Eckler

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Holdings Corp.

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REVIEW OF

SASKATCHEWAN GOVERNMENT INSURANCE

SASKATCHEWAN AUTO FUND

FEBRUARY 2012 PROPOSAL FOR RATE ADJUSTMENT

EFFECTIVE 4 AUGUST 2012

PREPARED BY

ECKLER LTD. AND KOSTELNYK HOLDINGS CORP.

FOR THE

SASKATCHEWAN RATE REVIEW PANEL

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1.0 BACKGROUND AND APPLICATION OVERVIEW

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

SGI is headquartered in Regina, Saskatchewan. In 2011, SAF licensed over 735,000 drivers and issued over 1 million vehicle registrations. SAF also provides driver examination services along with numerous driver and vehicle certification programs. SAF services extend to providing safety programs that aim to reduce the costs and damage to people and property through motor vehicle use. Their services also include audit programs for vehicle operators who carry passengers or who transport goods. As of 31 December 2010, all of the aforementioned services were provided across the Province at 410 independent motor license and vehicle insurance issuing offices in 302 communities in Saskatchewan. SAF also operates 7 branch offices, 21 claims centers, and 5 salvage centers in 13 communities.

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

1.1 INSURANCE INDUSTRY TRENDS

As part of a summary presentation on the 2012 Application, SAF personnel provided the Panel with an overview of recent trends in the insurance industry and the challenges these have presented to the insurer. The overview spoke to the trend of consolidation amongst insurers, creating larger and more competitive entities. The other trend addressed was the evolution of product distribution. In this regard, there is a significant expansion in the number of ways that insurers are reaching out to their customers, including broker consolidation and implementation of multi-channel distribution approaches, with more emphasis on a direct approach. The challenge insurers face is to seamlessly meet the customer needs across the different channels, for which an internet presence is critical.

Customer convenience involves the tailoring of products and prices using customer segmentation and technology to enhance convenience, such as online options (like MySGI), Apps, and eTools to help brokers.

1.2 SAF COVERAGES

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

- **Personal Injury** coverage provides Saskatchewan residents with benefits if they are injured or killed in an automobile accident. Residents have a choice between No-Fault Coverage and Tort Coverage.
- **Third Party Liability** coverage provides vehicle owners with up to $200,000 to pay for damages that their vehicles may cause to other people or their property.
- **Physical Damage** coverage includes both collision and comprehensive coverage and pays for damages due to an accident or other occurrences such as hail, fire, theft, or vandalism. Such claims are subject to a deductible, which is currently $700 for most vehicles.

1.3 SAF OPERATING PHILOSOPHY

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

1.4 2012 RATE IMPACTS

The proposed 3.7% average rate increase and rate rebalancing effective 4 August 2012 will, if approved in its entirety:

- Increase rates for approximately 551,000 Saskatchewan vehicles (53% of total vehicles) by an average annual increase of $84 (monthly $7);
- Decrease rates for approximately 304,000 Saskatchewan vehicles (29% of total vehicles) by an annual average reduction of $60 (monthly $5); and
- Have no change on approximately 189,000 Saskatchewan vehicles (18% of total vehicles).

The following table shows the rate impacts for each vehicle class as a result of the average overall rate increase of 3.7%:

2012 Average Indicated and Proposed Rate Changes

Vehicle Class	Indicated Rate Change	Proposed Rate Change	Vehicle Class	Indicated Rate Change	Proposed Rate Change
CLEAR-Rated Vehicles	1.5%	3.2%	LV - Motorcycles:	76.1%	18.3%
A - Commercial Light Truck		22.4%	Cruiser / Touring		15.5%
F - Farm Light Truck - 1994 & Newer		0.4%	Dual Purpose / Other		21.0%
LV - Private Passenger Vehicles (PPV)		3.7%	Sport		29.2%
LV - PPV - Farm Cars, SUVs and Vans		-6.3%	LV - Motorhomes	25.9%	11.9%
LV - Police Cars		10.9%	MT - Snowmobiles	-34.3%	0.0%
LV - Police Trucks, Vans & SUVs		-7.2%	PB - Passenger Inter-city Buses	53.3%	15.2%
LV - UDrives		-0.6%	PC - Passenger City Buses	80.4%	14.9%
PV - Heavy Trucks and Vans		0.0%	PS - Passenger School Buses	74.7%	27.3%
PV - Converted Vehicles		0.0%	PT – Taxis – Urban	42.8%	16.1%
PV - Power Units		0.0%			
PT - Taxis - Rural		-0.5%	**Trailers**		
			F – Trailers	-37.5%	0.0%
Conventionally-Rated Vehicles			LT - Trailer Dealers/Movers:	9.3%	9.3%
Ambulances	18.0%	18.0%	Utility		10.9%
A - Commercial Vehicles:			Tent		10.6%
Heavy Trucks & Vans IRP	-20.1%	-12.0%	Semi		9.6%
Heavy Trucks & Vans Non-IRP	21.9%	14.7%	Transport		9.5%
Power Units IRP	23.8%	13.6%	Cabin		9.2%
Power Units Non-IRP	-28.2%	-13.5%	T - Personal Trailers:	10.4%	10.7%
C&D - Commercial Vehicles:			Fiberglass Cabin		0.0%
Heavy Trucks and Vans	59.8%	22.5%	Metal Cabin		30.0%
Power Units	49.4%	16.0%	Semi & Transport		0.0%
F - Farm Vehicles:			Tent		0.0%
Heavy Trucks and Vans	-26.6%	-6.0%	T – Utility	-92.2%	0.0%
Light Trucks - 1993 & Older	-9.0%	-8.2%	TS - Commercial Trailers	-7.9%	0.0%
Power Units	-19.7%	-16.3%			
Hearses	-8.4%	-8.4%	**Miscellaneous Classes ****	-71.6% to 100.2%	-15% to 37.5%
L - Dealer Plates:	16.9%	16.4%	**LV - Motorized Bicycle**	4462.2%	0.0%
Automobile		16.2%			
Motorcycles		28.1%	**Total**		
L - Snowmobile Dealers	-40.6%	-40.8%	All Vehicles Excluding Trailers & Misc.	4.1%	3.7%
LV - Antiques	-29.7%	0.0%	All Vehicles	3.7%	3.7%
LV - Buses	107.9%	33.0%	** Does not include the LV - Motorized Bicycle Class		
LV - Buses (Restricted)	35.2%	33.1%			

1.5 2012 RATE REBALANCING

In addition, SAF proposes rate rebalancing to address vehicle classification cross subsidization.

To reduce the amount of rate shock, SAF proposes to cap rate adjustments at plus/minus 15% for customers with an annual premium in excess of $1,000.

For annual premiums less than $1,000, SAF recommends dollar caps, ranging from $25 to $150, as outlined below:

Dislocation Capping	
Current Annual Rate Range	**Maximum Cap**
$1-50	$25
$51-100	$50
$101-250	$75
$251-500	$100
$501-750	$125
$751-1,000	$150
$1,000 or greater	15%*
• Exception to above caps is the cap proposed for the sport motorcycle classification which is at 30% versus the 15% maximum for other classifications	

Each entitled customer will receive the benefit of any rate decrease in the form of a refund equal to the portion of the difference between the old and new premium corresponding to the period from 4 August 2012 to their registration expiry date. Refunds for the unused portion of a customer's current term will be automatically issued in August 2012. Customers who are to receive increases will not pay the new rates until their next renewal on or after 4 August 2012.

1.6 HISTORICAL RATE CHANGES

From 1998 to 2011, SAF has had a compounded rate adjustment change of 5.75%, while the Saskatchewan Consumer Price Index (CPI) year-over-year percent change for the same period was 36.91%. Following is a summary table of rate adjustments and notable points through this period:

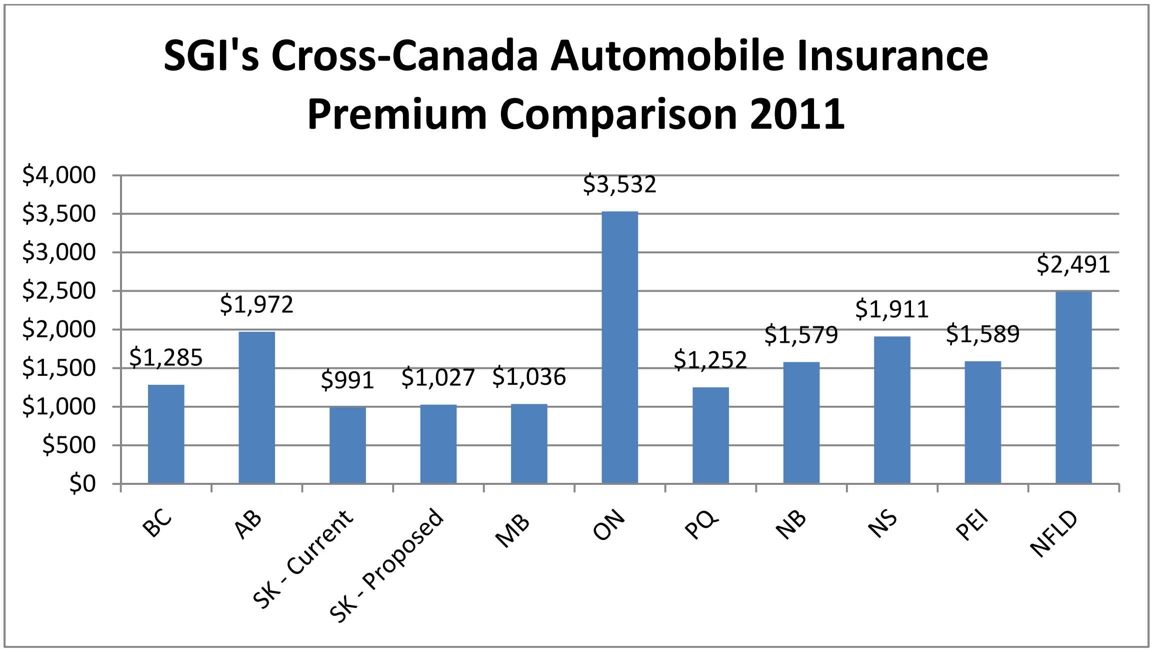
Summary of Rate Adjustments vs. CPI			
Year	Rate Adjustment	CPI Year-Over-Year Change	Comments
1998	5.00%	1.30%	In 1997 most customers supported a 3 year rate change from 1998 to 2000: 5%, 2%, & 2%, respectively. Basic deductible changed from $500 to $700 in 1998.
1999	2.00%	1.80%	
2000	2.00%	2.60%	
2001	0%	3.00%	
2002	0%	2.90%	Introduction of SDR Program rewarding safe drivers. In 2011, discounts totalled $97 million, equal to a 13% rate reduction.
2003	0%	2.30%	
2004	0%	2.20%	Introduction of BR Program, rewarding businesses with discounts of up to 10% based on loss experience.
2005	0%	2.20%	
2006	0%	2.10%	Refunded $44 million in excess RSR funds to 520,000 customers, an average $84 rebate.
2007	(7.10%)	2.80%	Refunded $100 million in excess RSR funds to 540,000 customers, an average $185 rebate. Rate decrease included rate rebalancing.
2008	0%	3.30%	
2009	4.20%	1.00%	Rate increase included rate rebalancing.
2010	0%	1.40%	
2011	0%	2.90%	
Compound Change	5.75%	36.91%	

1.7 CROSS-CANADA RATE COMPARISON

The cross-Canada rate comparison is intended to determine how much a driver would pay for auto insurance across Canada given their vehicle, driving record, and claims history, relative to SAF's rates. SAF used 34 vehicle and driver profiles in 22 cities across Canada for this comparison, which represented various geographical areas such as major centres, rural communities, and northern communities. For the survey, SAF used the most popular vehicles registered in Saskatchewan in 2010, while the cities were selected in 2005 by the utility Crowns and Crown Investment Corporation.

The accuracy of this comparison is open to some question given the differences that exist between jurisdictions, including with respect to coverages, weather, population and traffic density, road infrastructure, crime levels and vehicle mix.

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


SGI's Cross-Canada Automobile Insurance Premium Comparison 2011
$4,000
$3,500
$3,000
$2,500
$2,000
$1,500
$1,000
$500
$0
$1,285
$1,972
$991
$1,027
$1,036
$3,532
$1,252
$1,579
$1,911
$1,589
$2,491
BC
AB
SK - Current
SK - Proposed
MB
ON
PQ
NB
NS
PEI
NFLD

2.0 SASKATCHEWAN RATE REVIEW PANEL MANDATE

In the Minister's Order dated 1 January 2010, pursuant to Section 16 of *The Government Organization Act*, the Minister of Crown Investment Corporation of Saskatchewan appointed a Ministerial Advisory Committee known as the Saskatchewan Rate Review Panel.

The Panel is tasked with conducting a review of SAF's request for an overall average rate increase and rate rebalancing for vehicle insurance rates effective 4 August 2012. The Panel is to review the fairness and reasonableness of SAF's proposed rate changes while considering the interests of the customers, the Crown Corporation, and the public.

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

2.1 MINISTER'S ORDER AND TERMS OF REFERENCE

The Minister's Order and Terms of Reference, dated 1 February 2012, state that the Panel is to conduct a review of the SAF Application for a general increase and rebalancing of vehicle insurance rates targeted for implementation on 4 August 2012. The Panel shall provide an opinion on the fairness and reasonableness of SGI's proposed Auto Fund rebalancing having consideration for the following:

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

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

- the Saskatchewan Auto Fund's mandate to operate on a self-sustaining basis over time;

- the objective to maintain adequate capital within a Rate Stabilization Reserve to serve as a cushion to protect customers from large rate increases;

- the impact of rising claims costs; and

- The objective of ensuring stability and fairness in vehicle insurance ratings such that each vehicle class pays sufficient premiums to cover its anticipated claim costs to minimize cross subsidization.

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

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

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

The Panel will release, as part of its final report, the results of the review of SGI's Saskatchewan Auto Fund rate increase and rebalancing request as conducted by an independent third party. By doing so the Panel shall ensure there has been no indirect release of any of SGI's Confidential Information. The Panel will present its report to the Minister Responsible for Crown Investments Corporation no later than 29 May 2012.

3.0 REVIEW PROCESS

The Panel retained the services of Eckler Ltd. and Kostelnyk Holdings Corporation (jointly referred to as the Consultants) to advise the Panel on this Application. The Consultants received all documents related to the Application on 3 February 2012. They immediately commenced a detailed review, providing initial impressions of the Application as well as an Application summary for the Panel, which was presented on February 21 and 22. SAF also presented an overview of the Application to the Consultants and the Panel on February 22. Subsequent to this meeting, the Consultants prepared initial information requests (IRs) on behalf of the Panel, which were vetted with the Panel on March 2 and submitted to SAF on March 6. Responses were received on March 25.

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

Public meetings were held in Saskatoon and Regina to allow Saskatchewan residents and associations to have an opportunity to make their inquiries and voice their opinions. Although the Consultants did not attend the Saskatoon meeting, they did attend the public meeting in Regina on April 2 and were briefed by the Panel on the Saskatoon public meeting held on March 28. Other presentations from the public were received by the Panel by email, phone calls, and written submissions. The majority of these are summarized in Section 20.0 of this report.

On April 2 and 3, the Consultants and the Panel met in Regina for a general discussion on the Application and to review responses to the first round of IRs. As well, SAF personnel presented a technical overview related to the determination of the 2012 indicated rates and premiums. Based on the information received in the first IRs, the public meetings, and the discussions between the Panel, the Consultants, and SAF, a second round of IRs was prepared and submitted to SAF on April 12. SAF provided responses to these IRs on April 25.

After reviewing and analyzing the responses provided by SAF, the Consultants provided the Panel with an overview of its recommendations. A draft report was then prepared and submitted for review by the Panel on May 7. The draft report, in an abridged form, was also submitted to SAF for verification of factual data and proper interpretation of the Application. SAF provided their response on May 9.

On May 11, the Consultants met with the Panel to review the draft report and outline the scope of the recommendations. The Consultants final report was submitted May 23 after a final review of all comments via conference call with the Panel on 17 May 2012.

3.1 STUDY OBJECTIVES

The Consultants study objectives included:

- Gathering sufficient, up to date information, to allow the Panel to fulfill its mandate;

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

4.0 RATEMAKING METHODOLOGY OVERVIEW

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

SAF assigns vehicles into use classes based on each class's characteristics and exposure to risk. The largest of these is the private passenger vehicle (PPV) class, which accounts for upward of 71% of all vehicles insured. Examples of other classifications are farm vehicles, heavy trucks, motorcycles, and taxis. A complete list of vehicle classes is listed in Appendix A of the Application.

SAF's ratemaking methodology considers vehicle classification, indicated rate change, and relativities within rate groups when determining the rate.

4.1 CLASSIFICATION

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

Premiums

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

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

Volume reviews the total number of vehicles that will be insured during the rating period. For 2012, a refined process of reviewing historical data on a class-by-class basis to determine the increase in the number of vehicles to be registered was applied to predict volume growth. Previously a flat rate had been applied to forecast all classes.

