

Saskatchewan Auto Fund Proposal for Rate Adjustment 2013

Presentation Outline

- Auto Fund Overview
 - Andrew Cartmell – President and CEO

- Financial & Auto Fund Rating Overview
 - Don Thompson – VP Product Management

Rate Proposal

➤ The proposed revenue increase of 2.27% and rebalancing effective Aug. 31, 2013 includes:

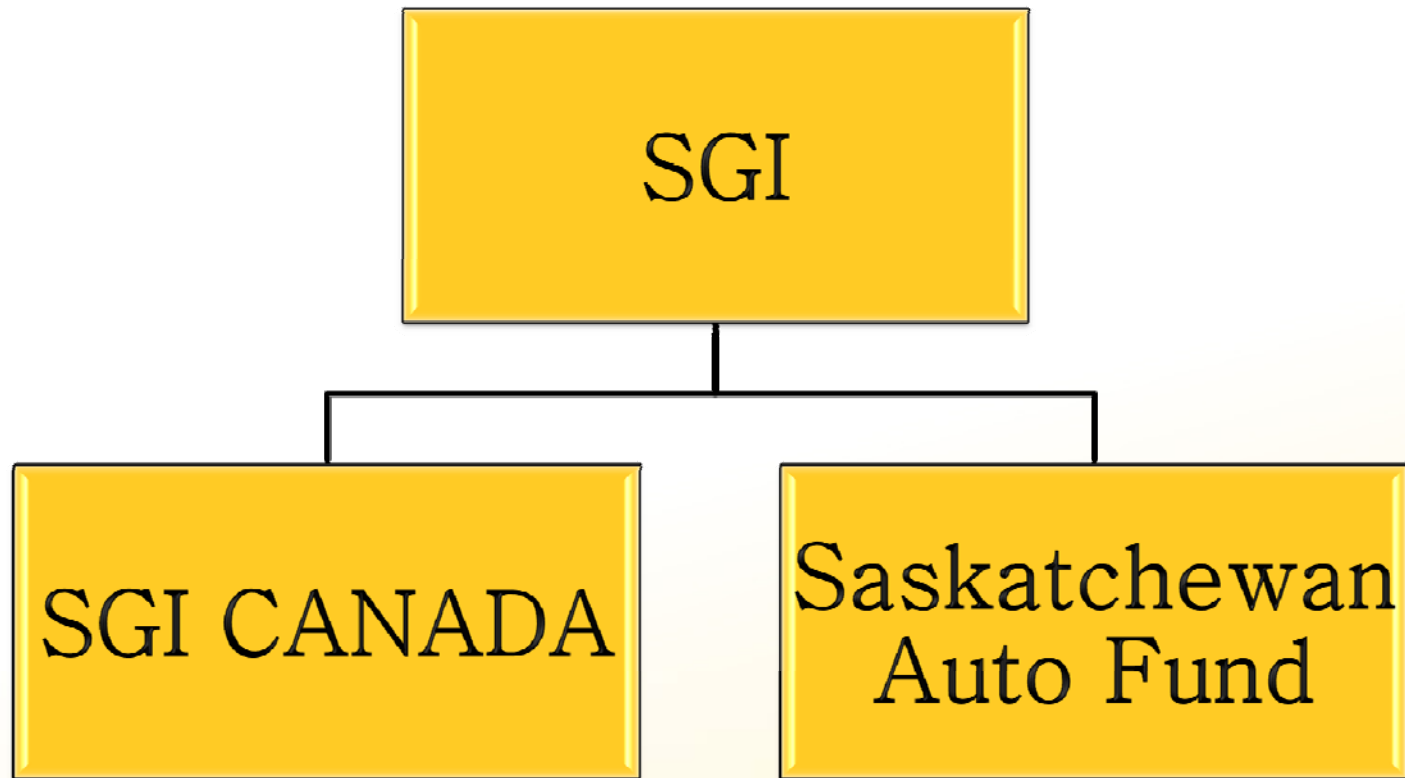
- Increases for about 63% of Saskatchewan vehicles with an average annual increase of \$35;
- Decreases for about 35% of Saskatchewan vehicles with an average annual reduction of \$21; and,
- No premium change for about 14,000 of Saskatchewan vehicles.

Rate Proposal

- Overall revenue increase of 2.27% to the Auto Fund
 - 1.03% overall rate increase
 - Required for Auto Fund to cover costs
 - Due to rebalancing some rates will go up, some will go down and some will stay the same
 - 1.23% Rate Stabilization Reserve (RSR) surcharge
 - Will bring the RSR to the minimum required level in three years
 - Surcharge applied on top everyone's rebalanced rate

Auto Fund Overview

SGI Corporate Structure



Customers

- Vehicle registrations – over 1.1 million vehicles and trailers
 - Increase of 80,000 from 2011 to 2012
- Driver's licences and related services - approximately 762,000 drivers
 - Increase of 26,000 from 2011 to 2012
- Approximately 100,000 damage claims and 5,500 injury claims per year

Saskatchewan Auto Fund Mandate

- Operates as public fund for Saskatchewan motorists
- Self-sustaining and operates on a break-even basis

