 2012.

Premium Taxes							
(\$000s)							
	2012	2011	2010	2009	2008	2007	2006
Gross premiums written	785,680	748,961	711,277	653,671	612,743	561,568	562,069
Taxes at 5%	39,284	37,448	35,564	32,684	30,637	28,078	28,103
Tax paid to Saskatchewan Finance	39,284	37,448	35,564	32,684	30,637	28,078	28,103

Premium taxes are paid to Saskatchewan Finance Revenue Division each year by March 31 based on the prior year's gross premiums written. The premium tax expense reported on the annual Statement of Operations each year represents 5% of earned premiums for the same period.

91. Please confirm that there has been no change in the rate of premium tax since 1 April 2000.

There has been no change in the rate of premium tax since The Insurance Premiums Tax Act last increased the rate from 3% to 4% effective April 1, 2000. The 1% levied under The Motor Vehicle Insurance Premiums Tax Act has been in place since 1979.

PROGRAMS AND INITIATIVES

92. Please discuss the status and expected scope, and phasing of the anticipated Auto Fund product review with stakeholder input, from 2013 to completion.

Phase 1 – Review of SDR & BR

The review was kicked off on October 15, 2012. Various feedback channels were open until November 15th where stakeholders could call, email or fill out an on-line survey regarding the 2 programs. Meetings were held with some key stakeholder groups such as the taxi industry, automobile repair shops, issuers, etc. to gather their feedback. Research & analysis is being conducted on various aspects of the two programs and recommendations are being drafted. It is planned to have recommendations for both programs ready by summer 2013. Once the recommendations are drafted, meetings will be set up with these key stakeholder groups again to get their feedback prior to implementing any changes.

Phase 2 – Review of Injury Coverage provided by the basic licence plate insurance.

The timeline for this phase of the Auto Fund Review is currently being determined with the Shareholder. There have been a number of different stakeholder groups identified to meet with to gather their feedback on how to improve the coverage. A detailed consultation plan has not yet been drafted.

Phase 3 – Review of Physical Damage coverage provided by the basic licence plate insurance.

The timeline for this phase of the Auto Fund Review is currently being determined with the Shareholder. A detailed consultation plan has not yet been drafted.

SDR and BR Programs – Reference: Tab 12

93. Please update the schedule showing the total number of drivers that have received rebates, as well as surcharges under the SDR and BR from 2006 to 2012, by year.

SDR & BR Information							
	2012	2011	2010	2009	2008	2007	2006
Customers Eligible for SDR discount	782,866	764,989	755,300	745,445	734,867	713,688	699,424
Customers in SDR Penalty Zone	98,307	96,713	96,722	94,663	87,156	86,438	86,798
Customers in SDR Neutral Zone	193,600	193,004	190,476	189,452	188,612	195,777	187,724
Total SDR Customers	1,074,773	1,054,706	1,042,498	1,029,560	1,010,635	995,903	973,946
BR customer receiving a discount	60,599	61,260	72,821	74,792	77,018	80,445	83,034
BR customer receiving a surcharge	1,026	1,112	1,093	1,073	1,053	1,140	1,202
BR customer paying base premium	4,790	4,619	4,465	5,762	5,654	5,111	5,242
Total BR customers	66,415	66,991	78,379	81,627	83,725	86,696	89,478
The Business Recognition customer counts above include the number of customers that had a BR Assessment rating at the end of each year even if the customer did not have active vehicles registered for the year noted.							
BR assessments take into account the previous 5 years of premiums and claims and the counts from 2010 to 2006 included a significant amount of customers that had BR Assessments solely because they had premiums in 2005. In 2011, 2005 dropped out of the 5 year window so that is why the counts dropped so significantly in 2011.							
The number of customers that had current BR Assessments in each of the years are as follows:							
	2012	2011	2010	2009	2008	2007	2006
BR customers	51,123	50,672	50,531	50,451	50,542	49,822	49,761

94. Please confirm that there have been no changes in any element of these programs since 2009.

There have been no significant changes made to either program since 2009. In SDR, the safety rating scale has grown to +18 in 2013 adding to the cushion available for platinum customers.

95. Please discuss all significant and/or formal communications that have been held by SAF and stakeholders respecting the SDR and BR programs over the last 5 years.