Claims

Claim costs represent approximately 80-85% of SAF's total costs. Of this percentage, damage claims represent 60% of total claim costs, and injury and liability account for the remaining 40%. In the actuarial analysis, claims are assigned to the vehicle classes based on vehicle collision responsibility (i.e., to the at-fault vehicle).

The major factors affecting claims are unpredictable, including severe weather conditions such as summer storms and winter driving conditions. Additional factors which contribute to increased claims costs are inflation sensitive factors such as labour rates paid to body shops and the increase in the average wage of people injured, which raises the cost of income replacement benefits for which SAF provides coverage.

Other items which are not easy to predict and impact claims costs are injury re-occurrence rates, medical innovations, and rehabilitation programs.

Expenses

Vehicles are charged for expenses categorized in one of two ways: variable or fixed.

Variable vehicle expenses include expenses and credits that are dependent upon premiums written such as taxes paid to the General Revenue Fund, traffic safety programs and issuer commissions, and credits for short term registrations and AutoPay programs.

Fixed expenses include administrative costs and expenses related to adjusting losses.

4.2 INDICATED RATE CHANGE AND RELATIVITIES

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

Relativities within a rate group will vary depending on attributes specific to vehicles within the group. Relativities are used to differentiate vehicle rates based on factors such as usage, seating capacity, value, and model year.

5.0 ACTUARIAL ANALYSIS

5.1 PURE PREMIUM CALCULATION

A pure premium is the average loss amount per unit of exposure. Non-catastrophe and liability data used were from accident years 2006 to 31 May 2011, while injury and catastrophe data from accident years 2003 to 31 May 2011 were used to calculate the average pure premium per coverage.

Loss development factors are calculated using ultimate claims costs from the May 2011 actuarial valuation. These costs are used to bring yearly incurred losses by coverage to their estimated ultimate losses value. The ultimate losses are divided by the number of exposures resulting in the ultimate pure premium by coverage.

Trend factors are determined by coverage and vehicle classes based on a comparison of several regression analyses. Trends of frequency and severity are utilized to determine what has occurred in the past and to develop expectations for future trend periods. Where information is limited due to the small populations within a given vehicle class, trend data is grouped together and considered when determining trends for similar vehicle classes.

Both trend factors and loss development trends are used to bring pure premium values to an appropriate level for a future rating period.

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

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

5.2 PROJECTED ADEQUATE AVERAGE PREMIUM CALCULATION

Pure premiums have to be adjusted for the time value of money, loss adjustment expenses, administrative expenses, salvage amounts, reinsurance costs, medical funding, appeal costs, the Malus component of the Safe Driver Recognition Program, variable expenses, a contingency margin, and investment income on the RSR.

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

The overall rate of interest used to discount the expected cash flows in the 2012 rate Application is 4.3%.

LAE are expenses associated with claim settlements, but are not claim specific. For example, legal costs, adjuster costs, and costs associated with operating claim centres are included in loss adjustment expenses. They are not allocated to a specific claim, but instead to the total number of vehicle classes based on claim costs per coverage. The total LAE is divided by the number of vehicles forecasted to determine the average LAE per vehicle. LAE was allocated to Trailers, snowmobiles, and antique classes for the first time in the 2012 Application.

Administrative expenses (such as salaries, building maintenance, and supplies) are charged as fixed expenses to every vehicle exposure, except for trailers, snowmobiles, and antiques. The calculated 2012-2013 amount was $59.23 per exposure, using 5 of 12 months of the 2012 budget and 7 of 12 months of the 2013 budget. Because the RSR funded the Auto Fund Redevelopment Project, it is not considered an administrative expense.

Salvage amounts are revenue received from the sale of written off vehicles or their parts. A credit per exposure of $12.25 is applied to the damage and liability portion of pure premiums (except for trailers and snowmobiles).

Protection against catastrophic losses, either due to severe weather conditions or multiple serious injuries from collisions, is provided by reinsurance purchased to mitigate the potential RSR impact. A reinsurance cost per exposure of $5.59 is applied to all classes, except trailers and snowmobiles, to account for this.

Medical funding must be considered to offset the costs that are incurred by the Province as a result of vehicle related accidents and damages. SAF pays a portion of the costs on medical expenses for each class. These costs are allocated to each vehicle class based on exposures.

Appeal costs are related to Automobile Injury Appeal Commission costs and are allocated to each vehicle within a vehicle class.

Safe Driver Recognition Malus is applied only to those vehicle classes that qualify for the program. The forecasted Malus amount divided by the total number of qualifying vehicles determines the discount per vehicle.

Variable expenses account for 10.32% of premiums as follows:

Variable Expenses	
Premium Taxes	5.00%
Traffic Safety	2.93%
Issuer Commissions	5.14%
Short Term Registrations	(1.01%)
AutoPay	(1.74%)
Total Variable Expenses	10.32%

A contingency margin of 3.5% is loaded into the rates to account for adverse events that could impact the RSR and are unpredictable in nature or occurrence. The 2012 Application is the first time that a contingency margin has been introduced for the determination of the required rate levels. SAF submitted that the contingency margin would account for "*adverse events which may impact the underwriting results, such as higher than forecasted weather-related claims (e.g. bad winter driving conditions and/or hail claims in the summer), lower premium drift than expected, less investment income realized due to market volatility or increases to inflation greater than expected*".

Credit is applied for forecasted investment income on the forecasted RSR. This is calculated per forecasted vehicle and calendar period expected investment yields using a 3.13% return for 5 of 12 months of the 2012 RSR, and a 2.11% return for 7 of 12 months of the 2013 RSR. This results in a $2.59 per vehicle credit being applied.

5.3 INDICATED RATE CHANGE

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

5.4 BASE RATES AND RELATIVITIES

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

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

Premiums charged for CLEAR-rated vehicles and motorcycles are calculated by multiplying the Damage base rate by the damage relativity, then adding the Injury base rate multiplied by Injury relativity, and finally adding the Liability base rate.

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

Premiums charged for other vehicles without rating groups are calculated by adding the Damage base rate to the Injury base rate and the Liability base rate.

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

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

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

Taking into consideration the rate shock impact to customers, maximum increases or decreases were capped at either a dollar value or a percentage of the total premium for most vehicle classifications. The parameters are outlined in the table below:

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

Caps were not applied to all classifications because one of SAF's goals is to limit vehicle class cross-subsidization to less than 5% across all classifications. Certain vehicle classes, such as sport motorcycles have been heavily subsidized by other classes for multiple years. To bring these class premiums in line with the loss experience claims costs in a timely manner requires SAF to impose caps in excess of those identified above. For example, the sport motorcycle class will receive a 30% increase to their annual premiums or a $45 per month increase.

Any excess or foregone premium as a result of the capping across all classifications is rebalanced over the CLEAR-rated vehicles.

5.5 CLEAR

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

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

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

CLEAR has two major components: rate group assignments and associated relativity factors. SAF uses CLEAR rate group assignments in conjunction a mixture of CLEAR relativity factors and SAF-specific relativity factors, depending on the volume of SAF experience available.

Prior to 2012, SAF's data indicated that injury rates used by CLEAR were not a good fit for Saskatchewan loss experience. In this Application, SAF uses its own internal injury claims data when calculating injury relativities.

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

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

5.6 RATE INDICATIONS BY CLASS

5.6.1 CLEAR-Rated Vehicles

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

SAF's actuarial analysis shows that there is a requirement for an overall 1.5% increase for CLEAR-rated vehicles based on the loss experience and premiums for the entire group. Rates for individual classes are based on loss experience and each of the classes as they relate to the PPV class.

SAF proposes a 3.2% increase because capping of rate changes on other vehicle classifications results in insufficient revenue to attain the overall required rate change.

Annual rates for some classes of vehicles are calculated using the base rate of the same PPV plus or minus a surcharge or discount based on the loss experience of that particular class. The current and proposed changes for each of the remaining CLEAR-rated vehicles are as follows:

Changes Proposed for Remaining CLEAR-Rated Vehicles			
Vehicle Class	**Current Discount / Surcharge**	**Proposed Discount / Surcharge**	**Effect of CLEAR and Discount / Surcharge Changes**
Farm Cars, SUVs and Vans	-10%	-20%	-10%
Farm Light Trucks (1994 & Newer)	-15%	-25%	-10%
Class A - Commercial Light Trucks	20%	35%	15%
Police Cars	35%	50%	15%
Police Trucks, Vans & SUVs	20%	5%	-15%
Rural Taxis	60%	60%	0%
U-drive (Rental) Vehicles	15%	15%	0%
Class PV - Heavy Trucks & Vans, Power Unit and Converted Vehicles	0%	0%	0%

In summary for CLEAR-rated vehicles, 468,000 vehicle registrations or 62% of customers will experience an increase in rates. The average increase will be $7/month or $84 annually. 275,000 or 37% of customers will experience an average decrease of $5/month or $60 annually and 2,000 vehicles or 1% of the total customer population will experience no change to their rates.

The rate group relativity analysis for CLEAR-rated vehicles estimates pure premium costs per rate group. Current rate group relativities are credibility weighted with the calculated relativities based on actual pure premiums per rate group. Proposed rate group relativities are capped to be within 10% of the current rate group relativities. The proposed rate group relativities are used to determine the vehicle's Damage portion of the premium, while SAF uses only its own internal data to determine the Injury rate group relativities used to determine the Injury portion of the premium.

5.6.2 Conventionally-Rated Vehicles

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

6.0 2009 PANEL RECOMENDATIONS

The Panel made several recommendations in its Report to the Minister pursuant to SAF's 2009 rate adjustment Application. In the 2012 Application, SAF provided the current status of these recommendations as follows:

- **Recommendation:** SAF implement an average rate increase of 4.2%, effective 1 November 2009.

  Response: SAF implemented the rate program into the Auto Fund system on 13 September 2009 with an effective date of 1 November 2009.

- **Recommendation:** SAF test the appropriateness of the Minimum Capital Test (MCT) target range for the Rate Stabilization Reserve, and that a formal policy be established and implemented to address situations where the MCT for the RSR falls significantly below or above the target range.

  Response: The Minimum Capital Test target range was reviewed for appropriateness and had revisions made. The MCT target has been adjusted to 112.5% with a minimum threshold of 75% and a maximum limit of 150%, and a Capital Management Policy was implemented.

- **Recommendation:** SAF examine all aspects of its operations to improve productivity and efficiencies in an effort to produce savings that benefit the RSR and ultimately SAF customers, and to report the results in all future rate Applications.

  Response: SAF has and will continue to examine all aspects of its operation with the goal of achieving productivity gains and efficiencies.

- **Recommendation:** SAF submit rate adjustment Applications with rate rebalancing on an annual basis.

  Response: A rate Application was not submitted to the Panel in 2010. SAF attributes this to complications with the Auto Fund Redevelopment Project, but stated that a rate analysis was performed which indicated an overall indicated rate change of 0%.

7.0 2009 CONSULTANT RECOMMENDATIONS

The Consultants also made recommendations in its 2009 Report to the Panel and SAF provided the current status of these recommendations as follows:

- **Recommendation:** That the discounts and penalties administered under the Safe Driver Recognition (SDR) Program and Business Recognition (BR) Program be reviewed and analyzed with a view to having these programs actuarially based, and to file a report with the next Application.

  Response: SAF advised that in 2012 SGI is planning a full review of all coverages, benefits, and programs under *The Automobile Insurance Act* and associated regulations, including both the SDR and BR Programs and their respective bonuses and penalties. At the time of filing, SGI was waiting approval from its shareholders regarding the scope of the review.

- **Recommendation:** SAF study the CLEAR injury rate group initiative and come forward with a proposal for implementation in Saskatchewan.

  Response: In order to more appropriately represent the vehicle loss experience in Saskatchewan, SAF has created a new injury rate group system using its own Auto Fund claims data.

- **Recommendation:** SAF consider expanding the use of credibility (an actuarial tool) to enhance the comparability of results between classes of vehicles and to better address the limitations posed by small numbers in rate groupings.

  Response: SAF grouped similar types of vehicles to enhance the credibility of the selected trends for a particular type, mitigating limitations posed by small amounts of data from lightly populated groupings.

- **Recommendation:** Explore the need to develop distinct rate levels for Tort versus No-Fault coverage.

  Response: This has not been implemented due to other rate program priorities and that there may be inherent difficulties in developing such rate levels.

- **Recommendation:** Develop more rigorous trend models for longer time periods to enhance stability between Applications and to improve forecasting accuracy.

  Response: SAF agrees and stated that a new grouping of similar types of vehicles for trend assumption selection would help mitigate variability in selected trends. Additionally, models will improve with each Application and thus will produce more accurate results.

- **Recommendation:** Introduce a process to mitigate the impact of a small number of extraordinary claims.

Response: Several changes and continuation of existing processes have been introduced, including grouping of vehicle classes for trend selection, natural accumulation of more relevant data, use of rate group credibility analyses, and separate fits for frequency and severity models used to determine relativities.

- **Recommendation:** Improve timing of Applications to optimize availability and use of most current experience.

  Response: SAF agrees and will continue to make optimization improvements. As an example, the previous Application process time from start to effective date was 22 months, while the 2012 equivalent time is 14 months.

- **Recommendation:** Consider a level of RSR surcharge to start rebuilding the RSR, and to track and report such RSR replenishments separately.

  Response: SAF did not implement this as the Panel did not recommend it.

- **Recommendation:** Undertake further analyses of the exposure of the RSR to volatility from various sources to test the appropriateness of the RSR levels.

  Response: This has been addressed in this Application as part of the Capital Management Policy.

- **Recommendation:** Continue to pursue internal efficiencies and review staff complement as well as average compensation when the Auto Fund Redevelopment Project has been completed.

  Response: Productivity gains and efficiencies have been addressed in this Application, including a benchmarking study conducted by the Ward Group.

- **Recommendation:** Encourage SAF to continue research and monitoring and include updates on its Traffic Safety initiatives.

  Response: In January of 2012 SGI approved an evaluation framework for traffic safety initiatives and programs as a retrospective evaluation tool, based on research and experience, with a structured approach using cost benefit analyses. This framework will be used in 2012.

8.0 ACTUARIAL CHANGES

The following is a summary of actuarial changes contained in this Application, relative to the 2009 Application.

8.1 PROCESS CHANGES

Process changes in the following components have affected all vehicle classifications: Issuer Fees, Internal Loss Adjustment Expenses, Contingency Margin, Drift Factors, Discount Factors, Appeal Commission Costs, and Pure Premium Selection.

Providing for issuer fees has changed from the previous practice of treating these as a fixed expense to being treated as a variable expense expressed as a percentage of premiums collected, except for International Registration Plan (IRP) vehicles which have an assigned flat fee of $4. The effect of this change is the most pronounced in the highest and lowest rated classes.

Internal LAE is now also allocated to trailers, snowmobiles, and antiques. The total LAE is allocated to various classes using claims volumes rather than the average LAE per exposure.

The applied for contingency margin of 3.5% has been added to the indicated rate for all classes. SAF's position is that trends in prior Applications were conservative estimates, while in this Application they use best estimate assumptions to select trends. The proposed contingency margin explicitly recognizes the potential volatility in critical assumptions, including making provision for catastrophes and long-tail coverage ultimate claim costs.

Drift factors have changed so as to be selected by class rather than on an overall basis.

Discount factors are determined using a discount rate curve and different rates are used depending on the expected timing of the claims' cash flows. SAF's current asset-liability matching practice is to assume that, for the first 20 years, bond cash flows will match payments. Beyond this period of time, the assumption is that the claims' cash flows will be backed by equity and real estate cash flows.

Appeal Commission costs have been removed from the pure premium calculation and added as an expense item because these costs are outside of SAF's control.

In this Application, pure premium selections are based on the following weights applied to projected values based on historical experience as follows:

- Injury – 2003 to 2011 – 11.11%;
- Catastrophe – 2003 to 2010 – 12.5%; 2011 – 0%; and
- Damage, Liability, and Tort – 2006 – 10%; 2007 to 2010 – 20%; 2011 – 10%.

8.2 DATA CHANGES

Injury costs are now assigned to the at-fault vehicle rather than the vehicle occupied by the injured party. As well, outstanding reinsurance recoveries are now accounted for independently in ultimate losses. Trailer liability and injury claims as well as snowmobile damage and injury claims are now allocated to other classes based on incurred claim amounts. Double counting of the index factor has been removed from care, income replacement, and death benefits, and double counting of salvage purchases, included in damage ultimate losses, has been removed from the expense allocation. Lastly, the damage excluding catastrophes and liability versus damage liability allocation issue has been corrected.

8.3 CLEAR-RATED VEHICLES

In the 2012 Application, premiums and losses for all CLEAR-rated vehicles are combined and used to produce a CLEAR-rated vehicle rate indication. Pure premiums for various CLEAR-rated vehicles are then compared to the LV-PPV class pure premium rather than on an individual vehicle basis. Due to the change in injury cost allocations to at-fault vehicles, injury losses for CLEAR-rated vehicles increased. CLEAR injury rate group relativities use SAF data and separate relativities for vans, station wagons, 2 door cars, 4 door cars, trucks, SUVs, and convertible cars. Finally, CLEAR damage rate group relativities combine SAF historical experience with Insurance Bureau of Canada rate group relativities, as follows:

- For rate groups 0 – 36, SAF data is sufficient and is used exclusively;
- For rate groups 37 – 60, a weighted average of SAF/IBC relativities is used; and
- For rate groups 61 – 99, IBC rate group relativities are used.