Operating Philosophies

- Provide basic auto insurance that is universal and fair
- Fairly rate vehicle classes based on their loss experience
 - Loss experience is driven by the number of claims and their cost
- Keep rates as low as possible

Insurance Coverage

- Defined in *The Automobile Accident Insurance Act (AAIA)*
 - Personal Injury Benefits
 - Choice of No Fault or Tort
 - Third Party Liability
 - Physical Damage to the vehicle

Current Initiatives

- Safe Driver Recognition Program Review
- Business Recognition Program Review
- Special Committee on Traffic Safety
- Motorcycle Review

Safe Driver Recognition (SDR) Program Review

- SDR rewards drivers with good records with a discount on their vehicle insurance
- Current maximum discount of 20%; maximum penalty of \$2500
- Potential enhancements to program:
 - Increased discounts
 - Give Highway Traffic Board the ability to vary safety rating points assessed on at-fault accidents
- In 2012, \$101 million in discounts provided (11% of premiums written) and charged \$11 million in SDR financial penalty revenue

Business Recognition (BR) Program Review

- BR rewards businesses that maintain safe driving records with insurance discounts of up to 10%

- Potential enhancements to program:
 - Treating companies and individuals equally
 - More fairly balance the discounts and surcharges
 - Provide timelier driver abstract information for customers via MySGI

- In 2012, \$8 million in discounts; \$2 million in surcharges (1% of premiums written)

Traffic Safety

- The Legislative Assembly appointed a Special Committee on Traffic Safety, with specific areas of focus:
 - Impaired driving
 - Distracted driving
 - Excessive speed
 - Intersection safety
 - Wildlife collisions
 - Education and awareness

Motorcycles

- Status
 - Submitted with motorcycles uncapped
 - Government directed resubmission with cap

- What we're doing
 - Motorcycle review
 - Impact on 2014 motorcycle riding season
 - Awareness campaign

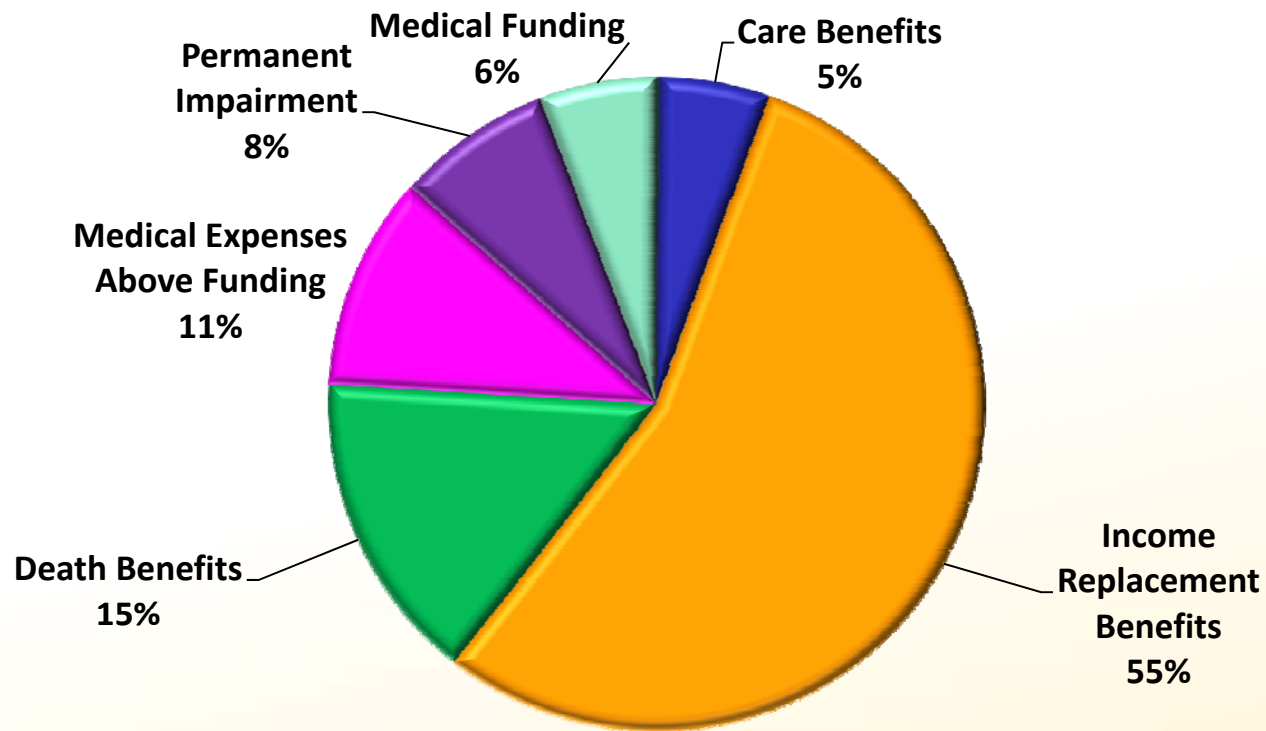
Motorcycle GDL

- Implemented June 2011
 - 3 year graduated licence program
- Possible safety considerations
 - Supervising drivers
 - Engine size/power limits
 - Zero blood-alcohol-content (BAC)
 - Rider training
 - Safety gear