- April 22, 2009 – Business Recognition meeting with Saskatchewan Taxi Association
- June 3, 2009 - Meeting with representatives from the taxi industry regarding rates, BR & SDR.
- September 26, 2011 – Public Customer Council regarding the Safe Driver Recognition and Driver Improvement programs.
- January 10, 2012 – Meeting with representatives from the taxi and commercial trucking industries regarding rates, BR & SDR.
- January 12, 2012 – Meeting with representatives from the taxi and commercial trucking industries regarding rates, BR & SDR in Saskatoon.
- October 15, 2012 – Media release regarding the review of the Safe Driver Recognition and Business Recognition programs.
- October 15, 2012 – Mail out to all Business Recognition customers asking them for feedback on the BR program.

- October 15, 2012 – Review toll-free number and email address were opened up for feedback and surveys were posted to the SGI website asking customers for their feedback on the Business Recognition and Safe Driver Recognition programs.
- October 15, 2012 – Surveys posted to SGI website asking customers for their feedback on the Business Recognition and Safe Driver Recognition programs.
- November 1, 2012 – Meeting with the Saskatchewan Association of Automotive Repairers (SAAR) regarding the BR program.
- November 1, 2012 – Meeting with Sandy Archibald from Regina Cabs regarding the BR program.
- November 6, 2012 – Meeting with Glen Sali from Capital Cabs regarding the BR program.
- November 8, 2012 – Meeting with the SGI Issuer Operations Committee regarding the SDR and BR programs.
- November 15, 2012 – Meetings with representatives from United Cabs & Comfort Cabs in Saskatoon regarding the BR program.
- January 9, 2013 – Meeting with the Highway Traffic Board regarding the SDR and BR program reviews.
- January 15, 2013 – Meeting with representatives from the taxi industry regarding rates, BR & SDR in Saskatoon.
- January 17, 2013 – Meeting with representatives from the taxi industry regarding rates, BR & SDR in Regina.

96. Please discuss SAF's plans respecting future communications and possible changes to these programs that might address current problem areas (from SAF's as well as customer's perspectives).

Once the recommendations are put together on the proposed changes to the Business Recognition program meetings will be held with key stakeholder groups to get their feedback on the changes. Changes being looked at include adjusting the scale so that it is more fair (i.e. reducing the maximum surcharge) and removing the unfair advantage individuals in the BR program benefit from.

Once the recommendations are put together on the proposed changes to the Safe Driver Recognition program a public customer council will be held to get feedback on the proposed changes. Some changes being looked at include revising the threshold for at-fault claims that result in 6 points, and allowing the Highway Traffic Board the ability to vary the points for an appealed accident if they feel the circumstances warrant it.

Traffic Safety – Reference: Tab14

97. Please provide the costs for each of SAF's major safety initiatives, such as Impaired Driving, Wildlife, Distracted Driving, Intersection Safety, New Driver Safety, Seatbelt Use, Speeding and any others on an annual basis since 2007. Please also indicate which initiatives had Cost Benefit analysis used, and provide the results of all such Cost Benefit analyses.

Please see the Documentation for Information Request #97 that follows.

98. Please discuss the budget process for safety initiatives and how these are determined for the near, mid and long-term.

The Traffic Safety Strategy, developed in 2011, is the basis of safety initiatives that are considered during the annual budget process. Near term initiatives budgeted for would be program maintenance and ongoing programming. Initiatives that require government intervention, such as legislative changes, would be considered mid term. Initiatives that would require implementation over many months or years would be considered long term. The amount budgeted for these initiatives are based on previous budget experience and cost estimates.

99. Please update the table included in the response to Second Round IR #43 last year.

Last year the Auto Fund was asked to trim the traffic safety administration budget as part of the rate proposal. There were no such changes to traffic safety expenses in this year's proposal. Below are the forecasts that were included in the original proposal, without the rate program and with the 1.03 per cent increase and the 1.23 surcharge.