8.4 CHANGES AFFECTING OTHER SPECIFIC CLASSES

Changes for other specific vehicle classes include:

- Ambulances, Class C&D Commercial Vehicles (non-resident), and LV – Antiques have full rate indications developed;
- Premiums and losses for Hearse Cars and Hearse Trucks have been combined;
- IRP and Non-IRP vehicles had separate analyses completed;
- Dealer plate excess value premiums and losses have been excluded;
- Motorhome U-Drive vehicles are in the LV – Motorhome indication;
- Snowmobile U-Drive vehicles are in the MT – Snowmobile indication;
- Rural Taxis are excluded from the PT – Taxi indication and are now on the CLEAR system;
- Trailer, antique, and snowmobile indications now include in a small loss adjustment expense component affecting F – Farm Trailers, LT – Trailers Dealers/Movers, T – Personal Trailers, T – Utility, TS – Commercial Trailers, LV – Antiques, and MT – Snowmobiles; and
- Utility Trailers have separate indications instead of being grouped with Personal Trailers.

9.0 AUTO FUND REDEVELOPMENT PROJECT

9.1 BACKGROUND

In 2005 SAF began development of a new customer information system called the Auto Fund Redevelopment Project (AFRP). This system provides customers with more choices and ease of access to more readily available information. In addition to enhanced customer service, SAF submits that the new system has reduced its costs and improved its position respecting the provisioning of its products in the future.

The project was implemented in phases (Releases) as indicated below:

- Release 1 – Permit Office System, implemented in April 2007;
- Release 2 – Test Drive, implemented in October 2007;
- Release 2.1 – Vehicle Standards, implemented in March 2008;
- Release 2.2 – Driver System, implemented in November 2008;
- Release 4 – Vehicle System, implemented in February 2010; and
- Release 5 – Internet, implemented in June 2010.

The end result is that SAF has now integrated all customer activities into a single system and provides web-based applications, which are also used for law enforcement and driver examinations.

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

Given all these improvements, SAF contends that its revenue stream has improved dramatically and that the AFRP is one of the best licensing and registration systems in Canada. As a result of its efficiency, SAF has been approached on it by other jurisdictions and are now exploring opportunities to either license or sell the system. A detailed explanation of the productivity and efficiencies gained from this system are outlined in the following sections.

9.2 PRODUCTIVITY GAINS AND EFFICIENCIES

MySGI allows customers to log onto accounts to see their history, on-line renewals, cancellations, registrations, and other various applications. SAF states this has resulted in a cost savings of $38,000 as of 30 September 2011.

The new technology this system supports, such as scanners and signature pads, has resulted in the elimination of staff positions in the Auto Fund's Imaging department.

The system has also enabled more stringent administration for PST collections, helping contribute to a $637,000 increase in PST remitted to the Province of Saskatchewan. As well, it has allowed the Province of Saskatchewan to streamline the PST audit process by having the information recorded electronically, making it easily accessible when required. Additionally, the use of JIRA has improved SAF's issue logging abilities, resulting in an improved reporting and tracking system.

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

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

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

SAF states that the overall reduced costs achieved by implementing the AFRP included the elimination of 15 redundant FTE positions. Eight positions were abolished, 5 positions were relocated within SAF, and 2 transferred to SGI's Systems Division, all resulting in an annual savings of $625,000.

Switching over to a newer, updated system reduced previous software maintenance costs by approximately $263,000 in 2011. SAF has developed a Corporate Plan to focus on efficiencies for 2011 through to 2015. SAF has recently established a "PEP" Squad, the purpose of which is to focus on promoting increased efficiency, productivity, and streamline processes throughout the entire organization. The PEP Squad has been tasked with introducing the LEAN methodology across the various areas and departments of SGI.

PEP is comprised of SAF staff who introduce the LEAN methodology to different areas of the Corporation. LEAN initiatives yielded an increase in the number of hearings that the Highway Traffic Board has processed by approximately 20% and a reduction of printing costs by 80%. PEP has plans to complete one large efficiency project and ten smaller process efficiencies by the end of 2012. Since the Redevelopment Project concluded, contractor skill sets have been transferred to SAF staff and they will assume the responsibility to continually improve future productivity and efficiency.

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

The total savings or additional revenue estimated is:

- $25,000 from introduction of E-rates/ E-manuals, when a rate program is implemented;
- $26,000 per insurer paid to SAF for use of BOSS on SAM terminals;
- $35,000 for reduction in miscellaneous paper use annually; and
- $6,000 from IRP Renewals being emailed to customers annually.

9.3 FUTURE EFFICIENCIES

SGI will continue to promote efficiency, productivity, and process improvements throughout all its organizations. SAF plans to focus its continuous improvement activities on internal and external communications in the form of promotion of SAF strategies, website expansion, and improvements to the processes at the Permit Offices it manages.

9.4 COSTS

The AFRP total cost was $36,046,664. This was comprised of External Resource Capital of $25,185,620, Infrastructure Capital of $1,395,409, and SGI Business Staffing costs of $9,465,635.

$35 million of the project cost has been funded by the Rate Stabilization Reserve, with the excess of approximately $1.0 million being funded from annual operations. Total capital cost of approximately $26 million is being amortized; external resource costs of $25.2 million over 60 months and internal infrastructure cost of $1.4 million over 36 months. SAF has stated that all Capital costs will be fully amortized by February 2015.

In a 2009 Information Request, SAF stated that when completed and operational, there would be an estimated annual savings of between $750,000 and $1 million in staffing costs. This was dependent on the volume of customers transitioning from the past methods and using the new system. SAF further anticipated that with the new system there would be a reduction in ongoing annual system maintenance costs of approximately $200,000 to $300,000.

When followed up in an Information Request for the current Application, SAF stated that the staffing cost savings in 2012 are in the range of $625,000 to $700,000 depending on which FTE positions were eliminated and where they were in their pay-band range. SAF indicated that these savings are the result of the 15 positions eliminated because of AFRP and that the savings are reflected in the Regular Salaries expense accounts throughout SAF's departments.

Savings for avoided ongoing system maintenance costs are approximately $263,000 as a result of not having to pay higher maintenance costs for the old Permit Office and IRP systems. These maintenance cost savings are reflected in the Data Processing expense account of the Systems Division budget.

The table below summarizes the savings from efficiencies SAF has commented on in the current Application:

Annual Savings to SAF from Efficiencies for the Auto Fund Redevelopment Project	
MySGI Remuneration Savings *	142,000
Increases in PST Collections	637,000
Staffing Cost Savings	625,000
Software Maintenance Cost Savings	263,000
E-rates	25,000
Issuer E-manual	10,000
Miscellaneous Paper	35,000
Emailing IRP Renewals	6,000
Total	**1,743,000**

- MySGI Remuneration Savings are projected based on current uptake levels; however SAF will be expanding the transactions available on MySGI in 2012. The $142,000 noted above is a conservative estimate.

Note: While not an efficiency, SAF will recover annual revenue, estimated at $26,400 per insurer for use of the BOSS system on SAM for system use when providing extension coverage.

SAF will focus future efficiencies and cost reductions on improving the response time to customer inquiries, permit processing, customer appointment scheduling, and driver testing. Savings are anticipated from paper use, hard copy storage, management travel time for meetings, and processing the receipt of faxes. These will flow from the enhanced availability of customer internet services and online banking which will improve the turn-around time of transactions and also reduce the amount of time staff spends responding to customer inquiries. This will free up time for other tasks to be completed by SAF staff, improving overall productivity. SAF will also focus on increasing the amount of hearings and appeals held by the Highway Traffic Board by further streamlining the process. SAF anticipates all these initiatives will yield an annual cost savings of $326,827.

10.0 FIVE YEAR FINANCIAL FORECASTS

The following table shows actual financial information for 2010 and forecast financial information for 2011 to 2016 with the proposed 3.7% rate increase.

Updated Five Year Financial Forecast (+3.7% Rate Change Effective 4 August 2012)							
(Amounts in $000s)							
Year Ended Dec 31	**Actual**	**Forecast**					
	2010	2011	2012	2013	2014	2015	2016
Net Premiums Written before Discounts	795,194	835,885	900,013	978,120	1,039,770	1,105,303	1,174,967
Safe Driver Recognition Bonus	(90,798)	(95,472)	(102,949)	(111,863)	(118,906)	(126,392)	(134,350)
Safe Driver Malus	10,726	11,278	12,161	13,214	14,046	14,930	15,870
Business Recognition Bonus	(6,772)	(7,121)	(7,678)	(8,343)	(8,869)	(9,427)	(10,021)
Premiums Written – Net	708,350	744,570	801,547	871,128	926,041	984,414	1,046,466
Premiums Earned	684,821	726,059	772,608	843,311	901,547	958,380	1,018,796
Claims Incurred	549,235	735,663	642,345	674,205	697,983	771,444	828,713
Loss Adjustment Expenses	55,451	61,455	62,570	67,540	72,854	78,113	83,989
Premium Taxes	34,376	36,469	38,846	42,392	45,315	48,169	51,202
Issuer Fees	34,813	45,929	31,788	43,815	46,573	49,505	52,622
Administrative Expenses	51,770	54,003	54,504	58,321	59,499	61,746	64,583
Traffic Safety Programs	17,285	21,013	26,275	23,724	24,336	24,901	25,507
Total Expenses	**742,930**	**954,532**	**856,328**	**909,997**	**946,560**	**1,033,878**	**1,106,616**
Underwriting Loss	**(58,109)**	**(228,476)**	**(83,720)**	**(66,686)**	**(45,013)**	**(75,498)**	**(87,820)**
Investment Earnings	119,367	52,761	44,274	31,272	40,510	78,468	92,150
Other Income	31,489	30,345	32,066	34,943	38,658	38,471	40,389
Increase (Decrease) to RSR	**92,747**	**(145,367)**	**(7,380)**	**(471)**	**32,155**	**41,441**	**44,719**

11.0 PROGRAM REVENUE

11.1 PREMIUM REVENUES

SAF premium revenues are anticipated to increase by $57 million, from $745 million in 2011 to $802 million in 2012. This represents a 7.65% increase. The increase in premiums has been attributed to the impact of vehicle drift and growth as well as driver surcharges and discounts from the Safe Driver Recognition and the Business Recognition Programs. SAF notes that the factors accounting for the increase in premium revenues is in addition to that generated by the requested 3.7% overall increase.

SAF states that the overall growth trend over the past 10 years has been 2.2% per year in the number of vehicles excluding trailers, while changes in vehicle fleet mix has resulted in an annual increase of 3% in premium revenues. The combined premium increase was 5.78% in 2011 and is projected to be 6.3% in 2012.

The Safe Driver Recognition Program has provided over $512 million in discounts to qualifying drivers since its inception in 2002. Estimated discounts for 2011 were $95 million and are projected to be $103 million for 2012. As noted, this program also collects revenues from drivers who are in the penalty zone. The rating rules and discounts are governed by the Minister's Order and are unchanged from 2009. As such, they are to be considered a given factor for the Panel when analyzing the request for a rate increase. Drivers in the penalty zone are penalized according to a pre-determined scale (SDR Malus). The surcharges for 2011 are projected at approximately $11.2 million and forecast to be $12.2 million for 2012.

The Business Recognition Program has rewarded safe driving Saskatchewan businesses with discounts of up to 10% on their insurance fees. Since its inception in 2004 and up to 2010, discounts provided to businesses have amounted to $34 million. SAF estimates that businesses will receive discounts of $7.1 million in 2011 and $7.7 million in 2012.

11.2 REINSURANCE CEDED PROGRAM

SAF continues to maintain two catastrophe excess of loss reinsurance programs which are designed to mitigate catastrophic losses resulting from auto physical damage and auto personal injury.

The auto physical damage catastrophe reinsurance program provides coverage for physical damage, excluding collision, upset, theft, fire, lightning, explosion, and road hazard glass, in the amount of $100 million. The $100 million was increased from $55 million in 2010. The coverage provided by this program is for a 12 month period, commencing May 1st. Since 2005/06, this reinsurance program has had a $5 million retention and an annual $5 million aggregate deductible. The primary reason for this was to prevent significant rate increases that result from consecutive high claim years. It is primarily used to provide protection for weather related events. Premiums paid are based on a flat premium and the cost of future premiums are influenced by claims experience, which are difficult to forecast. SAF anticipates a pricing correction for the 2012/13 renewal term because of the significant storm activity during 2010 and 2011. From 2001/02 to 2011/12, premiums paid for this program amounted to approximately $19.8 million, while claim recoveries amounted to approximately $20.4 million.

Annual premiums paid and claim recoveries are shown below.

Auto Physical Damage Catastrophe Reinsurance		
Treaty Term	**Premium Paid**	**Claim Recovery Made**
2001-2002	1,471,650	-
2002-2003	2,086,137	1,706,851
2003-2004	1,921,288	882,058
2004-2005	1,977,064	-
2005-2006	1,348,000	-
2006-2007	1,628,000	-
2007-2008	1,551,000	-
2008-2009	1,552,600	-
2009-2010	1,592,000	-
2010-2011	2,200,000	4,961,956*
2011-2012	2,427,000	20,022,294*
* Update provided in Information Request on 12 April 2012		

The auto personal injury catastrophe reinsurance program provides coverage of $30 million in excess of the $20 million dollar retention. This program was terminated in 2001 as a result of drastic premium increases in response to the 11 September 2001 terrorist event. In 2001 the annual premium for this program was $100,000. SAF's current program was re-instituted in 2005 and was adjusted to a $20 million retention from the previous $5 million in order to mitigate premium increases. To date there have been no claims made to this program since its inception. Premiums since the program was reinstituted in 2005 amounted to approximately $4.5 million in total. Annual premiums are approximately $700,000. SAF anticipates that premiums should increase by the rate of inflation given the claims free trends of past years.

11.3 INVESTMENT INCOME

SAF's investment income flows from its $1.4 billion portfolio. Approximately $140 million of the portfolio supports the Rate Stabilization Reserve. The remaining $1.2 billion is monies set aside and invested to meet future liabilities, which are mostly claims related.

SAF uses their investment income gains to reduce rates charged to customers. Over the last 10 years, investment income has been equal to 10% of premiums annually and has resulted in customer rates being lower than they would have otherwise been.

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

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

SAF's new 2010 investment strategy created a Matching Portfolio for all fixed income investments, including mortgages, and a Return Seeking Portfolio for all equity and real estate investments. The Investment Policy Review conducted in 2011 was presented to the Board of Directors and identified "optimal" portfolios that would improve the overall risk-return relationship. This was to invest in infrastructure and global small cap equities to replace some of the Canadian equities. The report indicated that this would reduce volatility and potential downside for the Return Seeking Portfolio without sacrificing returns. SAF notes that the transition of investments within the portfolio will take time.

Return Seeking Portfolio Composition		
Asset Class	**New Target %**	**Current Target %**
Canadian Equities	27.5	50.0
U.S. Equities	15.0	16.0
Non-North American Equities	12.5	16.0
Global Small Cap Equities	12.5	-
Real Estate	20.0	16.0
Infrastructure	10.0	-
Short-term Investments	2.5	2.0

The purpose of SAF's Statement of Investment Policy and Goals is to provide a framework for the prudent investment and administration of the Saskatchewan Auto Fund investment portfolio. It provides a written statement of specific quality, quantity, and rate of return standards for the portfolio. The major goal is to establish ongoing communication with SGI and the investment manager. The statement was last reviewed and amended in November 2011. It is a comprehensive document that, in addition to the purpose and goals, outlines the allowing Authorities, Nature of the Auto Fund, Liability Characteristics, Investment Beliefs, Investment Philosophy, and Risk Philosophy. The statement also outlines the Asset Mix Policy, Investment Guidelines, stipulates Permitted Investments, details minimum quality and quantity guidelines for the two portfolio types, lists prior permission required for specific investments not previously outlined, lists Prohibited Investments, and stipulates Securities Lending Guidelines.

The statement also provides, in substantial detail, the various components of the Monitoring and Control of the Investment Portfolio Performance. This includes the Responsibilities of the Investment Manager, Compliance Reporting, and Performance Management for the Matching and Return Seeking Portfolios. It also addresses several other topics in the area of control, including standards of professional conduct and outlines the causes for the dismissal of the Investment Manager. In the Administration Section, the statement covers Conflicts of Interest, Related Party Transactions, Selecting and Monitoring of an Investment Manager, Voting Rights, Valuation of Investments not Regularly Traded, and the requirements for an Annual Review.

To facilitate changes and monitor investment status and progress, SAF contracts with an investment consultant. A professional investment management firm has provided above average returns to date. The investment manager's performance is measured against similar size portfolios for benchmarking purposes.