Breakdown of Costs

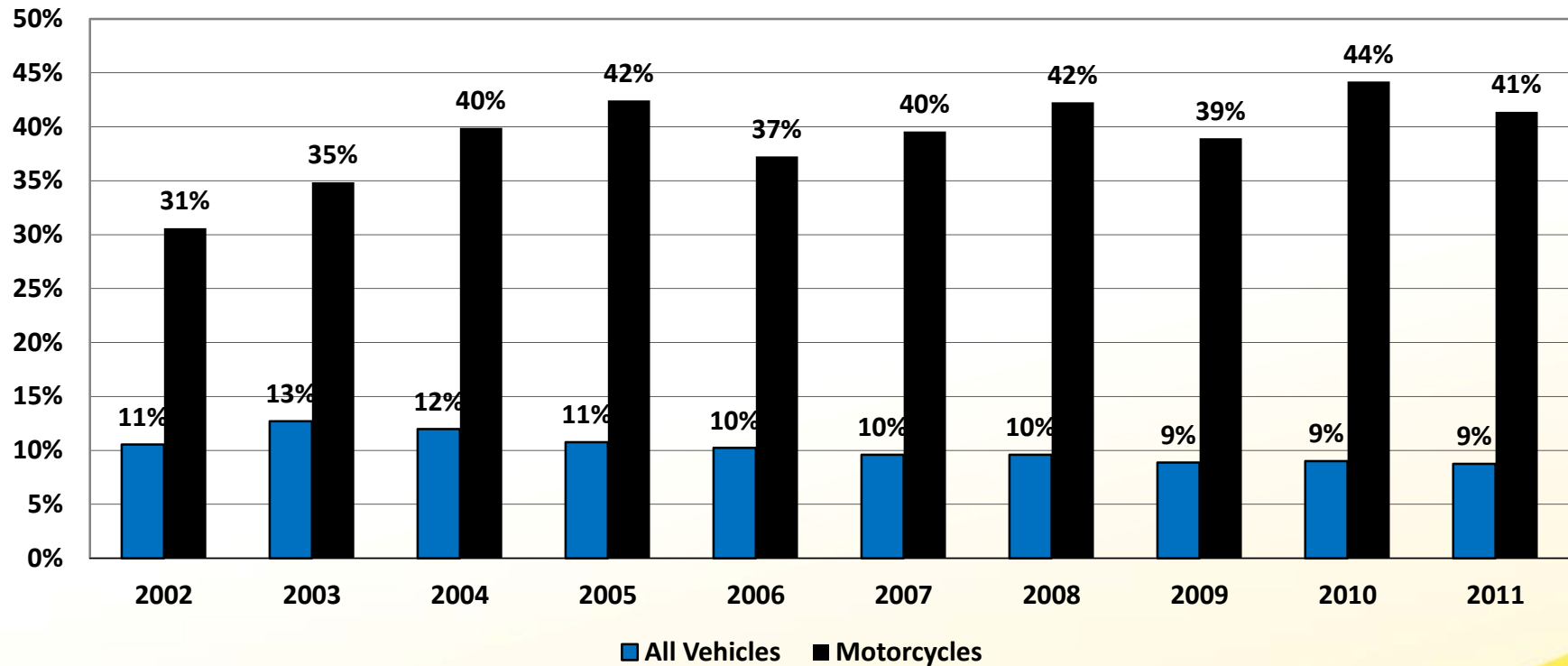
	<u>Motorcycle</u>	<u>PPV</u>
Injury claims	73.3%	24.7%
Damage claims	9.1%	35.6%
Liability claims	1.2%	18.0%
Premium taxes, issuer fees, administrative expenses, loss adjusting expenses	16.4%	21.7%
Total claim and expense amount expected	100%	100%

Breakdown of Expected Motorcycle Injury Claim Amounts by Coverage



Motorcycle Comparison to All Vehicles

Ratio of Injury Claims to Collision Claims



Concerns Raised at Regina Meeting

- For all vehicle classes, claim costs are transferred to the at-fault vehicle
- No fault benefits, but fault based rating
 - Suite of benefits designed to cover you throughout your lifetime
 - Premiums follow risk – Safe Driver Recognition
 - Experience – years of safe driving
 - At fault accidents and convictions

Concerns Raised at Regina Meeting

➤ Oxford University Review & Motorcycle Fault

- 75% are multi-vehicle accidents
 - Motorcycle at fault 1/3 of the time
- 25% are single vehicle accidents
 - Motorcycle at fault 2/3 of the time
- In total motorcycles at fault 42% of the time
 - $(\frac{3}{4} \times \frac{1}{3}) + (\frac{1}{4} \times \frac{2}{3}) = \frac{5}{12} = 42\%$

➤ Saskatchewan Experience = 52% of the time

Concerns Raised at Regina Meeting

- Seasonal-to-seasonal comparison of motorcycle rates
 - Half of annual Auto Fund premium for comparison
 - Less than 15% of riders buy an annual policy in Saskatchewan