Appendix B – Five-Year Forecast

2012 year-end values based on August 2012 forecast

Forecast Without 2013 Rate Program						
year ended December 31	2012	2013	2014	2015	2016	2017
(\$000's)	\$	\$	\$	\$	\$	\$
Direct premium	804,308	865,014	922,146	983,049	1,047,976	1,117,190
Ceded premium	-4,742	-4,506	-4,596	-4,688	-4,782	-4,877
Net premiums written	799,566	860,508	917,550	978,361	1,043,194	1,112,313
Net premiums earned	773,871	832,972	891,113	950,195	1,013,151	1,080,293
Claims incurred	650,702	691,052	701,022	716,880	799,276	879,447
Prior year claims (Net of Disc/PFAD)	33,211	-	-	-	-	-
Loss adjusting expense (LAE)	62,061	67,039	71,332	76,003	81,105	86,640
Issuer fees and premium taxes	79,138	85,124	90,891	96,894	103,294	110,117
Administrative expenses	52,671	55,434	56,101	56,981	59,307	61,516
Traffic safety	23,157	28,722	29,325	29,941	30,570	31,212
Total claims and expenses	900,940	927,371	948,671	976,699	1,073,552	1,168,932
Underwriting loss	-127,069	-94,399	-57,558	-26,504	-60,401	-88,639
Investment earnings	72,393	44,132	25,707	15,460	58,513	95,167
Other income	35,059	38,084	39,719	42,127	44,683	47,396
Increase (decrease) to RSR	-19,617	-12,183	7,868	31,083	42,795	53,924
MCT	47%	40%	42%	50%	61%	71%

Forecast Including 1.03% Rate Increase and 1.23% RSR Surcharge						
year ended December 31	2012	2013	2014	2015	2016	2017
(\$000's)	\$	\$	\$	\$	\$	\$
Direct premium	804,308	862,767	943,103	1,005,390	1,066,657	1,128,697
Ceded premium	-4,742	-4,506	-4,596	-4,688	-4,782	-4,877
Net premiums written	799,566	858,261	938,507	1,000,702	1,061,875	1,123,820
Net premiums earned	773,871	828,423	904,865	971,881	1,034,795	1,093,801
Claims incurred	650,702	691,052	701,022	716,880	799,276	879,447
Prior year claims (Net of Disc/ PFAD)	33,211	-	-	-	-	-
Loss adjusting expense (LAE)	62,061	67,039	71,332	76,003	81,105	86,640
Issuer fees and premium taxes	79,138	85,283	92,627	99,097	105,311	111,367
Administrative expenses	52,671	55,434	56,101	56,981	59,307	61,516
Traffic safety	23,157	28,722	29,325	29,941	30,570	31,212
Total claims and expenses	900,940	927,530	950,407	978,902	1,075,569	1,170,182
Underwriting loss	-127,069	-99,107	-45,542	-7,021	-40,774	-76,381
Investment earnings	72,393	44,132	25,670	15,573	59,581	97,715
Other income	35,059	38,157	40,316	42,763	45,215	47,724
Increase (decrease) to RSR	-19,617	-16,818	20,444	51,315	64,022	69,058
MCT	47%	38%	44%	59%	75%	89%

100. Tab 14 discusses evaluated initiatives for Distracted Driving and Seatbelt Use. Please discuss the status of the monitoring and evaluations of the other major safety Initiatives for 2013, including any new evaluation methods used, or to be used.

For 2013, we will continue to monitor all projects and evaluate the tangible ones, including Enforcement Overdrive, Report Impaired Drivers, Selective Traffic Enforcement Program and the impact of the legislative ban on cell phone usage. The challenge with evaluating the law enforcement programs lies in the determination of both societal and SGI benefits from removing traffic violators off the road as well as the specific effects on repeat offenders.

101. Please update the components of HTB costs paid by SAF for 2011 projected, 2011 actual, 2012 budget and projected (or actual if available), and 2013 budget, in a manner similar to that provided in response to First Round IR #106 last year.

HTB Annual Budget									
	2013 Budget	2012 Projected	2012 Actual	2011	2010	2009	2008	2007	2006
Salaries & Benefits	430,119	414,106	443,029	433,796	426,844	440,831	423,133	411,270	368,870
HTB Hearing Officer Honorariums	325,000	276,000	326,250	296,659	302,855	278,060	226,293	200,660	191,004
HTB Hearing Officer Expenses	60,000	60,000	55,428	61,990	118,244	110,637	112,615	107,268	105,004
Other Expenses	229,455	229,459	155,638	169,108	35052	35432	36311	43700	41780
Other Expenses	614,455	565,459	537,316	527,757	456,151	424,129	375,219	351,628	337,788
Revenue	(2,580)	(2,580)	4,810	(3,775)	(3,595)	(4,465)	(2,716)	(69,405)	(111,928)
Grand Total	1,041,994	975,535	982,145	940,644	879,400	860,495	795,636	693,493	594,730

AUTO FUND REDEVELOPMENT PROJECT

Reference: Tab 6 Part 1; Tab 23; Tab 18 Appendices A and B

102. Please confirm that the total cost for this project was \$36.046 million.

Yes, the total cost of the Auto Fund Redevelopment Project was \$36.046 million.