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

Using asset class return forecasts prepared as at 1 August 2011, the following illustrates the 2011 to 2014 expected return for SAF's investment portfolio:

Auto Fund Return Forecast				
	2011	2012	2013	2014
Expected Return (net of fees)	2.86%	3.13%	2.11%	2.58%

11.4 OTHER INCOME

Other income for SAF is generated from premium payment options, monthly payment financing, and profit from salvage operations which generate recovery from total loss vehicles through sales of their parts. The table below lists these elements (Short Term Registration, Auto Pay Income, and Salvage Net Profit) of Other Income from 2010 to 2011 as well as forecasts from 2012 to 2016.

Other Income							
Description	Actual ($000s)		Forecast ($000s)				
	2010	2011	2012	2013	2014	2015	2016
Short Term Registration	7,386	7,176	7,738	8,763	9,315	9,901	10,525
Auto Pay Income	12,575	12,512	13,491	14,897	15,835	16,831	17,891
Salvage Net Profit	9,824	10,657	10,837	11,283	11,508	11,739	11,973

12.0 PROGRAM COSTS

12.1 CLAIM COSTS INCURRED

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

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

Claim costs are separated into 3 components:

1) Personal Injury for which customers have a choice between tort and no-fault;
2) Third Party Liability which is subject to a $200,000 limit; and
3) Physical Damage for collision and comprehensive which is subject to a $700 deductible for most vehicles.

Generally, damage claims represent approximately 58% of total claims and are resolved fairly quickly. Approximately 77% of damage claims are resolved within the year of the accident occurring and about 99% of damage claims are resolved within 12 months of the end of the accident year. SAF identifies these claims as short-tailed claims.

Injury and Liability represent the remaining 42% of total claims costs and take much longer to resolve. SAF estimates that 30% of injury claims are paid in the accident year and only 3% for liability claims. SAF identifies these as long-tailed claims. The time for ultimate settlement, combined with inflation, medical innovations, and rehabilitation programs, leads to uncertainty in estimating ultimate total costs for settlement.

SAF notes that although there is over 30 years of data available for injury programs, the claim durations and reoccurrence rates are difficult to estimate, making changes in estimates inevitable as the claims mature.

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

SAF notes that since 2000, the costs of claims have increased on average by 5.5% per year. Injury claims have also increased as certain accident benefits (tort and no-fault) are indexed with inflation.

12.2 OPERATING, MAINTENANCE & ADMINISTRATIVE EXPENSES

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

Operating, Maintenance and Administrative (OM&A) expenses include salaries, infrastructure costs, and system support costs which account for a total of 6.2% of total costs. Expenditures related to Loss Adjustment Expenses, Administrative Expenses and Traffic Safety Expenses are included. On an overall basis, OM&A costs have increased by $13.7 million (11.3%) to an estimated 2012 total of $137.8 million, as shown below. As discussed in Section 12.6, Traffic Safety costs for 2011 were $21.0 million, increasing to $26.3 million in 2012. Thus, of the $13.7 million increase in OM&A, $5.3 million is attributable to Traffic Safety expenditures, primarily because of the assumption of driver education funding by SAF. The remaining $8.4 million increase arises from the various cost components for LAE and administrative costs.

The following table summarizes SAF's OM&A expenses discussed in greater detail in the following sections as provided in the second round Information Requests:

OM&A Expenses						
Description	2009	2010	2011	Budget 2012	Variance 2011-12	
					$	%
Wages & Salaries	65,922,897	67,144,231	66,843,104	68,316,777	1,473,673	2.20%
Benefits	11,708,515	11,853,492	11,547,233	11,902,113	354,880	3.07%
Pensions	3,683,284	3,759,353	3,857,454	4,419,431	561,977	14.57%
External Services	3,035,640	5,208,513	3,790,369	6,468,194	2,677,825	70.65%
Driver Education	-	-	2,495,022	7,375,000	4,879,978	195.59%
Material & Supplies	757,751	800,456	707,277	757,749	50,472	7.14%
Travel (incl. Vehicle Costs)	1,826,946	1,892,373	1,969,159	1,879,063	-90,096	-4.58%
Insurance	398,740	411,799	404,965	406,248	1,283	0.32%
Tools & Equipment	151,551	180,939	164,547	169,859	5,312	3.23%
Building Rehabilitation	1,896,591	1,730,934	2,005,364	2,717,223	711,859	35.50%
Amortization Costs	1,142,352	1,293,034	2,265,714	2,420,669	154,955	6.84%
Data Processing	8,115,143	10,113,172	12,398,531	11,650,663	-747,868	-6.03%
Safety Awareness	3,283,937	3,077,511	3,411,208	3,096,304	-314,904	-9.23%
Issuer Bank Charges	3,020,495	3,634,893	4,009,517	5,785,574	1,776,057	44.30%
Drinking & Driving Awareness	2,518,176	2,634,797	2,654,809	2,668,624	13,815	0.52%
Postage	1,807,494	2,002,142	2,684,147	2,880,577	196,430	7.32%
License Plates	932,678	1,230,261	832,712	766,349	-66,363	-7.97%
Advertising	159,631	302,031	158,092	582,142	424,050	268.23%
Employee Training	1,742,702	1,568,260	1,570,799	1,841,827	271,028	17.25%
Other Expenses	234,884	306,400	346,826	1,717,737	1,370,911	395.27%
Total	112,339,407	119,144,591	124,116,849	137,822,123	13,705,274	11.04%

This same information is shown below, summarized to a high level:

OM&A Expenses						
Description	2009	2010	2011	Budget 2012	Variance 2011 -12	
					$	%
Traffic Safety	17,405,000	17,285,000	21,012,765	26,275,000	5,262,235	25.04%
LAE and Admin	94,934,407	101,859,591	103,104,084	111,547,123	8,443,039	8.19%
Total	112,339,407	119,144,591	124,116,849	137,822,123	13,705,274	11.04%

In the May 2nd response to supplemental Information Requests, SAF revised the 2011 and 2012 estimates for Benefits and Pensions expenses as follows:

Revised Benefits and Pension Expenses								
Description	Second Round Information Requests				Revised 2 May 2012			
	2011	Budget 2012	Variance 2011-12		2011	Budget 2012	Variance 2011-12	
			$	%			$	%
Benefits	11,547,233	11,902,113	354,880	3.07	11,735,001	12,557,290	822,289	7.01
Pension	3,857,444	4,419,431	561,987	14.57	3,669,686	3,764,254	94,568	2.58

12.2.1 Salaries, Wages and Benefits

SAF states that salaries and wages have been relatively consistent between 2009 and 2011, averaging $66.6 million annually. The 2012 estimate of $68.3 million is about $1.5 million greater than the $66.6 million average. Prior to 2009 there was significant increase in salaries and wages due to the compounding effect of economic increases such as cost of living, unionized and management increments, as well as a substantial growth in the number of positions.

There was an overall increase in the salaries, wages and benefits expense of $1.47 million or 2.2% between 2011 and the budget for 2012.

SAF attributes this to increases in wages, management salaries, merit increases, economic increases and budgeted increases to the number of FTE positions that will be available in 2012.

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

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

Corporately, 18.24 additional positions have been forecasted and budgeted for in 2012. Of these budgeted positions, approximately 7.32 FTEs are related to the Auto Fund, comprised of 3.62 FTEs for their corporate internship program, 1.50 FTEs for Audit Services , 1.31 FTEs for Claims, and 1.03 FTEs for Systems.

SAF contends that benefits and pensions have increased in step with wage increases and the retirement of an aging workforce. On May 2nd, Pension and benefits costs were revised from that originally submitted because the pension expense has been calculated inconsistently. SAF attributes slightly higher pension expense increases, relative to salary increases between 2011 and the 2012 budget due to a higher pension load rate (0.25% higher due to collective agreement negotiations respecting pension contributions).

Pension expense increased in 2011 by 2.5%, while salaries and wages decreased by 0.4%. The salary decrease was largely the result of the redevelopment project being completed in 2010. As such, 2011 salaries and wages saw lower overtime and certain temporary costs, which do not attract pension costs.

Benefits have been budgeted for a 7.0% increase in 2012 due to additional costs for increases in disability and medical plan coverage and a 3 day pay out clause in the collective agreement, as an alternative to SAF's retiring allowance plan.

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

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

12.2.2 External Services

External services relate to consulting services for the most part and fluctuate year to year depending on what projects, studies and Applications are required or implemented. SAF notes that external services were significantly higher in 2010 than normal and attribute this to post-implementation support for the Auto Fund Redevelopment Project. External services expenditures were $5.2 million in 2010, deceasing to $3.8 million in 2011, and are now forecast to increase to $6.5 million for 2012, an increase of $2.7 million (71%). In a response to a verbal request, SAF states that about $1.8 million of the increase is budgeted for traffic safety initiatives related to wildlife solutions, enforcement overdrive, and red light cameras. Additionally, consulting costs were budgeted to increase for systems, human resources and marketing. No other details were provided.

12.2.3 Capital Costs and Building Rehabilitation

SAF states that there have been no changes to their capitalization policy since their last Application in 2009. SAF notes that the amortization periods changed in 2011 when SAF adopted International Financial Reporting Standards (IFRS) which requires significant cost items such as heating and cooling systems be depreciated separately over their useful lives. Previously SAF applied Canadian Generally Accepted Accounting Principles (GAAP) and amortized large capital expenditures such as buildings and all of the components over the course of the useful life of the building. IFRS requires the separation noted above and SAF has complied. SAF notes that under IFRS, depreciation was $24,000 lower than previously under the Canadian GAAP system at 31 December 2010.

Below is a listing of all capital projects undertaken in 2010, 2011 and planned for 2012:

Capital Purchases			
Building Location	**2010**	**2011**	**2012**
North Battleford Claims	1,522,854	10,170	-
Regina NW Claims	757,179	27,959	-
Regina Operations Centre (ROC)	202,091	-8,300	-
Prince Albert Claims	4,220	29,115	-
Swift Current Claims	17,467	-	-
Weyburn Claims	38,075	-	-
Lloydminster Claims	41,780	709	-
Saskatoon Salvage	111,907	67,229	-
Yorkton Claims	49,579	-	-
Saskatoon East Claims	13,207	-	900,000
Saskatoon West Claims	13,207	-	900,000
Tisdale Claims	-	1,362,167	-
Regina East Claims	-	793,009	-
Weyburn Claims	-	856,278	-
Meadow Lake Claims	-	953,707	-
Saskatoon Central Claims	-	336,365	-
Swift Current Claims	-	-	1,700,000
Estevan Claims Centre	-	-	1,000,000
Fleet Street Salvage	-	-	500,000
Saskatoon Salvage	-	-	400,000
North Battleford Salvage	-	-	400,000
Sub – Total	**2,771,566**	**4,428,408**	**5,800,000**
Information Technology	1,170,349	1,519,764	2,568,461
Other Equipment & Vehicles	334,559	598,260	756,500
Total	**4,276,474**	**6,546,432**	**9,124,961**

The impact on the indicated rate is related to increased depreciation expense on all capital expenditures, and amounts to about 0.2% comprised of 0.1 % for IT projects and 0.1% for all other projects combined.

Building rehabilitation costs are forecast to increase by $0.7 million from 2011 level to $2.7 million in 2012 (35.5%). SAF stated that this increase is primarily as a result of asphalt repairs to parking lots and other general maintenance costs at four auto claims centers throughout the Province. In addition, a higher maintenance budget is related to the SGI Head Office Building, which costs are shared by SAF. These increases were not quantified in any manner.

12.2.4 Data Processing

2011 data processing costs of $12.4 million increased over the 2010 expenditure of $10.1 million. 2012 costs are expected to decrease by $0.75 million (6%) from 2011 expenditures. Data processing costs were $4.44 million in 2006, after which AFRP expenditures commenced. Projected 2011 expenditures are about $8.0 million higher. This increase includes the AFRP costs of $5.3 million in 2011 compared to $1.3 million in 2006. 2011 expenditures also included $2.1 million for changing to a one-part driver license in 2011. The anticipated decrease for 2012 is primarily related to reduced AFRP and driver license related costs.

12.2.5 Issuer Bank Charges

In 2006 SAF started allowing customers to pay for transactions with credit cards. SAF reimburses issuers for credit card charges. Bank charges in 2006 were approximately $1.6 million and have increased annually to a projected 2011 total of $4.0 million and anticipated to be $5.8 million in 2012. The annual increase over the 5 year period from 2006 to 2011 averages about $0.5 million, while the increase for 2012 is projected to be $1.8 million. SAF submits that the increase in issuer bank charges is directly related to a continued and increased use by customers of this method of payment.

12.2.6 Other Administrative Expenses

In a response to an initial Information Request, SAF estimated “Other” Administrative expenses to be $30.3 million for 2011. In a subsequent response, the various components of OM&A expense were reported by SAF as shown on the table in Section 12.2 of this Report. The further breakdown showed the projected 2011 results and forecast 2012 amounts for these components, including “Other” expenses. The 2012 forecast anticipates an expenditure of $1.7 million compared to $0.35 million for 2011, representing an increase of nearly 400%. A supplemental response from SAF indicated that the other expense category included a budgeted increase of $524,000 for bad debt expense, based on a 4 year average. Bad debt expense declined in 2011 and SAF stated that the 2012 budget may be conservative as well. An additional expenditure, estimated to be $545,000, relates to flex space requirements while building renewal projects are being undertaken at these claims centres, as well as requirements for additional claims compound storage.

SAF states that SGI allocates expenses between SGI Canada and SAF at the department level, not at the account level. SGI further manages expenses primarily at the department level. The manager of each department is accountable for managing all of the expenses of their department based on their budget. SAF could not provide a further breakdown of “Other” expense on an account level due to the deadline time constraints, difficulty and labour intensiveness that this process would require.

2012 advertising costs are projected to increase by $424,050 over 2011 expenditures of $158,092. The 2012 advertising increase is approximately 268% of that in 2011. The only explanation offered by SAF is that the additional budgeted costs were primarily related to promotion of MySGI and to have additional marketing funds available regarding the rate program, if needed.

Employee training is forecast to increase over 2011 expenditures by $0.27 million (17.25%), with no explanation for the significant increase. Other 2012 OM&A expenditures appear to be reasonable, for both those increasing and those decreasing.

12.3 COLLISION REPAIR COSTS

In 2004, guidelines were established between SGI and vehicle repair shops agreeing to use aftermarket body repair parts. Procedures for aftermarket parts included the use of recycled (used) parts and other cost containment initiatives. The following table shows the costs of recycled, aftermarket, and OEM parts used in auto repairs from 2007 to 2011:

Costs of Recycled, After Market and OEM Parts					
Part Type	**2007**	**2008**	**2009**	**2010**	**2011**
Recycled	26,825,918	27,548,582	28,337,089	31,097,355	32,044,579
After Market	7,451,644	7,652,384	8,905,942	9,668,399	10,921,112
OEM	40,238,878	41,322,874	43,720,082	41,644,013	43,627,249
Total	**74,516,440**	**76,523,840**	**80,963,113**	**82,409,767**	**86,592,940**

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

Savings from Using Recycled and Aftermarket Parts					
Part Type	**2007**	**2008**	**2009**	**2010**	**2011**
Recycled	12,565,632	13,087,971	13,934,095	15,463,641	16,107,612
After Market	9,477,350	10,309,910	9,854,60	10,923,352	13,792,714
Total	**22,042,982**	**23,397,881**	**23,788,745**	**26,386,993**	**29,900,326**

The overall repair costs in labour, paint allowance, shop materials, and other costs for the 2007 to 2011 period are shown below:

Overall Repair Costs for 2007 to 2011					
Description	**2007**	**2008**	**2009**	**2010**	**2011**
Labour	73,873,344	73,893,341	80,044,085	88,596,906	96,895,824
Paint Allowance	15,090,719	15,340,105	16,323,839	17,297,817	18,504,489
Shop Material & Other	4,194,152	4,688,324	4,044,954	3,893,473	3,612,177
Glass Repair	346,869	469,431	810,981	992,786	1,419,717
Total	**93,505,084**	**94,391,201**	**101,223,859**	**110,780,982**	**120,432,207**

12.4 LABOUR RATES

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

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

Hourly Labour Rates Paid for Auto Damage Repair Cars / Light Trucks						
Max body/paint hourly labour rate	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Accredited car/light truck	53.92	55.54	57.76	67.00	68.27	69.63
Accredited large truck (> 12,000 lbs GVW)	60.76	62.58	65.08	67.00	68.27	77.03
Accredited refinish	54.57	56.21	58.46	67.00	68.27	69.63
Non-accredited	35.35	35.35	35.35	35.35	46.50	46.50
Max frame/mechanical hourly labour rate						
Car/light truck frame	55.94	57.62	59.92	67.00	68.27	69.63
Truck > 12,000 lbs GVW frame	62.30	64.17	66.74	67.00	68.27	78.97
Mechanical labour rate for operations outlined in the appraisal policies	80.00	82.40	85.70	67.00	68.27	69.63

On 1 January 2011 a blended rate of $69.63 per hour for framework and mechanical labor was agreed to. Currently there is a study being conducted to determine if this labour rate and the categories of repair it covers is accurate. SAF has advised that the rate will remain at its current rate until such time as the study is completed and reviewed.