Motorcycle Review

- Consultations will be held this spring with motorcycle stakeholders
- Three main components being reviewed:
 1. Current rating structure for motorcycles
 2. Motorcycle safety programming
 3. Injury benefit levels
- Provide comments to motorcycles@sgi.sk.ca

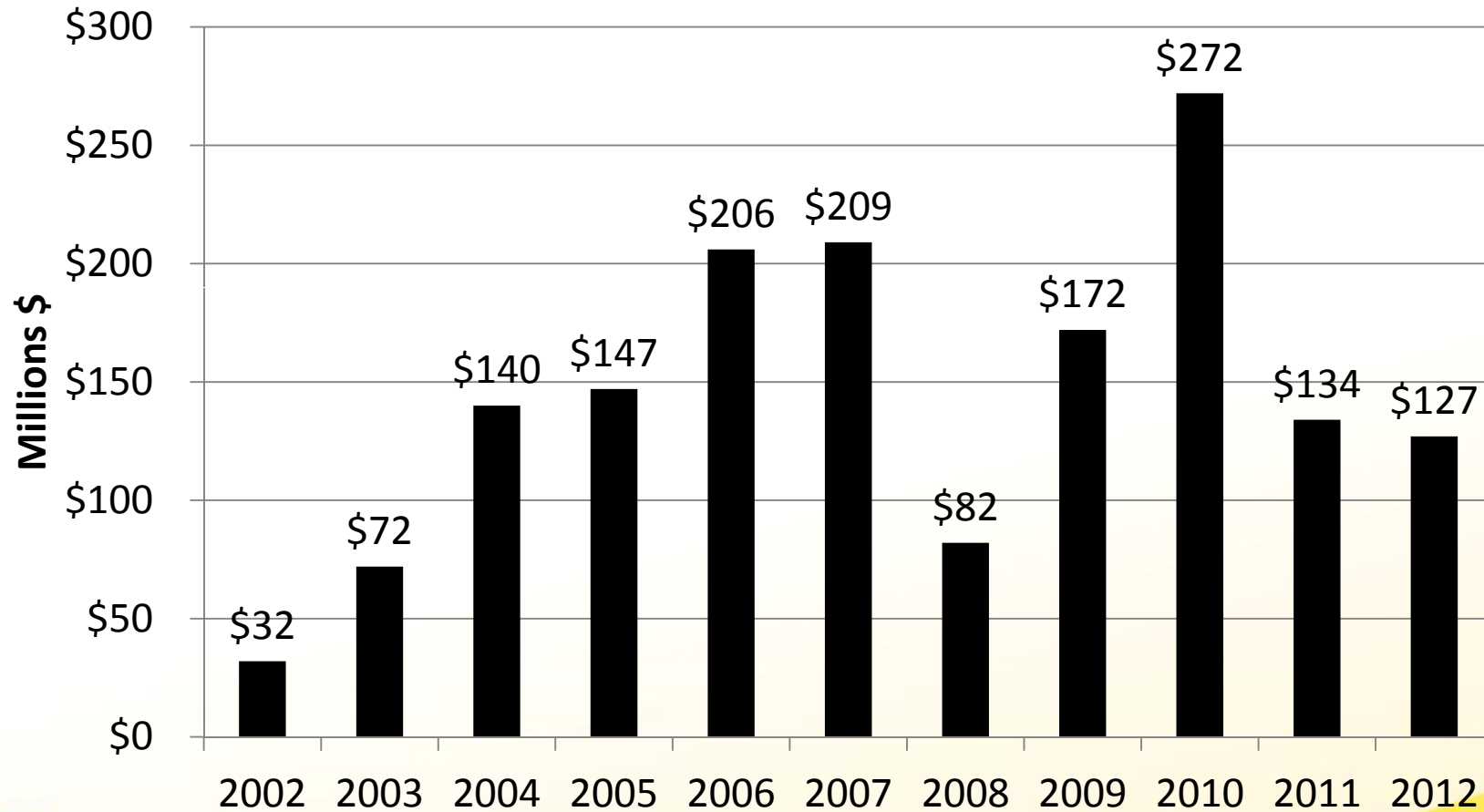
Financial Overview



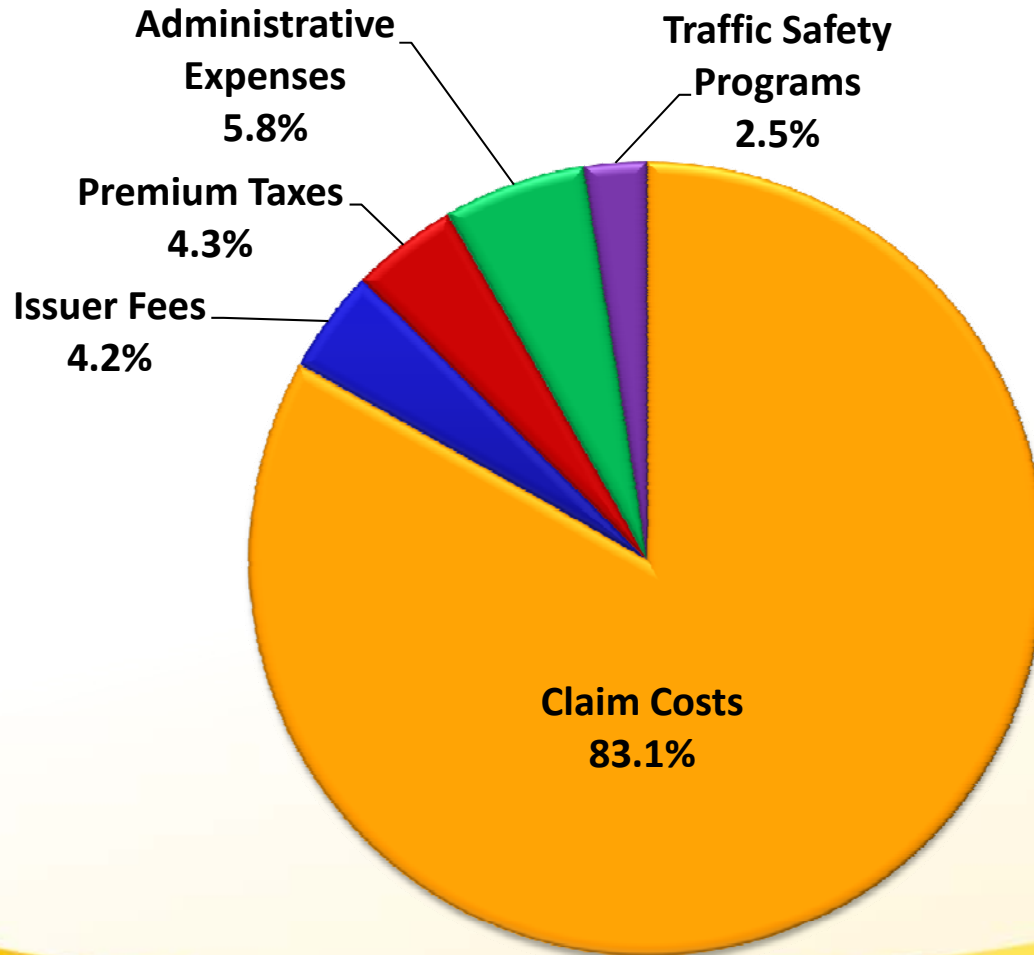
Financial Overview

	2012	2011	2010	2009	2008
	(thousands of Canadian \$)				
Net premiums earned	767,226	726,282	684,821	630,559	587,918
Total claims and expenses	<u>891,050</u>	<u>954,962</u>	<u>742,930</u>	<u>727,197</u>	<u>681,297</u>
Underwriting loss	(123,824)	(228,680)	(58,109)	(96,638)	(93,379)
Investment income	74,838	51,668	119,367	31,050	29,405
Other income	<u>37,490</u>	<u>34,088</u>	<u>31,489</u>	<u>24,834</u>	<u>21,351</u>
Increase/(Decrease) to RSR	(11,496)	(142,924)	92,747	(40,754)	(42,623)
RSR Balance	127,122				

Rate Stabilization Reserve



Auto Fund Cost Breakdown



Auto Fund Rate Program

Auto Fund Rate Program

➤ Three components to consider:

1. Adequate premiums to break-even
2. Rate rebalancing
3. Maintain adequate capital

Determining Adequate Premium

- Insurance industry pricing challenges
 - Products are priced before claim costs are known
 - Claims represent largest cost component and greatest uncertainty
 - External factors: winter driving conditions, summer storms, vehicle part costs, severity of injuries, wage costs