- 103.** Tab 18 Appendices A and B each show a final Redevelopment Reserve payment in 2014. Please confirm that this will be the last entry for this particular project.

The last entry for the Redevelopment Reserve is expected in 2014, reducing the reserve to zero.

- 104.** Please update the response to last year’s First Round IR # 112, and explain any changes now anticipated in the savings.

Annual Savings from Efficiencies mentioned in 2012 Rate Application			
	Estimated in 2012 Rate Application	Actual 2012 Savings	
MySGI Remuneration Savings	142,000	216,000	More growth than anticipated in online transactions.
Increase in PST Collections	637,000	2,134,967	Note 1
Staffing Cost Savings	625,000	635,000	Revised based on 2012 paybands.
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	
	<u>1,769,400</u>	<u>3,351,367</u>	
Note 1: This was the increase in PST collections we experienced from 2012 over 2011, however it is not solely due to the implementation of the new system. It is a factor of vehicle population growth, increase in the value of vehicles and the controls in the system.			

- 105.** For the initiatives described in the tables at the end of Tab 23, please summarize those initiatives that result in actual annual dollar savings for SAF and provide the total amount of annual savings experienced in 2012 and estimated for each year from 2013 to 2017 for each identified initiative.

Please see Information Request #80.

FINANCIAL STATEMENTS

Reference: Tab 6 Part 1 Appendix B; Tab 17

Investment Strategy and Income

- 106.** Please describe any changes in monitoring and control measures exercised by SGI’s Management Board with respect to SAF’s investment portfolio since last year.

The Investment Committee added an additional meeting during 2012 to provide additional monitoring and oversight activities. The Committee also determined that a complete investment policy review, including asset mix optimizations, will be done annually instead of every three years as was done previously. There were no other changes to the monitoring and control measures with respect to SAF’s investment portfolio since last year.

- 107.** Please discuss any occasions arising in 2012 where remedial action was recommended with respect to deviation from the asset mix policy and any circumstances where the investment manager has not performed to the satisfaction of the Board, including remedial actions taken.

While the investment manager added value to Canadian equities during 2012, the longer-term underperformance remains a concern. The Board and SGI management continued to regularly review performance throughout the period in question, and challenged the investment manager on its process, people and investment style. In February 2013, the investment consultant placed a sell recommendation on the investment managers Canadian Equity Growth product due to the longer-term underperformance and recent sector coverage changes within the Canadian equity team. Management is currently reviewing the recommendation and all potential remedial options.

The investment manager also underperformed in U.S. equities during 2012 resulting in underperformance over the medium-term. While the recent underperformance in U.S. equities remains a concern, over the longer term the investment manager has demonstrated an ability to add value within U.S. equities.

There were no deviations from the asset mix policy during 2012. The Return Seeking Portfolio continues to diversify through a reduction in Canadian equities, adding Global Small Cap equities during 2012 with infrastructure expected to be added during 2013.

- 108.** Please explain the reasons for the significant difference in the investment income that was projected for 2012 in the last application (\$44.3 million) and the actual income reported for 2012 in the current application (\$74.8 million).

As shown in the table below, the Return Seeking Portfolio generated \$9.9 million more than projected during 2012 while the Matching Portfolio earned \$21.1 million more than projected. Equity returns were stronger than expected across all asset classes. While the rate of return from Canadian equities was higher than expected, actual income was lower than expected due to portfolio rebalancing including the addition of global small cap equities early in 2012.