12.5 MEDICAL SERVICE RATES

SAF is under contract with and reimburses the Ministry of Health for hospital and physician services as a result of injuries in motor vehicle collisions on a quarterly basis. On 1 April 2010, SGI became responsible for the full costs of chiropractic treatments where Saskatchewan Health does not provide coverage or determine rates.

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

The following table displays the Medical service rates from 2007 to 2011.

Schedule of Medical Service Rates SAF Pays					
Treatment	**2007**	**2008**	**2009**	**2010**	**2011**
Chiropractic Initial	22.00	23.00	23.00	23.00	45.00
Chiropractic Subsequent	16.00	17.00	17.00	17.00	33.00
Massage Initial	25.00	25.00	31.00	31.00	31.00
Massage Subsequent	25.00	25.00	30.00	30.00	30.00
Physiotherapy Initial	75.00	75.00	76.88	76.88	84.76
Physiotherapy Subsequent	33.75	33.75	34.60	34.60	38.15
Acupuncture Initial	55.00	55.00	55.00	55.00	55.00
Acupuncture Subsequent	40.00	40.00	40.00	40.00	40.00
Voc Rehab	90/hr	90/hr	92/hr	94/hr	96/hr
Occupational Therapy	90/hr	90/hr	92/hr	94/hr	96/hr

12.6 TRAFFIC SAFETY PROGRAMS

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

There are 7 main areas of focus, each with a number of specific programs:

1) Impaired Driving – including drugs as well as alcohol;
2) Vehicle Collisions – involving wildlife;
3) Distracted Driving – including cell phone usage and text messaging;
4) Seatbelt Education, Use, and Enforcement – in both urban and rural areas;
5) Speed Management;
6) Intersection Safety; and
7) New Driver Accidents.

1. Impaired Driving

SAF states that nearly 45% of the fatal collisions in the Province are alcohol related, while drug related incidents are more difficult to measure and thus not very well known. Alcohol related traffic fatalities, injuries and collisions involving Property Damage to Others are increasing, rising from 1,181 in 2006 to 1,613 in 2010.

There are four programs and/or initiatives in this focus area: Operation Red Nose - a holiday season safe ride home program; Enforced Overdrive - funding to enable police to operate check stops over and above regular duty enforcement; Report Impaired Drivers (RID) – encouraging residents to call 911 and report suspected impaired drivers; and Develop Relationships with Tribal Councils – work with aboriginal communities to raise awareness of traffic safety issues such as impaired driving, occupant restraints, child safety seats, etc.

SAF's 2011 – 2015 Traffic Safety Strategy contains plans to better understand the motivations of those who continue to drive while impaired and the barriers to curb this behaviour as well as the best way to implement a pro-active approach for the grade K – 12 youth in this regard. As well, the intent is to recommend impaired driving legislation and to develop partnerships with First Nations Communities.

2. Wildlife Collisions

Wildlife collisions are a serious concern on Saskatchewan roads. Of an average of over 11,300 PDO accidents, more than 90% are single vehicle incidents and over 80% involve hitting an object on the roadway, usually wildlife. Initiatives that have been in place for a number of years are: Installation of permanent deer crossing highway signs throughout the province; Wildlife fencing along Highway #7 west of Harris in the game preserve; Education and Awareness in partnership with the Saskatchewan Wildlife Federation; and an advertising campaign geared to reminding motorists to slow down in wildlife areas.

SAF's 2011 – 2015 Traffic Safety Strategy established a committee of stakeholders tasked with developing proven effective innovative ideas to address this problem by aiming to: change driver behaviour, change animal behaviour, employ physical separation of animals from the roadways, and reduce animal population.

3. Distracted Driving

Driver inattention/distraction is cited as a contributing factor in 25% of all collisions and second, next to alcohol, as a factor in fatalities. There are many types of distractions in addition to hand held cell phone use. It is an emerging issue with few initiatives having yet been implemented. Legislation in January 2010 banned the use of hand held cell phones for all drivers. SGI is currently conducting media campaigns related to distracted driving. Also, in partnership with the Department of Highways, SGI is partially funding the installation of highway rumble strips.

SAF's 2011 – 2015 Traffic Safety Strategy includes research of a targeted market to develop the most effective awareness and education campaign for that market; researching effective and credible ways to enforce the new cell phone law and distracted driving in general; and monitoring other developments to identify new potential initiatives.

4. Seatbelt Use

Seatbelt use in urban areas of Saskatchewan is around 95%, while use in rural areas is generally below 80% and below 50% in First Nations communities. Statistically, seatbelt use can reduce the probability of death from accidents and reduce the seriousness of injury by 50%, while the equivalent numbers for use of child restraints are 90% and 70%.

5. Speed Management

On an annual basis, speed related collisions contribute to 25% of lives lost and 28% of serious injuries reported. Approximately 23% of speed related collisions result in death and injury to vehicle occupants, compared with 11% for non-speed related crashes. Current initiatives in place include: higher fines for high-risk-speed related violations; public awareness campaigns related to high-risk-speed locations; speed reader boards; and variable message signs.

Initiatives planned in the 2011 - 2015 Traffic Safety Strategy include: research related to introduction of photo radar; continued co-funding of speed reader boards; researching/identifying additional speeding countermeasures using speed reader board data; investigating the potential for introduction of variable speed limits; and developing and implementing new targeted public awareness messaging.

6. Intersection Safety

Approximately 27% of fatal collisions, 56% of injury collisions, and 39% of PDO collisions occur at intersections, with 50% of all injury and 34% of all PDO collisions occurring at urban intersections. Initiatives include funding for Red Light Cameras, Intersection and Roadway Corridor Improvements, Funding for Enhanced Intersection Enforcement in Prince Albert, and Public Education and Awareness.

Initiatives included in SAF's 2011 – 2015 Traffic Safety Strategy are: Increased investment in intersection/corridor improvements; identifying locations for and installing additional Red Light Cameras; researching appropriate target audiences; and implementing public awareness campaigns and enhanced enforcement.

7. New Driver Safety

About 8% of Saskatchewan drivers are between 16 and 20 years of age, but are involved in 16% of fatal injury and PDO collisions. As well, drivers aged 18 to 22 (about 9% of all drivers) represent 28% of drivers involved in drinking and driving crashes. Motorcyclists with less than 5 years of experience are 8 times more likely to be involved in collisions than experienced drivers, while the risk of a motorcyclist sustaining serious injury is about 5 times greater than for passenger vehicle operators. Over 50% of collisions involving motorcyclists result in death, compared to 13% for all other collisions. In addition to graduated driver licensing programs (GDL) for all new drivers (including motorcyclists in 2011), initiatives in this area include: an Aboriginal and immigrant driver training grant program; increasing the number of motorcycle driver training schools; and Learner Driver Logs. Further initiatives in the 2011 -2015 Traffic Safety Strategy include: expanding availability of training spots for motorcycle drivers; research and implementation of potential enhancements for the GDL program; researching target audiences for new drivers; implementing public awareness campaigns; and researching potential for enhancing driver education.

Emerging Issues

SAF identified aging drivers and operation of unusual vehicles as emerging safety issues. With respect to aging drivers, SAF monitors drivers with medical conditions potentially impacting driving ability, publishes an "Older and Wiser Driver" Handbook, partners and participates with the Saskatchewan Safety Council and Saskatoon Driver Safety Council to offer courses on the aging process affecting driving, and shares best practices to analyze approaches to managing aging drivers.

Unusual vehicles are those that do not meet Canadian Motor Vehicle Safety Standards normally required to allow their use in mixed traffic and are generally marketed for their environmental friendliness. Because of their design these vehicles pose significant risk to occupant and other road users, such as low-speed electric vehicles. SAF, in conjunction with Transport Canada and other Canadian jurisdictions, is attempting to gain a better understanding of the safety implications of integrating unusual vehicles with mixed traffic.

Program Evaluation and Research

SAF considers the monitoring and evaluation of safety programs to be an invaluable component of its safety strategy. In 2011, several surveys were conducted and are in the analysis and evaluation stage, including the Impaired Survey and the Distracted Driving and Observational Cell Phone Use Survey. The 2010 Seat Belt Challenge Results from First Nation Surveys show mixed results, but generally indicate improvements after program implementation in a large majority of the communities surveyed.

Related Departments

Vehicle Standards and Inspection is responsible for administration of the provincial first-time vehicle registration program, two-stage total-loss inspections, and commercial periodic vehicle inspections program. The Carrier Safety Program is responsible for many aspects of commercial carrier safety, including monitoring safety records and taking remedial action for vehicles with deteriorating performance pursuant to the National Safety Code.

Traffic Safety Costs

Traffic Safety costs for programs, sponsorships, and advertising account for about 3% of total costs. SAF's objective for evaluating, implementing and monitoring safety programs is to provide social and economic benefits through safe driving, thus reducing the number of accidents and resulting costs, injuries and deaths occurring.

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

Total Traffic Safety Costs		
Description	**2011**	**Forecast 2012**
Traffic Safety Promotion	2,447,950	2,504,576
Traffic Safety Program Evaluation	38,336	35,000
Traffic Safety Advertising	3,338,052	1,945,211
Driver Programs	2,301,051	2,301,051
Driver Development	1,890,000	7,420,000
Total Traffic Safety Initiatives	**10,015,389**	**14,205,838**
Regulatory Program Administration	**10,997,376**	**12,069,162**
Total Traffic Safety Budget	**21,012,765**	**26,275,000**

In 2012, funding for four traffic safety programs was discontinued: Safe Saskatchewan, Atoskata Youth Camp, Red Feather Spirit Lodge and the Traffic Safety Scholarship. These discontinued programs resulted in a cost reduction of $94,480. In 2012, a single program was initiated, Expanded Intersection Enforcement with a budget of $180,000.

There were no new initiatives or discontinuations to either the Traffic Safety Program Evaluations or Driver Programs for the 2011 and 2012 years.

Five Traffic Safety Advertising campaigns were discontinued in 2012 for a total cost reduction of $1,111,135. Two advertising campaigns were initiated in 2012 with a budget of $175,000: Wildlife and Motorcycle awareness.

Driver Development had two programs discontinued in 2012 for a total cost reduction of $150,000. These were Aboriginal and Immigrant Driver Education. It is further noted that High School Driver Education had a significant funding increase of $5,675,000 in 2012.

As noted in the table above the overall traffic and safety budget for 2012 was increased by approximately $5.26 million.

12.7 APPEAL PROCESS AND COSTS

Appeal commission costs include costs associated with the Automobile Injury Appeal Commission such as Board member salaries, administrative expenses, and legal fees. These costs are assigned to vehicle classes based on appeal claim costs for each class. All appeal costs are funded by SAF.

12.8 PREMIUM TAXES

Premium taxes continue to be collected as 5% of gross premiums (premiums written less premiums ceded and remitted to the Province). In 2011, the premium taxes are projected to be $36.5 million, based on projected gross premiums of $726 million. Gross premiums are expected to increase to $769.2 million in 2012, with a resulting premium tax of $38.7 million. The current total 5% premium tax is comprised of a 4% levy under *The Insurance Premiums Act* and a 1% levy under *The Motor Vehicle Insurance Premium Tax Act*. The 4% levy was last increased from 3% in 2000, while the 1% levy has remained unchanged since 1979.

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

12.9 ISSUER FEES

After negotiations and the subsequent Issuer Accord Agreement with the Insurance Brokers Association of Saskatchewan (IBAS), issuers were compensated on a 4.75% commission basis rather than on the previous flat rate basis for new and renewal vehicle registrations, Change Registration Terms, and Registration Eligibility Declaration transactions. All other transactions related to Customers, Driver Licenses, and other vehicle types continue to be based on a flat fee, with some fees being reduced to partially offset the increase in commission fees. Issuer Fees (Commission and Flat fees) account for approximately 4.7% of total Auto Fund costs.

The Issuer Accord Agreement stipulates that existing commission rates and flat fees would not be subject to negotiation unless there was a substantive change in the nature of work associated with the transactions. This should bring certainty and stability to issuer fees on an annual basis, and in our view the projections are consistent with the expected growth in the business. Projected issuer fees for 2011 and forecasted fees for 2012 to 2016 are shown below:

Issuer Fees ($000s)						
Year	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Net Premiums Written	744,054	790,056	839,863	892,807	949,088	1,008,917
Total Costs	954,532	857,833	912,551	948,682	1,035,793	1,108,312
Issuer Fees	45,929	31,788	43,815	46,573	49,505	52,622
% of Premiums Written	6.2%	4.0%	5.2%	5.2%	5.2%	5.2%
% of Total Costs	**4.8%**	**3.7%**	**4.8%**	**4.9%**	**4.8%**	**4.7%**

Projected issuer fees after 2010 average to about 4.7% of total SAF operating costs and 5.0% of premiums written, with some deviation arising in 2011 and 2012. SAF attributes this anomaly to a premium deficiency of $8.5 million as at 31 August 2011. The 2011 year end premium deficiency test indicated no premium deficiency existed and therefore none was recorded in the 2011 year end results. Excluding this premium deficiency in 2011 and the budgeted reversal in 2012, the issuer fees would have been $37.4 million in 2011 (5.0% of costs) and $40.3 million in 2012 (4.7% of costs).

12.10 2012 ADMINISTRATIVE PRODUCTIVITY INITIATIVES

In addition to the efficiencies to date directly resulting from the Auto Fund Redevelopment Project, SAF anticipates all further future efficiencies will yield an annual cost savings of $326,827. These savings flow from in excess of 50 initiatives and include initiatives such as process and systems improvements, computer hardware savings, reduced paper costs and postage, MySGI enhancements, document storage, staff training, administrative efficiencies, reduced staff resources and vehicle registration changes. The anticipated annual savings of $326,837 flow from all of the identified initiatives and range from an estimated low of $1,000 to a high of over $40,000.

Beyond the above efficiencies, SAF does not have efficiency projects identified at the expenditure type level. SAF submits that its operations are efficient relative to the industry, as reported by the Ward Group, and discussed in this Report in the following section. SAF's main measure for maintaining efficient operations is the balanced scorecard target administrative expense ratio. This target ratio is set annually, based on the administrative budget and is approved by the SGI Board of Directors and the Crown Investments Corporation (CIC). The Board of Directors and CIC receive quarterly reports in this regard.

13.0 PERFORMANCE MANAGEMENT PLAN

A long-term strategic plan for 2011-2015 was approved in 2010 by the Board of Directors. This strategic plan identified key areas of focus, along with supporting strategies and plans. The Performance Management Plan was filed in confidence with the Panel, as it includes information related to SGI Canada.

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

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

13.1 WARD GROUP STUDY

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

The benchmarking framework analyzed almost 30 core functional areas for property-casualty companies. These core functional areas were grouped into various categories including: Acquisition; Loss Adjusting; General; and Taxes/Assessments among others.

There were over 10 key performance metrics identified. SAF did not rate well on measures relating to profitability given its mandate to breakeven, or policy retention. SAF rated favourably on measures related to gross expenses as a percentage of gross premiums written; net paid LAE as a percentage of net premiums earned; staff to management ratio; and net investment yield.

An additional assessment examined the efficiency of over 20 functions by comparing headcount and expenses to premium. Of these functions Claims Service, Human Resources, and Auditing/Enterprise Risk Management were above the benchmark averages based upon the normal distribution of performance within 3 standard deviations of the mean. Most other functions were significantly below the average, indicating operational efficiency.

13.2 MEASUREMENT

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

The second key area is to make every service experience excellent for everyone doing business with SAF, i.e., make it fast, easy, and convenient. Measures for this include the Consolidated Claim Service Satisfaction Survey (2011 Target 90%, 2012 Target 90%); and Auto Fund Service Satisfaction (2011 Target 72%, 2012 Target 56%).

Another key area is to operate to benefit customers, owners, and their communities. This includes helping customers reduce the risk of suffering a loss; and supporting vibrant, thriving, safe communities. Measures for this include capital adequacy as measured by the MCT (2011 Target 75% to 150%, 2011 Result 60%, 2012 Target 75% to 150%); traffic fatalities and injuries per 100,000 Saskatchewan residents (2011 fatalities Target 13.6, 2012 fatalities Target 14.4; 2011 injuries Target 671, 2012 injuries Target 636.9); and environmental responsiveness, primarily through its salvage operations.

The last key area of focus is continually improving how SGI does business. This is to be done by building an information savvy business; attracting and retaining employees to help achieve its goals; creating an environment that encourages employees to be innovative, creative, accountable, and strategic; and improving processes, productivity, and efficiency. Measures for this include the Employee Value Index Result (2011 Target 65%, 2011 Result 35.7%, 2012 Target will be measured by Engagement and Enablement Score); External Diversity Hiring (2011 Target 25%, 2011 Result 35.7%, 2012 Target 25%); Training Investment Compared to Financial Services Industry (2011 Target +/-5% of average, 2011 Result is the average, 2012 Target +/-5% of average); Leadership Index Result (2011 Target 57%, 2011 Result 54%); Strategic Clarity Index Result (2011 Target 75%, 2011 Result 70.7%); and Administrative Expense Ratio (2011 Target 7.7%, 2011 Result 7.3%, 2012 Target 7.0%). In 2012, the Leadership Index Result and the Strategic Clarity Index Result measures will be replaced by the Engagement and Enablement Score measure.