Determining Adequate Premium

Income from Premiums Charged

+ Other Sources of Income

- Claim Costs

- Operating Costs

= Excess = Required Decrease

OR

= Deficiency = Required Increase

Why the Auto Fund requires a 1.03% increase

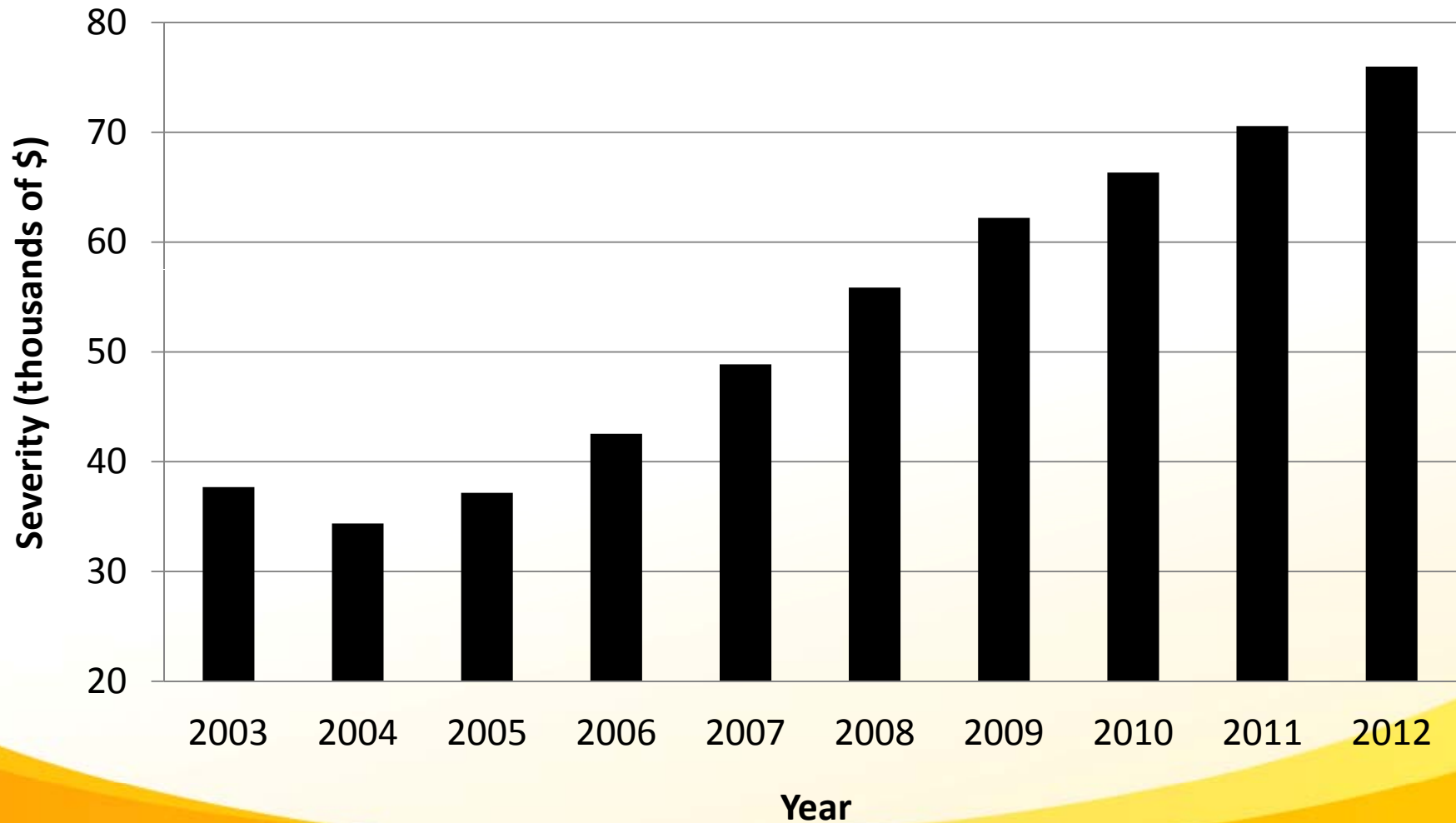
- Declining bond yields resulting in lower investment income
- Injury costs being impacted by rising wages in the province, resulting in higher income replacement benefits for vehicle crash victims
- Higher costs for parts used in collision repairs

Universe Bond Index Yield





Income Replacement Benefits - Average Cost per Claim



Rate Rebalancing

- Assign vehicles to rating class based on similar characteristics and exposure to risk based on use
 - CLEAR-rated vehicles
 - Private passenger vehicles, farm light vehicles, police cars and trucks, u-drive vehicles, rural taxis
 - Conventional vehicles
 - Within each conventional class, rates vary based on rating factors (e.g. value, weight, number of passengers)

Rate Rebalancing

- For each class of vehicle, the number of collisions and their severity, including damage, injury and liability costs, are taken into account
- Each class's premiums should cover their costs
- Again, not all rates will increase:
 - 63% of vehicles will increase
 - 35% will decrease
 - The rest won't change

Rate Rebalancing

- Changes will be capped to reduce rate shock

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

Why the Auto Fund requires a 1.23% RSR surcharge

- RSR acts like a savings account for emergencies
 - Protects customers from large rate increases
 - Ensures the Auto Fund can cover claim obligations
 - In 2011 the RSR absorbed \$143 million in losses

Why the Auto Fund requires a 1.23% RSR surcharge

- **Minimum Capital Test (MCT)**
 - Used by insurance regulators to determine capital adequacy
 - Ensures companies carry adequate funds to pay future claims