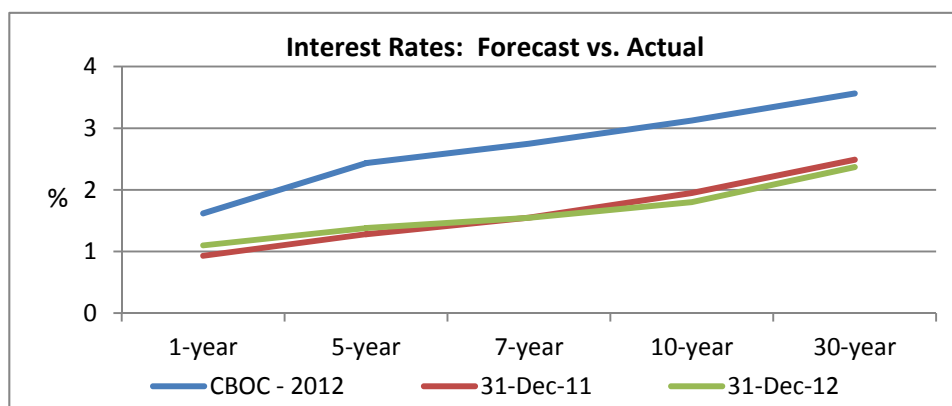
For bond investments, the forecast projected that rising interest rates would generate capital losses during the year, offsetting low, but positive interest income. While short-term interest rates rose slightly, long-term rates (greater than 10 years) decreased generating capital gains for the portfolio.

Asset Class	Actual	Budget	Variance	Return	Budget
<u>Matching Portfolio</u>					
Short-Term	\$ 2,514	\$ 2,374	\$ 140	1.0%	1.2%
Bonds	29,380	8,366	21,014	4.0%	1.3%
Mortgages	2,787	2,867	(80)	3.4%	3.5%
	<u>34,681</u>	<u>13,607</u>	<u>21,074</u>	<u>3.3%</u>	<u>1.4%</u>

<u>Asset Class</u>	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>Return</u>	<u>Budget</u>
Canadian Equities	13,036	15,948	(2,912)	7.8%	7.0%
U.S. Equities	6,865	5,793	1,072	12.7%	7.2%
Non-North American Equities	9,432	5,880	3,552	18.2%	7.9%
Global Small Cap Equities	3,087	-	3,087	6.4%	0.0%
Real Estate	9,756	4,689	5,067	12.5%	6.4%
	<u>42,175</u>	<u>32,310</u>	<u>9,865</u>	<u>11.3%</u>	<u>7.2%</u>
Investment expenses	<u>(2,017)</u>	<u>(1,643)</u>	<u>(374)</u>		
Total Investment Earnings	<u>74,838</u>	<u>44,274</u>	<u>30,564</u>	<u>5.3%</u>	<u>3.1%</u>

109. One of the reasons cited for needing a rate increase this year is declining bond yields resulting in lower investment income. This does not appear to be the case in 2012, which was also cited as a reason for an increase in the last application. Please explain how it was determined that bond yields would be declining.

The budget process relies on independent interest rate forecasts provided by the Conference Board of Canada (CBOC), which consists of the Government of Canada yield curve for the current year plus four additional years. In the last application, the June 2011 CBOC forecast was applied to the matching portfolio asset mix and adjusted for the additional yield provided by provincial and corporate securities held in the portfolio. At that time the CBOC forecast called for increasing interest rates, which over the course of 2012, failed to materialize. In fact, while interest rates increased slightly for short-term yields, long-term yields decreased generating significant capital gains for the fixed income portfolio.



The CBOC forecast used in the current application again calls for increasing interest rates which is expected to create capital losses in the bond portfolio and lower overall total returns. With the fixed income assets representing about 75% of total investment assets, low bond returns are expected to generate lower overall investment income.

110. SGI reported that over the 10 years ended 31 December 2012, SAF's portfolio has provided investment income equal to 10% of premiums annually, resulting in lower rates for its customers. Is this trend expected to change? If so, please explain why.

This ratio is highly dependent on investment market returns which on an annual basis have shown to be highly variable. While the historical experience has generated an average of over 10% of premiums annually, the ratio is expected to decrease due to steady growth in premiums written and lower expected investment income. Investment income is expected to decrease over the next five years due to rising interest rates generating capital losses within the Matching Portfolio.