14.0 COST ALLOCATION

The SGI group of companies consists of SGIC, administrator of the SAF and parent company for SCISL, Coachman, and ICPEI. This group incurs more than $100 million of administrative and traffic safety expenses annually. SGIC accounts for about 95% of these costs. Costs are allocated to each of the companies, and within each company to their products, using a 3 step cost allocation methodology introduced 1 January 2008. The 3 steps are: direct cost allocation; step down allocation of indirect costs; and remaining indirect cost allocation.

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

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

SGI allocates two types of expenses: administrative and loss adjustment, which are classified as being either direct or indirect. SGI's allocation of LAE and administrative costs amongst its various companies remains unchanged from the 2009 Application. Administrative expenses are expenditures required to manage the company and provide staff support for its operations. They include all operating costs not related directly to the settlement of claims. Administrative expenses (direct and indirect) are assigned to the appropriate company based on various cost drivers.

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

The following tables summarize the cost allocation results for 2009, 2010, and 2011, as well as those forecasted for 2012:

Overall Cost Allocation (Amounts in $000s)								
Company	2009		2010		2011		2012	
	$	%	$	%	$	%	$	%
SAF	112,339	64.9	119,145	65.3	124,117	64.8	137,789	64.4
SGIC	45,887	26.5	48,324	26.5	51,137	26.7	54,763	25.6
SCISL	6,207	3.6	6,526	3.6	6,873	3.6	7,849	3.7
Coachman	5,346	3.1	4,991	2.7	5,701	3.0	9,694	4.5
ICPEI	3,198	1.9	3,503	1.9	3,698	1.9	3,900	1.8
Total	172,977	100.0	182,489	100.0	191,526	100.0	213,995	100.0

SAF Cost Allocation (Amounts in $000s)								
Expense	2009		2010		2011		2012	
	$	%	$	%	$	%	$	%
Admin. Direct	20,680	18.4	25,057	21.0	26,260	21.2	26,493	19.2
Admin. Indirect	25,666	22.8	26,708	22.4	26,518	21.4	28,012	20.3
LAE	48,589	43.3	50,095	42.1	50,792	40.9	54,759	39.8
Traffic Safety	17,404	15.5	17,285	14.5	20,547	16.5	28,525	20.7
Total	112,339	100.0	119,145	100.0	124,117	100.0	137,789	100.0

15.0 RECOGNITION PROGRAMS

15.1 SAFE DRIVER RECOGNITION

SAF's Safe Driver Recognition Program is designed to reward safe drivers who own or lease a vehicle in the LV, PV, or F (light) vehicle class by providing discounts on their vehicle insurance. The program parameters remain unchanged from 2009. The program also ensures drivers who demonstrate risky behaviour and who are involved in at-fault accidents pay their share through a financial penalty for each incident for which they are held responsible. For every year of accident free driving, one safety rating point is awarded.

Each point in the Safety Zone (safety rating greater than 0) corresponds to a 2% discount on basic insurance, to a maximum discount of 20%. The SDR considers driving history since 1995. Effective 1 January 2012, drivers are able to earn up to 17 points. Although the discount remains subject to a 20% maximum, points in excess of 10 provide protection against the financial penalties of future incidents.

Under the SDR, drivers lose points for unsafe driving behaviour, such as at-fault accidents (-6 points) or certain convictions and roadside suspensions (-3 or -4 points). As well, driving disqualifications (arising from Criminal Code offences, for example) move drivers to at least -20 points. Each point in the Penalty Zone (safety rating less than 0) attracts a $25 penalty. A rating of -20 attracts the maximum financial penalty of $500, except for Criminal Code offences resulting in injury or death, when the penalty is $2,500. In 2011, 764,989 customers (72.5%) were eligible for SDR discounts while 96,713 (9.2%) fell within the penalty zone. In 2011, the SDR discounts amounted to $95.5 million and are expected to be $103.0 million in 2012, while the Malus penalty in 2011 is projected to be $11.1 million and estimated at $12.2 million in 2012.

15.2 BUSINESS RECOGNITION

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

SAF has determined that a capped loss ratio of 70% to 80% is their break-even range. The break-even range is calculated by subtracting all administrative costs, premium taxes, issuer fees, and traffic safety program costs from the total premiums paid for all vehicles. Losses are capped in this calculation to ensure that the impact of a single claim bears a reasonable and fair relationship to the size of the vehicle fleet.

Companies with a capped loss ratio of 70% or less in the past five years are eligible for a discount, to a maximum of 10% for a capped loss ratio of 0%. Companies with a capped five year loss ratio greater than 80% are subject to financial penalties, to a maximum of 200% for a capped five year loss ratio of 350.1% or greater. In 2011, 61,260 customers (91.4%) received discounts, while 4,619 (6.9%) paid a surcharge. The BR net surcharges for 2009, 2010 and 2011 were $5.9, $6.1 and $7.2 million, respectively, and it is forecast to be $7.7 million in 2012. Offsetting the reductions in rates (and increasing SAF premium revenue) were the penalties imposed under this program; $0.9 million, $1.4 million and $1.6 million in 2009, 2010, and 2011, respectively. The 2012 Malus penalty is expected to approximate the 2011 level.

SAF initially indicated that when the BR Program was introduced in 2004, the 'break-even" loss ratio was calculated at 80%, and it has remained unchanged since then. Subsequently, SAF explained that the impact of using capped losses to determine the BR loss ratio reduces the loss ratio by about 7%, and therefore the use of the 80% loss ratio as the breakeven point as opposed to claims cost being about 85% of premiums is consistent with the approximate impact of capping the losses.

In response to an Information Request, SAF indicated that the BR Program would be included as part of the upcoming coverage review. SAF indicated that customers would be consulted to obtain views on benefits and deficiencies of the existing BR Program. SAF identified the following deficiencies in the current program, identified either by customers or SAF management:

- Individuals can never receive a surcharge for at-fault accidents because they get assessed demerit points in SDR, causing an uneven playing field for companies compared to individuals in BR.
- Discounts far outweigh surcharges, costing about $5 million annually.
- BR claims do not include all payment types.
- In IRP, fleets with five or fewer vehicles are not subject to additional surcharges.
- BR optics are unfavorable because the maximum discount is 10%, while the maximum surcharge is 200%.

15.3 COMMENTARY

Both the SDR and BR Programs are to be included as a part of the proposed 2012 Auto Fund coverage review. We consider this review to be overdue, and expect that considerable dialogue will occur with the customers of these programs, and other interested stakeholders. Both the SDR and BR Programs are factors which the Panel is to consider as given in this review, so no further comment will be made, other than to encourage a timely and detailed review of both programs.

16.0 INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the 2009 Application, SAF stated it was in a phase of detailed assessment of the impact of implementing International Financial Reporting Standards. SAF adopted IFRS in place of Canadian Generally Accepted Accounting Principles on 31 December 2011 (Transition Date), a conversion that commenced in early 2009. The conversion impacted SAF in four specific areas:

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

1. SGI CANADA allocates a portion of its defined benefit pension plan and its service recognition plan to SAF for SGI CANADA employees who provide service to SAF. Because of the transition to IFRS, SAF has a constructive obligation to SGI CANADA resulting from events and transactions prior to the Transition Date. This obligation has been recognized as of 1 January 2010 in the RSR, with a resulting decrease in the RSR of $5,868,000 and an increase to accounts payable of $5,868,000. As of 31 December 2010, this change in accounting policy resulted in a $715,000 decrease to administrative expenses and a total RSR decrease of $5,153,000.

2. After transition, SAF is measuring its property and equipment using cost less depreciation, as if IFRS had always been applied. IFRS requires that each component of an item of property and equipment should be depreciated separately if the component cost is significant compared to the total cost. Under Canadian GAAP, SAF capitalized all components of building costs and depreciated them over useful lives of either 20 or 40 years. This resulted in a decrease in the RSR as well as property and equipment of $2,489,000 as of 1 January 2010. As of 31 December 2010, the depreciation expense decreased by $24,000 and the total RSR was decreased by $2,465,000.

   Additionally, SGI CANADA used the deemed cost exemption to record its head office building at its fair value at the Transition Date. An independent evaluation effective 1 January 2010 showed a $31.6 million fair value of land and building, compared to the net book value under Canadian GAAP of $10.4 million. The fair value increase results in additional depreciation expense to SGI CANADA a portion of which is allocated to SAF. The impact of this change at 31 December 2010 is an increase of $788,000 in administrative expenses and $268,000 in claims incurred. The total related 31 December 2010 RSR decrease was $1,056,000. As a result of the 1 January 2010 IFRS adjustment in this regard, there was an increase to accumulated building depreciation for a number of buildings and building components. As of 31 December 2010, the gain on sales was adjusted accordingly, resulting in an increase in gain on sale of $137,000 and a corresponding increase in the RSR.

3. Upon adoption of IFRS, SAF selected to use the available IFRS 1 exemption which changed the designation of investments from available for sale to fair value through

profit and loss. Unrealized gains and losses are now included as a component of investment income and recognized within the RSR. Under Canadian GAAP, these were recorded as other comprehensive income and recognized within accumulated other comprehensive income. At 1 January 2010, this change resulted in a decrease in accumulated other comprehensive income of $65,505,000 and a corresponding increase in the RSR. As at 31 December 2010, this change resulted in an increase to investment earnings of $19,320,000 and a corresponding decrease in other comprehensive income. Thus, the total adjustment decreased other comprehensive income and increased the RSR by $85,825,000.

4. Under Canadian GAAP, SAF did not discount provisions for unpaid claims for all lines of business. Under IFRS, SAF will discount this provision for all lines of business. At 1 January 2010, this change decreased the provision for unpaid claims and increased the RSR by $47,059,000. As at 31 December 2010, the resulting decrease in the provision for unpaid claims was $5,255,000 and the cumulative impact on the RSR was an increase $52,314,000.

The following tables show the changes resulting from the adoption of IFRS with respect to comprehensive income and SAF’s operations:

Comprehensive Income for the Year Ended 31 December 2010 ($000s)	Canadian GAAP December 31, 2010		IFRS Adjustments	IFRS December 31, 2010
			(thousands of Canadian $)	
Gross premiums written	$ 711,277		$ -	$ 711,277
Premiums written ceded to reinsurers	(2,927)		-	(2,927)
Net premiums written	708,350		-	708,350
Change in net unearned premiums	(23,529)		-	(23,529)
Net premiums earned	**684,821**		-	**684,821**
		(ii)	268	
Claims incurred	609,673	(iv)	(5,255)	604,686
Issuer fees	34,813		-	34,813
		(i)	(715)	
Administrative expenses	51,721	(ii)	764	51,770
Premium taxes	34,376		-	34,376
Traffic safety programs	17,285		-	17,285
Total claims and expenses	**747,868**		(4,938)	**742,930**
Underwriting loss	**(63,047)**		4,938	**(58,109)**
Investment earnings	100,047	(iii)	19,320	119,367
Other income	31,352	(ii)	137	31,489
Increase to Rate Stabilization Reserve	**68,352**		24,395	**92,747**
Other comprehensive income:				
Net unrealized gain on available for sale financial assets arising during the year	80,729	(iii)	(80,729)	-
	80,729		(80,729)	-
Reclassification of net realized gains on sale of investments included in operations	(62,727)	(iii)	62,727	-
Reclassification for investment write-downs included in operations	1,318	(iii)	(1,318)	-
Other comprehensive income	**19,320**		(19,320)	-
Comprehensive income	**$ 87,672**		$ 5,075	**$ 92,747**

Total Equity as at 1 January 2010 ($000s)

(thousands of Canadian $)	Note	Rate Stabilization Reserve	Redevelopment Reserve	Accumulated Other Comprehensive Income	Total Equity
Balance as at December 31, 2009 (Canadian GAAP)		$ 67,211	$ 21,344	$ 66,505	$ 155,060
Auto Fund constructive obligation to SGI CANADA	i)	(5,868)	-	-	(5,868)
Property and equipment	ii)	(2,489)	-	-	(2,489)
Investments - reclassification	iii)	66,505	-	(66,505)	-
Provision for unpaid claims - discounting	iv)	47,059	-	-	47,059
Total adjustments		105,207	-	(66,505)	38,702
Balance as at January 1, 2010 (IFRS)		$ 172,418	$ 21,344	$ -	$ 193,762

Total Equity as at 31 December 2010 ($000s)

(thousands of Canadian $)	Note	Rate Stabilization Reserve	Redevelopment Reserve	Accumulated Other Comprehensive Income	Total Equity
Balance as at December 31, 2010 (Canadian GAAP)		$ 142,254	$ 14,653	$ 85,825	$ 242,732
Auto Fund constructive obligation to SGI CANADA	i)	(5,153)	-	-	(5,153)
Property and equipment	ii)	(3,384)	-	-	(3,384)
Investments - reclassification	iii)	85,825	-	(85,825)	-
Provision for unpaid claims - discounting	iv)	52,314	-	-	52,314
Total adjustments		129,602	-	(85,825)	43,777
Balance as at December 31, 2010 (IFRS)		$ 271,856	$ 14,653	$ -	$ 286,509

17.0 RATE STABILIZATION RESERVE

The RSR represents the accumulation of all profits and losses for SAF since its inception, net of any policyholder rebates paid. The Government of Saskatchewan has injected no capital into SAF, and neither does it receive any dividends from SAF. In response to an interrogatory, SAF stated that "*A key operating principle for the Auto Fund is ensuring consistency and stability in rates so that customers are not subject to ongoing price fluctuations or large rate increases. The Rate Stabilization Reserve (RSR) gives the Auto Fund a financial resort to draw on when adverse financial events occur. The RSR protects SAF customers from sudden large rate increases*." SAF cited four examples of when the RSR funds would be used:

- Material adjustments in claims estimates impacting past accident years;
- Major winter storms or hail storms;
- Appropriations for system upgrades (Auto Fund Redevelopment Project); and
- Unfavorable investment experience beyond what would be considered normal.

18.0 CAPITAL MANAGEMENT POLICY AND MINIMUM CAPITAL TEST

18.1 CAPITAL MANAGEMENT POLICY

SAF's Capital Management Policy objective is to maintain a level of capital in the Rate Stabilization Reserve sufficient to cushion SAF from volatility inherent in investment and underwriting operations. SAF plans to achieve this level of capital to ensure a positive RSR without having the need for excessive rate increases.

SAF's policy states that adequacy is measured by the Minimum Capital Test. The MCT ratio is calculated by dividing the capital available, which is the excess of assets over liabilities, by the capital required, which is comprised of various margins applied to unpaid claims, unearned premiums, and investments. The current target of SAF's MCT is 112.5% and the acceptable range of the MCT is between 75 and 150%.

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

Should the replenishment require a rate surcharge be applied, once the MCT is back within the defined acceptable range the rate surcharge would be removed. SAF has capped the amount of any rate surcharge that can be imposed to a maximum of 5%.

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

18.2 MINIMUM CAPITAL TEST

To determine the appropriate level of funds in the RSR, SAF uses an industry regulatory solvency measurement called the Minimum Capital Test. Insurance regulators require an MCT ratio for regulated companies to be 150% or higher. By adopting a target range for its RSR below this level (112.5%), SAF is recognizing its distinct situation as a monopoly and Crown corporation insurer. The MCT is the Minimum Capital Test that is prescribed by the Office of the Superintendent of Financial Institutions Canada with alteration as prescribed by the SAF Board of Directors. Monitoring of the MCT is a monthly activity for SAF which uses this information to plan for the future and determine what are the necessary actions to ensure the MCT remains within the parameters outlined and established in SAF's Capital Management Policy.

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

19.0 INDUSTRY NORMS

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

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

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

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

20.0 PUBLIC PARTICIPATION

We consider that any public participation wherein a variety of views are presented to the Panel to be invaluable in that it allows for greater understanding of the perception of rate change impacts on specific user groups and the general public. A part of the Panel's mandate is to consider the interests of the Applicant, the Applicant's customers and the public when making its recommendations to the Minister. A greater degree of public participation will enhance the process and lead to a more informed recommendation and should always be encouraged. In our view, the Panel has taken significant strides since the last Application to encourage such input. The amount of participation in this particular case appears to indicate success with the Panel's approach. Additionally, it allows the Applicant to respond to user group concerns, as deemed appropriate.

Group Presentations

Public Hearings were held on 28 March 2012 in Saskatoon and 2 April 2012 in Regina. Multiple groups presented questions, concerns, and requests for clarification. The following is a summary of these presentations:

March 28th Saskatoon Hearing:

Annemarie Buchmann-Gerber, representing the Consumer Association of Saskatchewan

Ms. Buchmann-Gerber commended SGI on its consistency with minimizing customer impact when rate increases are required, but expressed concern regarding the complexity of the explanation provided and noted that it was quite extensive. She encouraged SGI to improve its communication by simplifying explanations to the public so any future proposed adjustments are transparent.