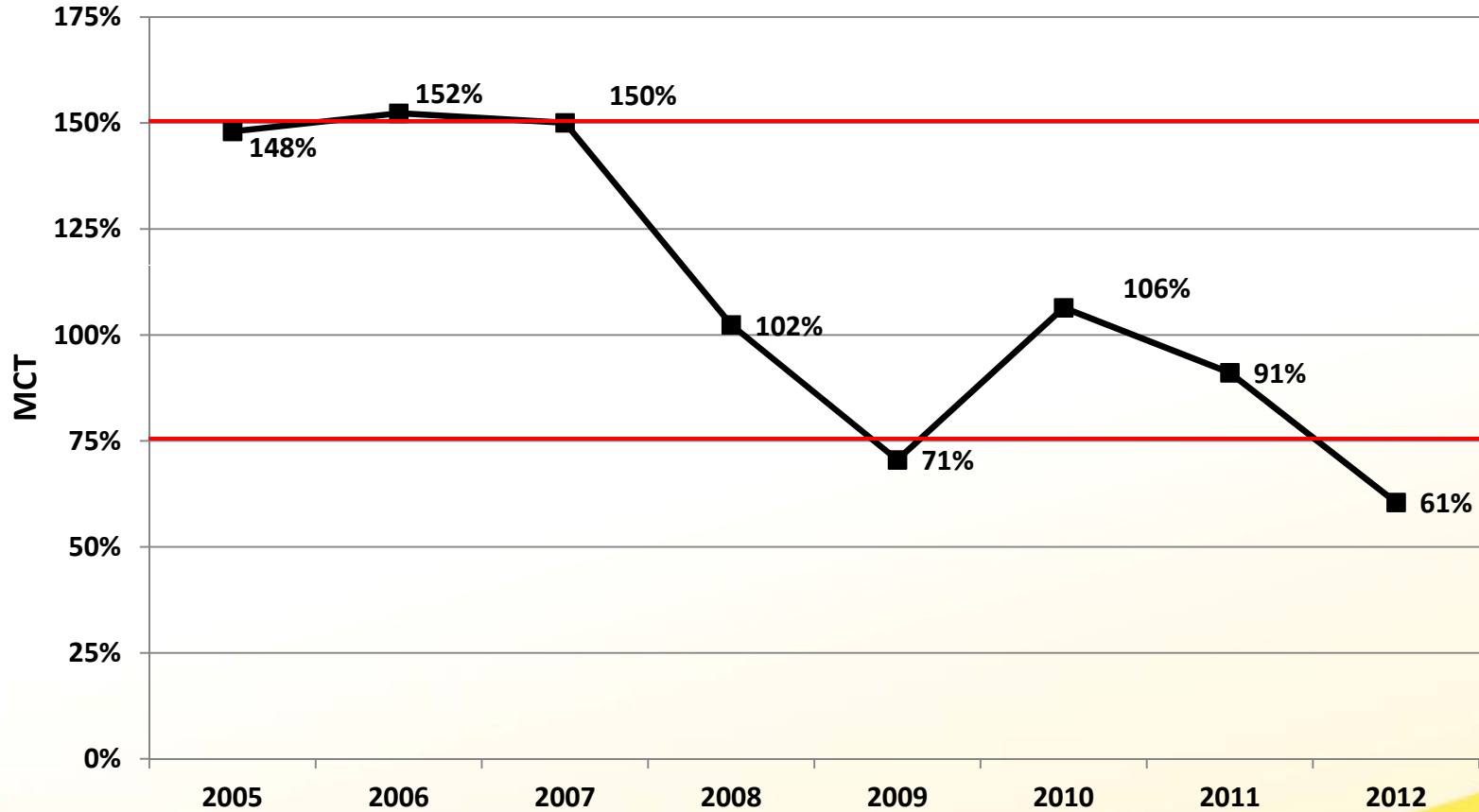
- **Auto Fund MCT target range is a 12-month average MCT of 75% to 150%**

Why the Auto Fund requires a 1.23% RSR surcharge

- RSR balance has dropped below required levels
- The surcharge will bring the RSR to the minimum required level in three years
- The surcharge will be in place for three years and will be applied on top of each vehicle's rebalanced rate

Available Capital

Auto Fund MCT





Dollar cap - increase

Class LV – Private Passenger

1999 GMC Suburban K/V 1500 4WD Diesel

Current Rate	\$956
Required Rate to Cover Costs	\$1,195
% Change	25%
2013 Proposed Rate (\$150 cap applied)	\$1,106
2013 Proposed Rate with Surcharge (\$1,106 x (1+1.23%))	\$1,120
2013 Proposed Percentage Increase	17%

Percentage cap - increase

**Class C – Power unit pulling semi trailers, model years
2007-2011 with gross vehicle weight of 35,001-36,000 kgs**

Current Rate	\$1,130
Required Rate to Cover Costs	\$1,354
% Change	20%
2013 Proposed Rate (15% cap applied)	\$1,299
2013 Proposed Rate with Surcharge (\$1,299 x (1+1.23%))	\$1,315
2013 Proposed Percentage Increase	16%

Dollar cap - decrease

Class F – Power unit pulling semi trailer, model year 2011

Current Rate	\$810
Required Rate to Cover Costs	\$599
% Change	-26%
2013 Proposed Rate (\$150 Cap Applied)	\$660
2013 Proposed Rate with Surcharge (\$660 x (1+1.23%))	\$668
2013 Proposed Percentage Decrease	-17.5%