<u>Year</u>	<u>Investment Income</u>	<u>Premiums Written</u>	<u>Annual Ratio</u>	<u>10 yr Average</u>
2003	39,129,387	491,630,534	8.0%	
2004	63,243,805	525,146,294	12.0%	
2005	67,678,837	519,691,053	13.0%	
2006	78,669,122	560,431,850	14.0%	
2007	91,349,004	559,245,742	16.3%	
2008	29,404,502	610,492,292	4.8%	
2009	31,050,004	651,418,469	4.8%	
2010	100,047,503	708,350,296	14.1%	
2011	51,667,635	744,742,405	6.9%	
2012	74,837,724	781,167,443	9.6%	10.4%
2013E	44,087,000	858,359,000	5.1%	10.1%
2014E	25,605,000	938,775,000	2.7%	9.1%
2015E	15,539,000	1,000,989,000	1.6%	8.0%
2016E	59,462,000	1,061,027,000	5.6%	7.2%
2017E	97,504,000	1,121,026,000	8.7%	6.4%

- 111.** SAF reports it uses the services of professional investment managers which have been successful in providing above average investment returns. Please provide context for this conclusion.

Investment managers are typically measured over rolling 4-year periods in their ability to outperform their relative benchmarks. This provides a long enough time period for evaluation and reduces the variability shown in annual performance. The Auto Fund investment portfolio in December 2010 split into a Matching component, containing the fixed income assets and mortgages, and a Return Seeking portfolio comprising equities and real estate. While long-term performance in these separate portfolios and at an asset class level is shown below, long-term performance on a total portfolio level is no longer available.

The Matching Portfolio, consisting of approximately 75% of the Auto Fund's total investment assets, outperformed its benchmark by 0.2% in the 2 years to December 31, 2012. As at September 30, 2010, prior to the switch in investment strategies, the investment manager demonstrated outperformance in fixed income assets in both the 4-year period and 10-year period. While the mortgage assets have less history, the investment manager has also demonstrated similarly strong performance.

The Return Seeking Portfolio, representing approximately 25% of the Auto Fund's total investment assets, has demonstrated some recent underperformance. While over the 1-year period the investment manager added value by 1.4%, the 2-year period was 2.0% under its benchmark. At an asset class level, the investment manager:

- underperformed its benchmark by 3.4% over 4 years and by 0.9% over 10 years in Canadian equities;

- underperformed its benchmark by 1.7% over 4 years but outperformed by 1.0% over 10 years in U.S. equities;
- outperformed its benchmark by 1.8% over 4 years and matched the benchmark over 10 years in non-North American equities; and,
- underperformed its benchmark by 0.1% over 4 years but outperformed by 0.8% over 10 years in real estate.

With approximately 75% of the portfolio having demonstrated some outperformance over the 4-year and 10-year periods, the investment manager has generally shown to be successful in providing above average investment returns.

112. Changes to the current targets for the Return Seeking Portfolio have been made. Please explain the reasons for these changes.

In 2011, after an extensive asset mix review with the investment consultant, the Board concluded that a reduction in the Canadian equity exposure and the introduction of two new asset classes, infrastructure and global small cap equities, significantly reduces the volatility and potential downside risk of the Return Seeking Portfolio without sacrificing net of fee returns. These new asset classes, managed by separate investment managers, provide increased diversification benefits for the portfolio and lessened the reliance on the current investment manager in general, and specifically the Canadian equity asset class.

113. The expected return (net of fees) forecast for the SAF investment portfolio for 2012-2015 is:

2012	2013	2014	2015
4.74	2.93	1.60	0.91

What factors are leading to the decline in returns over this period?

The lower returns over this period are being driven entirely by rising interest rates generating capital losses in the Matching Portfolio. Please refer to question #109 for more in-depth information on projected bond yields and the impact on investment income. Equity investments in the Return Seeking Portfolio are projected to generate stable returns of around 7% annually over the entire investment horizon.

114. Please summarize the extent of any current investments held with or within the Province of Saskatchewan.

As at December 31, 2012, the Auto Fund investment portfolio held \$0.7 million in equities based in Saskatchewan or 0.4% of the Canadian equity portfolio. Saskatchewan provincial bonds represented 5.1% of the bond portfolio or \$40.6 million, while Saskatchewan-based mortgages totaled \$3.1 million or 3.7% of the mortgage portfolio. Saskatchewan-based real estate investments of \$3.7 million represent 4.2% of the real estate portfolio. Total investments of \$48.1 million are Saskatchewan-based representing 3.1% of the total portfolio.