Troy Larmer, representing The United Group of Companies (United Cabs)

Mr. Larmer expressed concerns over the increase in insurance rates the Application proposes for the Passenger Taxi – Urban classification. Specifically, he mentioned that the Taxi industry has experienced additional increases in operation costs including a 300% increase to licensing, increased fuel costs, and additional vehicle and equipment costs such as video cameras in the taxis.

Mr. Larmer further encouraged SGI to take into consideration the more stringent hiring practices the taxi companies now enforce prior to employing drivers and the discipline which these organizations impose on drivers who are involved in multiple accidents. He challenged that the urban taxi group is small in population and stated it was almost impossible for such a small group to realistically generate enough revenue to operate and to avoid higher premium costs. He further contended that the exposure of taxis that operate 24 hours a day, seven days a week, 365 days a year, needs to be considered when evaluating the amount of accidents and costs this class incurs. As well, the service they provide to people who are unfit to drive whether due to intoxication, weather conditions, age, etc. should be a consideration, as should the costs saved by avoiding potential accidents.

Mr. Larmer also spoke to the Business Recognition Program and its flaws, in his view. Specifically, he pointed out the fact that businesses that are required to participate suffer the consequence of poor drivers in the form of surcharges, yet the drivers do not. Here it is stated that this concern has been brought up in several hearings over the past few years and to date promises to review the program have not been fulfilled.

Jim Frie – Owner of 24 Taxis in Saskatoon

Mr. Frie indicated that he has been in the taxi business for 50 years and has continually seen rate increases. He has consistently paid premiums over the course of this time and feels that money has been left on the table by him for the multiple years in which no accidents were caused by him. He felt that the Panel should take into consideration a longer period of time when determining the surcharges imposed when an at-fault accident occurs. He suggested an average of 10 years be used versus the 4 years he currently believed is used to evaluate accident records.

Mr. Stuart Jerone – Motorcyclist

Mr. Jerone commented on statistics he collected from SGI, citing there has been a 60% increase in rates for motorcycles since 2009. He stated that the 11,767 motorcycles last registered accounted for approximately 0.026% of all claims, and that since 2006 motorcycle accident claims have steadily decreased.

Mr. Jerone commented on SGI's approach to allocating costs of accidents to the at-fault vehicles. He questioned whether SGI considered that a motorcyclist may choose to "lay down" their bike because of unpredictable behaviour of other drivers. While he acknowledged laying down one's motorcycle is creating an at-fault accident, he contended that, given the situation, this would be the best decision for the motorcyclist to take in order to mitigate injury. Based on this he suggested that SGI should not necessarily attribute fault to the motorcyclist.

Mr. Jerone commended SGI on its safety initiatives related to banning cellular device use while driving, use of seat belts and wild life awareness programs. He noted that these initiatives have been extensively promoted and advertised, but there are still drivers who ignore the warnings or refuse to follow appropriate rules and procedures.

He also spoke to the awareness and training that drivers are given regarding motorcycles, as well as motorcycle visibility issues. He indicated that when he attended a driver education session, the trainer made only a single brief reference to motorcycle safety. He felt that most drivers are not adequately trained or educated to give them a proper appreciation or understanding of motorcycles and the visibility issues. He suggested that SGI consider further awareness programs related to wearing full riding safety gear when operating a motorcycle.

He further inquired whether SGI had considered implementing awareness campaigns such as those currently active in Europe. SGI replied that they have considered them and that these issues are under review. Mr. Jerone also asked whether SGI had considered any rate or financial incentives for those motorcyclists who wear full gear all the time or for those who attend the voluntary motorcyclist safety courses. SGI replied that they would take these matters into consideration.

Finally, he suggested that SGI consider separating motorcycle driving records from the records when operating other vehicle types. He pointed out that an individual with 20 years of experience driving a vehicle will not necessarily be sufficiently experienced with the operation of a motorcycle. He further suggested that if there were a separation of driving records for vehicle classifications, that SGI consider vehicle class incentives at the time of registration. SGI replied that they considered that the idea had merit, but were not currently aware of the viability of implementing this suggestion.

April 2nd Regina Hearing:

Glen Sali, representing Capital Cabs

Mr. Sali emphasized the need for driver responsibility and accountability and proposed an increased surcharge be applied to at-fault drivers. He expressed concerns regarding the availability of programs and support respecting driver safety training. His opinion is that vehicle drivers who have .08 alcohol content do not deserve to be insured and that winter tires or winter driving programs should be mandatory.

He also spoke to the unfairness of the current Business Recognition Program because of the surcharge being applied to the plate owner but not the driver who is involved in the accident.

Sandy Archibald, representing Regina Cabs and Premiere Taxi

Although the proposed 15% rate increase for taxi cab insurance premiums is troubling, Ms. Archibald, Operations Manager of the largest taxi cab fleet in Regina, is most troubled by the shortcomings of Business Recognition Program. Her main issue with the program was that for good participants the maximum discount of 10% is available; however, the maximum surcharge for bad participants is 200%. She expressed concern that the BR Program does not protect or encourage safe driving but rather penalizes companies because there is no direct consequence to the offending driver, only the company that registers the plates. She further expressed concern that SGI needs to take into account all the accidents that do not occur as a result of the service which taxis provide and that this should be considered when determining taxi insurance rates.

She further contended that the relationship between taxi companies and its drivers is vastly different than those of a normal employment arrangement. Specifically most taxi drivers are owner operators that are contracted and not employees per say. In this case she states that the discounts are applied to both the operator and the company but the surcharge is only applied to the company. As well, the driver who incurs this surcharge has the ability to move on to other employment/contracts and the consequences do not follow the driver but stay with the company, which is, in her view, unfair.

Ms. Archibald submitted that this unfairness needs to be addressed; since the training and pre-screening programs her company and other similar companies are offered and engaged in are not sufficient. To this extent she encouraged that more stringent testing be applied to Class 4 drivers and that those with multiple accidents attend the Saskatchewan Safety Council's defensive driving course.

Ms. Archibald expressed disappointment in the lack of progress in previous hearings and discussions in 2008 through 2010 in which SGI indicated that the Business Recognition Program would be reviewed. To date this has not happened, although it has been stated again that it will be reviewed, this time in June 2012. Since this program has not been reviewed as promised, she requests that no rate increase be applied to the passenger taxi – urban classification until such time as the BR Program is reviewed. Alternatively while waiting for this to take place, she suggested that operators and companies be able to register vehicles by individual PIC numbers with the option of opting in or out of the program.

David Parker – Motorcyclist

Mr. Parker expressed concerns regarding the increase to the motorcyclist rates. He contended that, although SGI's motorcyclist's graduated driver licensing was encouraging, SGI needs to provide incentives for safe driving of motorcycles. Mr. Parker suggested the following areas be considered: financial incentives for motorcyclists who take safety courses, increasing the articles of protective clothing which should be mandatory, cleaning and removal of debris from public streets, and reconsidering the accuracy of the motorcycle classifications used when determining their respective categories.

Mr. Parker further noted that the increase in rates was not in line with the standards of living and that should be considered when applying rate increases, as well as the efficiencies and environmental friendliness of using a motorcycle versus a full size vehicle.

Individual Presentations:

The following is a summary of individual responses received by the Panel via letters and email regarding various areas of the Application by SAF:

Private Passenger Vehicle Owners

Submissions to the Panel by private passenger vehicle insureds expressed a lack of understanding of why certain vehicle rates went up when others decreased, including the rationale behind the fact that dated cars, in some cases 25 years old, have an insurance premium rate plus deductible that would end up being more than the book value of the vehicle. For old cars, one concerned customer suggested that a flat % be applied across all vehicles, i.e. if there was a discount it would be a discount for all or vice versa. This in effect demonstrates that some customers are unaware of SAF's intention to remove class cross-subsidization.

Motorcycle Owners

The highest volume of submissions was made by motorcycle owners, who expressed many concerns. Overall, the motorcycle insureds felt they were being unfairly targeted for unreasonable rate increases. The majority of complaints revolved around faulting motorcyclists for accidents that were the fault of the driving vehicle with which the accident occurred. Additionally they pointed out that the whole classification is being targeted, based on a small pool of bad motorcycle drivers. Individuals further contended that SAF had not taken appropriate initiatives to train motorcyclists, and thus reduce the chance of motorcycle drivers being involved in accidents. These customers further argued that the incentives to encourage safe drivers were not sufficient to compensate for the annual rate increases the classification has experienced.

Motorcycle owners argued that the economic and environmental benefits of their vehicle class of transportation are meaningless when faced with these dramatic increases in operating costs.

Various parties urged the Panel to consider applying insurance factors to the driver and not the vehicle, capping any increases at a more reasonable rate and taking into consideration the economic impact insuring bikes has on the supporting industries such as new vehicle retail, resale value, maintenance, and repair. As well SGI should explore other opportunities for covering expenses besides increasing the insurance premiums.

Motorcycle owners further encourage SGI to focus on promoting safe and responsible use of motorcycles through training and rebate incentives as is done by other jurisdictions in Canada to focus on reducing the number of vehicle accident losses experienced and not just rate increases.

One submission noted that SGI needs to be aware that individuals will modify their vehicles to register them in a class with lower cost premiums, when in fact they have more power than vehicle classes with larger premiums. To address this, it was suggested that SGI consider the horsepower-to-weight ratio when classifying motorcycles and not just design.

General Methodologies and Practices

Submissions were received that encouraged SGI to consider multiple alternate approaches rather than focusing on increasing rates to account for costs. Specifically, driver incentive programs need to be increased and poor vehicle operators need to be penalized more harshly.

Multiple plate discounts should be provided to vehicle owners with more than one vehicle as they contend that they would only have some of their vehicles operating at a given time, thus only one vehicle is likely at risk for an accident.

It was suggested that privatized insurance enter the market to ensure that rates are regulated through competition versus the current monopoly that SGI has.

Requests were made for consideration of the local economy, such as wages and standards of living when comparing the rates to other areas of the country and the way rates are impacted by the costs in a given region.

Focus on reducing accidents, increasing driver awareness, and training were suggested rather than rate increases.

Farm Vehicles

One submission requested that it be brought to the attention of SGI the inconsistencies between vehicles registered as farm vehicles that pull Recreational Vehicles (over 4,600 KG) vehicles and do not require a driver's vehicle license endorsement. If the same vehicle was registered to pull the same type of Recreational Vehicle, the driver must have an overweight endorsement on their license and have a medical performed on the driver at their cost. The individual further comments that SGI does not regulate or monitor the use of farm vehicles and contends that people who live on farms register their vehicles as such but hold jobs in the city or elsewhere than the farms. The individual contends that farm vehicle owners are also able to claim a portion of their costs as an income tax rebate.

Saskatchewan Trucking Association (STA) – A. Rosseker, Executive Director

The STA is a not-for-profit trade association representing truck transport in Saskatchewan. The STA and SGI have a good working relationship, each supporting a number of the others initiatives / programs. Commercial truck operators must comply with the National Safety Code and provincial regulations (driver, vehicle, and operational safety). The STA operates training programs dealing with road safety and truck driver classroom sessions. There are numerous economic contributions made through the STA in Saskatchewan (i.e., fuel purchases, goods transported, jobs created, businesses operating).

The STA is extremely concerned about the competitive disadvantages Commercial truck transport has compared to the Farm sector. The Farm sector receives cheaper fuels, cheaper licence plates / insurance (which last decreased by 5% while Commercial truck increased by about 7%), and less safety and regulatory requirements. The Farm sector is "chewing" into the Commercial transport markets on an uneven playing field (i.e., rising costs of Commercial truck licence plate rates up to $300/unit vs. decreasing Farm truck plate rates). Highway power unit safety inspections are required every 6 months and trailers every year, resulting in well maintained and costly equipment. No such requirement exists for Farm licensed vehicles. Commercial truck operator training is significant. The same cannot be said for Farm truck operators. Commercial truck operating costs are higher and profit margins are suspect.

Other financial factors facing the Commercial truck transport industry in Saskatchewan include: a slow recovery from the recent economic downturn; SGI's New Carrier Surcharge ($2,000+ maximum) for inexperienced companies and individuals; a recent diesel fuel shortage; government mandating the use of biodiesel adding costs and weight to equipment (Farm sector exempt); possible future requirements for electronic on-board recording devices (est. $2,000/unit), anti-rollover devices (est. $1,500/unit), carbon taxes; and cleaner burning engines (est. $5,000 - $10,000 more per unit).

Any increase in Commercial truck rates will place an unfair burden on the industry which is already dealing with cutbacks, salary freezes / rollbacks, layoffs, and insolvency. A typical tractor-trailer unit raises approximately $60,000/year in government taxes and fees. One company alone in Canada has already been forced to “park” 100 units.

Saskatchewan Powersport Dealer Association (SPDA) – R. Dobson, Executive Director

The motorcycle offers some solution to increasing fuel costs, emissions concerns, and traffic congestion. They also contribute to the quality of summer life for many recreational riders and are often the vehicle of choice, or necessity, for students and lower paid workers.

SGI’s understanding of motorcycles, the riders, safety issues, safety equipment, and common safety solutions is lacking. They use an outdated and vague classification system. SGI has no policy concerning the wearing of proper safety gear (other than helmets). They discriminate against some motorcycle classes by asking for 30% increases while limiting all other auto increases to a maximum of 15%.

Motorcycle Classification – Most, if not all private insurers have dozens of different classifications. Despite the fact that the SPDA has offered on at least two occasions to assist in classifying makes and models, SGI continues to use a system that is far too general. The result is many models are incorrectly classified, and riders overcharged or undercharged for insurance.

Private Enterprise Rate Comparison – When compared to private insurers in Alberta, SGI rates are currently some 30% higher on average, which is before the proposed premium increase. SAF explained the difference was due to Alberta’s limited personal liability for the riders, whereas in Saskatchewan the limits are apparently significantly higher. The result is much higher injury claim costs, longer payouts, and thus the higher premiums for which SGI is currently applying. The largest component of the premium is obviously the personal injury component. The SPDA suggests that SGI reduce the personal injury component to the level Alberta offers, and leave it to the rider/driver to decide whether to top up said insurance if it is not already provided from another source.

Injury Claims – The SPDA believes the issue of injury claims will begin to come down over the next three years. Reasons for this are as follows:

- Since 2008 motorcycle sales in Canada have dropped some 30%. There are fewer bikes on the road (especially with young inexperienced riders due to tightened credit requirements).
- The sport-bike trend is over. SGI will not likely recognize this trend until they correct their classifications.

- There is a large influx of Europeans to Saskatchewan to whom riding is part of their culture. The graduated testing in Europe and rider maturity is expected to average down claims and raise the general skill level of the rider population.
- The new GRL (Graduated Rider License) program has not been given a chance to work. SGI is applying for a significant increase using past history as justification. The successful / effective results of the new GRL in reducing accidents and claims, as suggested by SGI, are not yet known.

The SPDA asks the Panel to deny the Application for any increase in motorcycle rates. They further submit that SGI be directed to evaluate the personal injury component, by either reducing it or allowing it to be waived if the licensee wishes in order to eliminate the double and triple coverage many people have. The SPDA also strongly suggests SGI be directed to re-classify their motorcycle insurance categories to bring them in line with international industry standards.

United Cab / Saskatoon, Comfort Cab / Saskatoon, Capital Cab / Regina, Co-Op Taxi / Regina, A.M.I.R. Taxi / Weyburn – T. Rosina

Taxi cabs pay one of the highest yearly premiums of all vehicle classes in Saskatchewan and are amongst the smallest vehicle class. This creates a disadvantage when compared to other higher risk collision vehicle classes. Taxi cab accident claims are minimized by implementing stringent hiring guidelines, reviewing driver abstracts, monitoring driving habits, and conducting post-accident reviews. SGI approved safety vehicle inspections have been done on the majority of taxi cabs to ensure they are properly maintained and road worthy. The average taxi cab travels 6 times more (i.e., 120,000 km vs. 20,000 km) than a regular LV class vehicle. Thus, risk of collision is 6 times more as well. Recognizing that many of the “extra” kms are driven in extreme weather conditions (out of public necessity), risk of collision increases even more. SGI’s focus (investing) on impaired driving programs is supported by taxi cabs without any funding to that vehicle class. A 0% rate increase for support is suggested.

21.0 CORE ISSUES AND RECOMMENDATIONS

21.1 CONTINGENCY MARGIN

SAF indicated that the selected level for its proposed contingency margin (3.5%) was "*based on the level of risk as measured by the provisions for adverse deviation (PfAD) from reserving*" (1st Round, #36). SAF further indicated that the purpose of its proposed contingency margin is to generate additional revenue to (a) offset the loss from any growth in provision for adverse deviations, and (b) protect against the possibility that one or more of the rating assumptions are incorrect, leading to inadequate rates (1st Round, #38).

The applicable standard of practice of the Canadian Institute of Actuaries places the development of an indicated rate in the context of best estimates, apart from any profit provision:

> "*The best estimate present value of cash flows relating to the revenue at the indicated rate should equal the best estimate present value of cash flows relating to the corresponding claim costs and expense costs, plus the present value of a provision for profit, over a specified period of time.*"

By definition, including a non-zero provision for adverse deviations in an indicated rate is a departure from a best estimate. Since SAF has as one of its stated objectives in determining premium rates that rates should be set to break even, we do not accept the inclusion of a contingency margin that makes provision for additional revenue above best estimate expected costs. We are not persuaded that a contingency margin is needed to protect against the adverse potential consequences arising from the uncertainty in setting assumptions, but rather that this is exactly one of the proper purposes of the Rate Stabilization Reserve.