Light vehicle examples

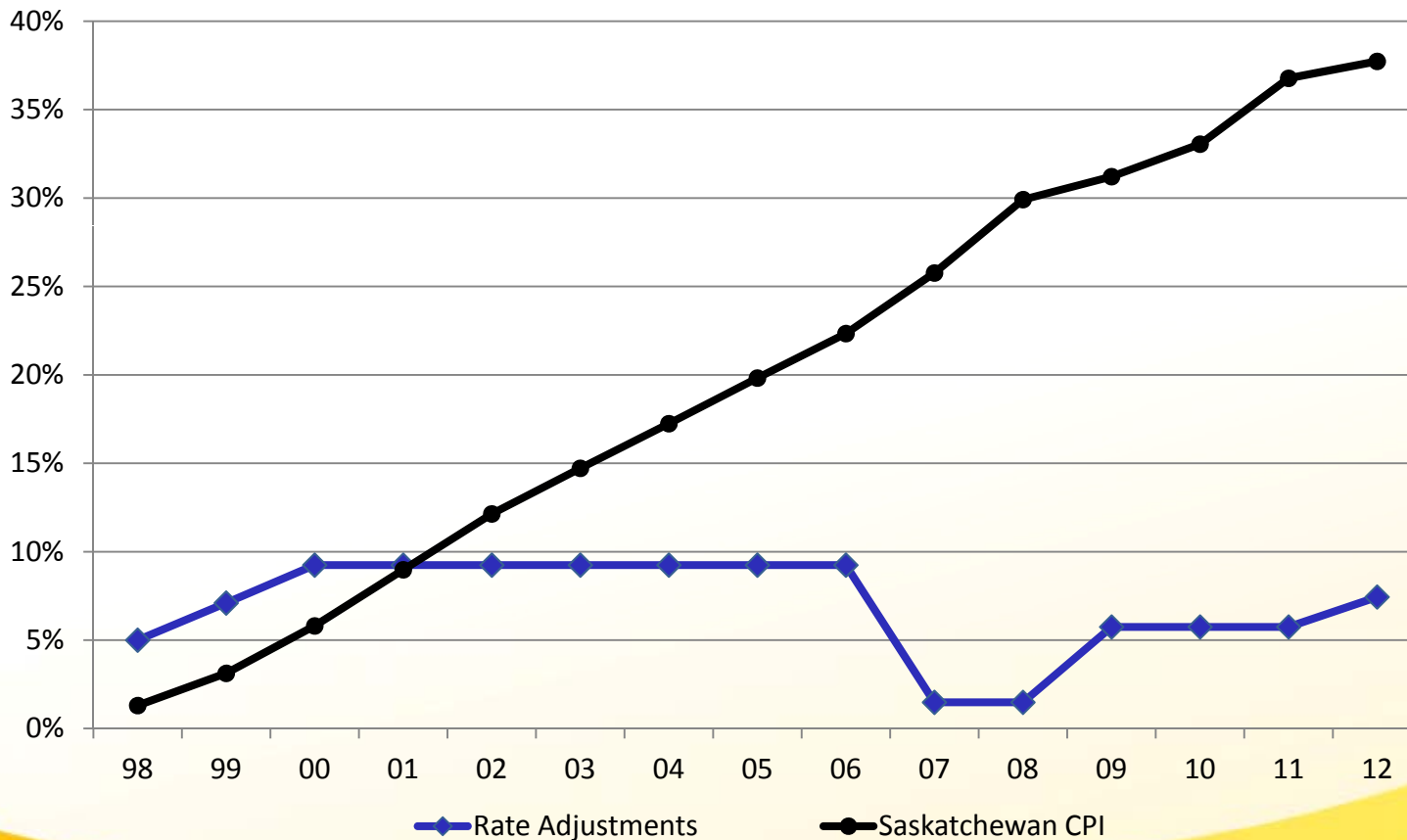
Model Year	Vehicle	Current Rate	Aug. 31 2013 Rate	\$ Change	Aug. 31, 2013 Rate with Surcharge	\$ Change After Surcharge
2010	Ford F150 Supercrew 4WD	\$1,310	\$1,290	(\$20)	\$1,306	(\$4)
2010	Dodge Grand Caravan SE 2WD	\$1,042	\$1,100	\$58	\$1,114	\$72
2010	Chev Silverado 1500 Crewcab 4WD	\$1,198	\$1,236	\$38	\$1,251	\$53
2010	Toyota Corolla 4DR	\$1,079	\$1,071	(\$8)	\$1,084	\$5
2008	Dodge Ram 1500 Quad Cab 4WD	\$1,235	\$1,250	\$15	\$1,265	\$30
2008	Ford Escape XLT V6 4WD	\$1,202	\$1,122	(\$39)	\$1,136	(\$25)
2004	Ford F150 Supercab 4WD	\$1,194	\$1,209	\$15	\$1,224	\$30
2003	Chev Silverado 1500 Ext Cab 4WD	\$1,169	\$1,179	\$10	\$1,194	\$25
2003	GMC Sierra 1500 Ext Cab 4WD	\$1,149	\$1,162	\$13	\$1,176	\$27
2001	Ford Taurus 4DR	\$841	\$806	(\$35)	\$816	(\$25)

Mid-Term Refunds

- Decreases will be applied August 31st; customers will receive a refund of the difference between their old and new rate for the remainder of their policy term
- Refunds issued automatically – customers will not have to come in and cancel their registration and then re-issue
- Increases will not take effect until vehicles are due for renewal

Commitment to Low Rates

Rate Increases versus Saskatchewan CPI



**For more information go
to www.sgi.sk.ca**