Issuer Fees – Reference: Tab 6 Part 1 Page 14; Tab 18

115. SAF has indicted that there is no charge to Issuers for computer hardware or software. Please confirm.

This is correct.

- 116.** Please provide either actual or estimated costs that are borne by SAF in respect of Issuer operations for which there is no cost recovery, on an annual and on a per issuer basis, from 2007 to 2012.

Please refer to the highlighted number below:

	2012	2011	2010	2009	2008	2007
Issuer Relations	\$ 1,115,551	\$ 1,023,891	\$ 868,625	\$ 794,108	\$ 774,849	\$ 742,857
Call centre	\$ 921,617	\$ 1,116,456	\$ 1,250,899	\$ 1,010,325	\$ 1,083,553	\$ 949,661
Systems	\$ 679,609	\$ 721,014	\$ 1,748,099	\$ 1,896,310	\$ 1,641,584	\$ 1,469,170
Finance	\$ 78,470	\$ 73,363	\$ 68,275	\$ 66,182	\$ 63,638	\$ 62,621
Total	\$ 2,795,247	\$ 2,934,725	\$ 3,935,898	\$ 3,766,925	\$ 3,563,623	\$ 3,224,309
# of Issuers	399	402	397	404	411	415
Cost per Issuer	\$ 7,006	\$ 7,300	\$ 9,914	\$ 9,324	\$ 8,671	\$ 7,769
Call centre total	2,490,856	2,427,085	2,333,193	2,213,232	1,984,227	1,961,971
% issuer calls	37%	46%	54%	46%	55%	48%

Financial Results – Reference: Tab 6 Part 1; Tab 18; 2011 Annual Report

- 117.** Please provide a table indicating the variances between budgets and actual results for each of, 2008, 2009, 2010, 2011, and 2012 (projected, if actual not yet available) and discuss the reasons for any major variances.

Please see the Documentation for Information Request #117 that follows.

Other Income

- 118.** Please provide a schedule showing the variance between budgeted amounts and actual results for the components of Other Income, and discuss all significant variances from 2008 to projected 2012.

Please see the Documentation for Information Request #118 that follows.

Application Sensitivities

- 119.** Please provide an estimate of the impact on the overall rate requirement, RSR levels and MCT ratios for each of the following shifts in 2013 (in each case all else being equal):
- a 10% change in Claims Incurred costs;
 - a 0.5% change in vehicle drift;
 - a 0.5% change in vehicle volume;
 - a 10% change in investment income;
 - a 10% change in LAE;
 - a 10% change in Administrative expenses;
 - a 10% change in Traffic Safety costs;
 - a 10% change in Other Income.

Please see the five-year forecasts for each of the eight scenarios in the Documentation for Information Request #119 that follows.

For all scenarios, investment income is affected as the size of the RSR has changed in each scenario.

Some specific comments on the scenarios:

- a) Claims incurred (excluding the discounting impact of the change in discount rates since they are offset by changes in bond gains/losses) were increased by 10% in 2013. Loss adjusting expenses, which are proportional to claims incurred, were also increased 10%. Future claims incurred are impacted only through changes to the size of the claims reserve PfAD and impact of discounting.
- b) Premium drift was decreased by 0.5% in 2013. Issuer fees, premium taxes, and Other Income are affected as they are proportional to the premium 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.
- c) Vehicle volume was decreased by 0.5% in 2013, affecting premiums, losses and all expense amounts proportional to either premiums or losses. Future years are affected as well as a larger number of vehicles will continue to be insured beyond 2013.
- d) Investment income (excluding bond gains/losses since they are offset by changes in the discounting impact of changes in discount rates) was decreased by 10% in 2013.

Other General

- 120. Please undertake to file a copy of the 2012 Annual Report as soon as SAF is able to release it on a confidential basis, and please indicate when this may occur.

The annual report will be made available to the Panel and its consultants on a confidential basis after the auditors have completed vetting the print proofs on, or about, April 3. We have been advised that the early release of the report is contingent upon the Panel and its consultants signing a confidentiality agreement. The Annual Report will be tabled in the legislature on April 15, at which point it will become public.

FILING AMENDMENT

- 121. Please confirm:

- a. There is no change in the overall estimated revenues, expenditures, RSR levels and MCT ratios as a result of the revisions to the application.

Confirmed

- b. Only the proposed rates for CLEAR-rated vehicles, LV Motorcycles and PT Urban Taxis are affected by the revisions to the application, as reflected in the following summary of proposed average rate changes (after RSR surcharge):

Class /Sub-Class	Original	Revised
CLEAR-Rated Vehicles	+0.4%	+1.6%
A – Commercial Light Trucks	+20.4%	+21.9%
F – Farm Light Truck – 1994 & Newer	+2.4%	+3.6%
LV – Private Passenger Vehicles	+0.3%	+1.5%
LV – PPV – Farm Cars, SUVs & Vans	-2.0%	-0.8%

LV – Police Cars	+9.4%	+10.7%
LV – Police Trucks, Vans & SUVs	-14.0%	-12.9%
LV – U Drives	+8.9%	+10.3%
PT – Taxis (Rural)	-6.4%	-5.3%

Class /Sub-Class	Original	Revised
LV – Motorcycles	+72.6%	+16.8%
Cruiser /Touring	+59.5%	+16.5%
Dual Purpose /Other	+75.8%	+22.2%
Sport	+131.5%	+16.8%

Class /Sub-Class	Original	Revised
PT – Urban Taxis	+18.6%	+16.4%
A – Small Cities	+31.5%	+16.4%
B – Large Cities	+16.4%	+16.4%
C – Regina & Saskatchewan	+16.4%	+16.4%

Confirmed

- c. The revised proposed rates for CLEAR-rated vehicles are adjusted upward to make up for the revenue loss attributable to the revised capping applied to LV Motorcycles and PT Urban Taxis.

Confirmed

- d. The revised application continues to propose the original \$ and % capping of rate changes, but now applied without the exceptions noted in the original application.

Confirmed

- 122.** Using a vehicle class /sub-class breakdown like that shown on Pages 5 and 6 of the revised application, but expanded to include the PT Urban Taxi sub-classes, please provide a table showing:
- a. The estimated annual written premium at current approved rates.
 - b. The estimated annual written premium (after RSR surcharge) as originally proposed.
 - c. The estimated number of vehicles within 5% of adequate rates as originally proposed.
 - d. The estimated annual written premium (after RSR surcharge) now proposed as revised.
 - e. The estimated number of vehicles within 5% of adequate rates now proposed as revised.

Please see the Documentation for Information Request #122 that follows.

- 123.** Please discuss the reasons for the proposed average rate change for Dual Purpose /Other Motorcycles being meaningfully higher than that proposed for the other Motorcycle sub-classes.

A majority of Dual Purpose Motorcycles (75%) have a current premium of less than \$751. The dollar caps applied to these vehicles will result in a percentage change over 15%.

Current Annual Premium Range (\$)	Max \$ Cap	Resulting Max % Change
1 - 50	25	50%
51 - 100	50	50%
101 - 250	75	30%
251 - 500	100	20%
501 - 750	125	17%
751 - 1,000	150	15%

- 124.** With regard to the capping of Motorcycle rate changes:
- a. Please summarize the capping approach applied in the 2012 application.

A dollar cap will be applied when the current annual premium is less than or equal to \$1,000 as outlined in the table above. When the current annual premium is over \$1000, Cruiser and Dual Purpose bikes will receive a maximum 15% cap and Sport bikes will receive a maximum 30% cap.

- b. Using a table presentation similar to that included in IR #121 above, please provide illustrative “proposed” average rate changes by class /sub-class for CLEAR-rated vehicles and LV Motorcycles that would result from applying the capping approach from the 2012 application.

Class/Sub Class	Proposed Rate Change Including Surcharge
CLEAR-Rated Vehicles	1.5%
LV - Private Passenger Vehicles	1.4%
A - Commercial Light Trucks	21.8%
F - Farm Light Truck - 1994 & Newer	3.5%
LV - PPV - Farm Cars, SUVs and Vans	-0.9%
LV - Police Cars	10.6%
LV - Police Trucks, Vans & SUVs	-13.0%
LV - U Drives	10.3%
PT - Taxis (Rural)	-5.3%

Class/Sub Class	Proposed Rate Change Including Surcharge
LV - Motorcycles:	19.2%
Cruiser/Touring	16.5%
Dual Purpose/Other	22.2%
Sport	30.9%