However, we accept that the natural growth in the provision for adverse deviations for SAF in its current state of evolution is a proper cost that should be recognized on a best estimate basis in setting indicated rates, to be consistent with the objective of setting break even rates. "Break even" in this context is taken in an accounting sense as representing Net Income of approximately zero dollars. Absent this provision, and with all other assumptions set on a best estimate basis, SAF would otherwise expect a Net Loss from the use of such indicated rates.

Accordingly, we recommend inclusion of an additional expense provision, perhaps called the Break Even Margin, estimated at 1.25% of premium on an undiscounted basis, based on SAF's estimate of the portion of its proposed contingency margin intended to account for the natural growth in the provision for adverse deviations (2nd Round, #13a).

Such a change is estimated to reduce the overall indicated change in average rate level from +3.7% down to about +1.1% (1st Round, #48).

21.2 CAPITAL MANAGEMENT POLICY

SAF's current Capital Management Policy involves application of the Minimum Capital Test as defined in 2011 by the Office of the Superintendent of Financial Institutions Canada. This test has been changed in 2012, and further changes, as yet not finalized, are expected in the coming years.

On each occasion that the MCT calculation is changed, it calls into question whether or not the change represents an improvement in the relative measurement of capital adequacy for SAF, in the context of its Capital Management Policy. If it does represent such an improvement, then possibly the target MCT range needs to be reassessed in the light of the new information the test result provides. If it does not represent such an improvement, then possibly the target MCT range needs to be reassessed to correct for the distortion caused by the test change, or alternatively, the test change is rejected and the former MCT calculation is carried forward.

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

We further recommend that the Capital Management Policy be augmented to include an officially defined and stated purpose for the RSR. In this regard, it is not expected that funding of capital projects, such as the AFRP, would be identified as an intended purpose of the RSR.

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

21.3 PROPOSED CHANGE IN AVERAGE RATE LEVEL

We are concerned about possible residual conservatism still being built into the overall rate indication of a +3.7% change in average rate level.

An example of this lies in the selection of future trend assumptions. The available documentation shows that the selection of future frequency and severity assumptions are dominated by mostly judgmental overrides of corresponding past trend assumptions, which are in turn mostly based on an analysis of experience (1st Round, #17 to #19). The evidence provided in support of these future trend selections was mostly judgmental, with limited statistical evidence provided (2nd Round, #8). The overall indicated change in average rate level is quite sensitive to these assumptions, as evidenced by the restatement to use past trends as future trends for three significant coverages for the CLEAR-rated and Heavy classes of vehicles, which was estimated to reduce the overall indicated change in average rate level from +3.7% down to about +1.6% (2nd Round, #14).

Similar, but less significant concerns arise in the forecasted levels of certain non-claims related expenses, which may give rise to additional conservatism.

With the information available, it is not practical for us to attempt to quantify the extent of any such conservatism. However, **we recommend the Panel give consideration to the possibility of residual conservatism in SAF's rate indication as the Panel makes its recommendation in this regard.**

We further recommend that SAF, in future rate Applications, stay focused on development of best estimate rate indications, and enhance the level of support and documentation for judgmental overrides of experience-driven assumptions.

21.4 RATE STABILIZATION RESERVE

Strict application of SAF's Capital Management Policy does not yet call for any action to replenish the RSR. However the evidence is strong that it will be only a short amount of time before that policy will be triggered by a 12-month rolling average MCT ratio below 75% (Application Appendix B, 1st Round, #30; 2nd Round, #11a).

Considering the recent typical frequency with which SAF rate Applications are brought forward, we recommend some modest level of RSR replenishment loading for a fixed one or two year period. We further recommend that such loading be expressed as a % of premium, which seems to fairly make each individual's contribution to rebuilding the RSR commensurate with the risk they bring to the insurance process. The size of the loading ought to be small, to avoid causing exactly what the RSR is intended to mitigate, i.e., rate shock.

With respect to any such RSR replenishment loading, we further recommend that SAF be instructed to segregate the loading in its accounting and its communications with policyholders, to enhance transparency.

21.5 RATE REBALANCING

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

We recommend acceptance of SAF's proposed rate level change capping philosophy, as it is fairly applied, and provides reasonable limitations to the more extreme indicated changes. The obvious exception to the uniform application of this capping is for sport motorcycles, for which higher capping levels are selected. This class of vehicle continues to show a very large rate need, and in the absence of any exception to the capping rule, concerns over unfair cross subsidization may otherwise arise.

We also recommend the Panel to urge the Minister to encourage or even require SAF to annually bring forward rate proposals with rate rebalancing, to improve the pace by which SAF is seeking to bring each vehicle's rate within a small tolerance

of its rate indication.

With respect to fairness in rating under the Safe Driver Recognition and Business Recognition Programs, we also recommend that it would be appropriate to bring the review of these programs within the Terms of Reference for the Panel in reviewing future Applications.

21.6 TECHNICAL IMPROVEMENTS

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

- **Discount Rate Curve.** The new methodology for selection of the discount rate of interest curve used for discounting cash flows gives explicit recognition to SAF's efforts towards matching of asset and liability cash flows, considering the timing of those cash flows and the characteristics of the asset portfolio, updated to reflect expected shifts in market yield rates. However, in recognition of the prospective nature of ratemaking, SAF should consider basing the selection of the discount rate curve entirely on the expected return on "new money" investments, independent of the characteristics of the existing asset portfolio.

- **Tort vs. No-Fault.** Continue to explore the need for developing distinct rate levels for tort vs. no-fault coverage, and the practical challenges of implementing such a change should it be justified by the experience.

- **Credibility and Large Loss Procedures.** Consider extending the use of credibility and large loss procedures to enhance the stability of the classification ratemaking procedures.

21.7 AUTO FUND REDEVELOPMENT PROJECT

In the 2009 Application, SAF estimated that the total AFRP would cost $35 million, and have an in service date of 2010. The estimated cost was funded by a $35 million allocation from the RSR to the Redevelopment Reserve. The final project cost was $36.0 million, with the excess $1.0 million being funded from annual operations, in varying annual amounts since 2005. We are of the view that the increased final cost of some $1.0 million over the estimate (about 2.86%) is reasonable, given the complexities of IT systems information projects and the elapsed time since the estimate, being prior to 2005. When last reviewed by the Panel, the estimated expenditures to 31 March 2009 consisted of $18.3 million in capital expenditures and $5.9 million in internal costs. Capital represented about 75% of project to that date. The capital component of the final cost ($26.6 million) represents 74% of total costs.

In 2009, SAF anticipated that cost savings would be between $750,000 and $1.0 million per year in staffing costs and a further $200,000 to $300,000 in reduced software maintenance costs. In this Application, the estimated annual savings flowing from the implementation of AFRP are $1.77 million, consisting of staff savings of $625,000, reduced software maintenance cost of $263,000.

As well, while not a direct saving to SAF, the new system contributed towards the increase in PST collections remitted to the Province of $637,000. Other savings were related to various customer systems applications, such as MySGI, E-rate, Issuer Email Manual, and emailing IRP renewals. We commend SAF on the design and implementation of the AFRP and consider it to have been accomplished in a prudent and expeditious manner, and that the benefits realized will ultimately be at least equal to those anticipated.

The Panel will expect SAF to diligently track and quantify the nature of all benefits flowing from the AFRP, and to the extent practical track these apart from any other efficiencies resulting from normal operational overviews.

We note SAF's contention that its "*...revenue stream has improved dramatically and that the AFRP is one of the best licensing and registration systems in Canada. As a result of its efficiency, SAF has been approached on it by other jurisdictions and are now exploring opportunities to either license or sell the system.*"

We recommend that the Panel require SAF to keep it abreast of any developments in this regard, the resulting revenues realized, and the impact of such revenue on rate requirements.

21.8 INVESTMENT INCOME

SAF's Investment Policy is reviewed periodically and revised as market circumstances change or are anticipated to change. The policy is reviewed and adopted annually by SAF's Board. SAF employs the services of an Independent Investment Advisor to administer the policy, with specific quantified objectives required to be met, based on a benchmark portfolio. Lines of communication are defined and open, written and verbal, and monitoring, compliance, and exception reporting of the portfolio's performance and investment manager's activities are frequent adequate controls. Our view is that the amount of detail in the scrutiny of and the performance of the investment portfolio is more than adequate and can respond to changing and challenging market forces and circumstances.

21.9 TRAFFIC SAFETY

SAF continues to promote traffic safety within the Province and bears all associated costs. Annually, initiatives are reviewed and various programs completed, discontinued, or refined, as well as new programs being added. In 2009, total traffic safety costs were $17.4 million, representing 2.8% of premiums earned. The projected and estimated expenditures for 2011 and 2012 are $21.0 million (2.9% of premiums written) and $26.3 million (2.9% of premiums written), respectively.

We note SAF's intention is to annually budget an amount for Traffic Safety between 2%

and 3% of premiums written. From 2013 to 2016 these budgets reflect traffic safety costs between 2.5% and 2.8%.

SAF groups traffic safety programs into five major initiatives, plus an amount for Regulatory Program Administration. As shown in Section 12.6 of this report, the total expenditure for the five major initiatives is estimated to increase from the 2011 amount of $10.0 million by $4.2 million (4.2%) to $14.2 million for 2012. While the regulatory administration increase is estimated to be $1.0 million (to a 2012 amount of $12.0 million), the significant changes in these initiatives in 2012 are the elimination of about $1.1 million in advertising, and an increase of $5.5 million in Driver Development from $2.5 million to $7.5 million.

The decrease in advertising is related primarily to the elimination of costs for the Drive Right Program, Cell Phone advertising, and Safety Awareness Brochures. This is partially offset by an increase for Wildlife and Motorcycle advertising. Regulatory cost increases are primarily related to support services, salaries and Program Administration costs (travel, auto expenses, meals, lodging, telephones, supplies, etc.).

SAF's projected cost for driver education was $1.7 million, and actual expenditures were $2.5 million. Estimates show annual costs increasing by $4.9 million in 2012 to $7.4 million and then remaining constant until 2016. We note that, as Administrator of the *Traffic Safety Act*, SGI has had a regulatory responsibility for driver education for many years for licensing and certifying driver educators and driving schools. Prior to assuming this funding responsibility, SAF funded a coordinator position in the Ministry of Education. SAF's contention is that this approach provides opportunities for alignment of traffic safety goals and building efficiencies into its delivery. In this regard we note that the budgets remain at a constant level from 2012 to 2016, in anticipation of the realization of these efficiencies.

Upon review of the extensive material provided by SAF related to measurement of the effectiveness of its various initiatives and programs and analyses anticipated of potential new initiatives prior to implementation, we remain of the view that SAF's commitment to, and emphasis on traffic safety, is commendable and that an effective and dynamic program will, in the long term, reduce costs, injuries and deaths. We consider the overall program currently envisioned within the 2012 to 2016 time frame to be focused on the major safety issues faced by SAF, but recognize that it may well change as circumstances dictate from time to time. The level of annual expenditure in the range of 2% to 3% of premiums written is considered to be reasonable within the five year financial forecast. **We recommend the Panel require SAF to provide specific details of actual cost savings, as well as a statistical analysis demonstrating each program's effectiveness for the various initiatives as part of the minimum filing requirements in all future Applications.**

In 2011 SAF assumed the responsibility for Driver Education from the Province, with a significant increase in expenses and no commensurate contribution to revenue from the Province. Depending on the basis under which SAF assumed this responsibility, this could represent an onerous contract under International

Financial Reporting Standards, the consequence of which could be very significant to the level of the RSR. We recommend the Panel request SAF to provide the assessment of its external auditor in this regard, with the next rate Application.

The increase in traffic safety from 2011 to 2012 is approximately $5.2 million (25%), which can be almost totally attributed to the increase for funding all costs of driver education in provincial high schools from the Ministry of Education. The 2011 Annual Report states that SAF is now responsible for driver education funding and administration in Saskatchewan. Our view is that, unlike traffic safety initiatives specifically geared towards insured motorists, driver education benefits all Saskatchewan citizens, and this funding change moves all costs for this program to the drivers insured by SGI.

21.10 COST ALLOCATION

SAF included SGI's cost allocation policy, on a confidential basis, as part of its 2012 rate change Application. The document is confidential in that it contains information related to SGI's entire group of companies, several of which operate in a competitive environment. The current cost allocation methodology was adopted in 2008, and has not changed since that time. The cost drivers are reviewed annually. Throughout the year, costs are allocated based on allocation formulas provided by the departments, generally based on prior year end results. During the last quarter of each year, formulas are reviewed and updated based on actual work performed to endure that the allocation is the most appropriate. The cost allocation process is reviewed by SAF's auditors.

We note that in 2009, SAF's portion of total administrative and LAE expense was 64.9%, and this has been relatively constant, representing 64.4% of the 2012 expenses. Total expenses during this period increased by about 23.7%, while SAF's share increased by 22.7%. All traffic safety expenses are directly assigned to SAF, and this component of expense has increased considerably since 2009, by approximately 64%. Thus it is our view that SGI's current cost allocation methodology remains reasonable, and incorporates regular monitoring and overall management controls, annual including audit review of the process. Therefore, we believe that the process is satisfactory, generally complies with industry cost allocation methodologies, and SAF does not unduly subsidize SGI's non-regulated companies.

21.11 ADMINISTRATIVE EFFICIENCIES AND PERFORMANCE MEASURES

With the new systems becoming operational in 2010, efficiencies resulting from the implementation of the systems were estimated to be $1.74 million. Beyond the future anticipated administrative annual savings of $326,837, SAF does not have any efficiency projects identified at the expenditure type level. We note SAF's submission that Auto Fund's operations are efficient relative to the industry, using, as a main measure, the balanced scorecard target administrative expense ratio. The Ward Group Report shows SAF to be above comparable industry results, in most measures. As well, SAF compares favorably with ICBC and MPI in terms of LAE per claim and Administrative expense per insured year.

Two areas that appear to require improvement are Claims Service and Human Resources. We note that, while SAF has offered some initial observations why these measures may not be directly comparable, it undertook to investigate the matter in an attempt to better understand the differences and identify opportunities for improvement. In response to an Information Request, SAF provided additional comparative data, on a confidential basis.

As with other Ward Group results, SAF compares favorably with ICBC and MPI, when comparing LAE per reported claim has decreased since 2006 by under 10%, while administrative expenses per insured year has increased since 2007 by over 30%. Both results are reasonable in comparison to ICBC and MPI results.

SAF did not comment on the reasons for these differences, neither did this review process allow the time to more fully review them. We consider that benchmarking is an effective tool to measure performance for a variety of measures relative to others in the industry, but, as with the cross-Canada rate comparison, caution that such comparisons are more useful in showing year over year trend, both for SAF and others, rather than indicating annual efficiencies and productivity for specific administrative and other cost components within a company.

21.12 OM&A EXPENSES

21.12.1 Salaries, Wages and Benefits

We note that wages and salaries decreased in 2011 by $301,127 from 2010 expenditures because of the reduction in FTE positions subsequent to the implementation of the AFRP in 2010. As discussed in Section 9 of this report, the annual savings in wages and salaries attributed to AFRP completion was an estimated $625,000 for the 15 positions no longer required. However, of the 15 positions 8 were completely eliminated, 2 were transferred to SGI's Systems Division and 5 were employed elsewhere within SAF. Thus the $301,000 decrease in wages and salaries largely related to the completion of the AFRP.

The budgeted increase of 7.32 employees within SAF appears to be reasonable in view of the increase in work load related to spot AFRP activities related to customer service and more effective and efficient delivery of the various components of AFRP. In 2011, we calculate the average compensation per employee, for the 1,459 SAF FTE to be $46,776. Recognizing that new FTEs will not likely attract the average salary, it is reasonable to expect that the cost for the additional employees could be in the order of $250,000. We note that the in-scope to management ratio, as reported in an Information Request response, has shown a small but steady decline from 5.8% in 2010, to 5.5% in 2011 and is projected to be 5.3% in 2012. Considering the terms of the recently negotiated collective bargaining agreement (CBA) and out-of-scope compensation, our view is that the 2.2% increase budgeted for 2012 is reasonable. The recently revised pension expense translates into a 2.58% increase over that in 2011. Given the 2.20%

increase in wages and salaries, and the proposed addition of FTEs, the expense is reasonable. The larger increase in benefits is attributable to increased staff, and elements that have been agreed to in the CBA, and in our view should be accepted.

21.12.2 External Services

The external service cost budgeted increase of $2.7 million consists of $1.8 million for increased costs related to Traffic Safety for various external services for wildlife solutions, enforcement overdrive/enhanced enforcement and red light cameras. As discussed under the Traffic Safety sections, we agree that expenditures related to safety enhancements are worthwhile, as long as the proper pre-implementation analyses and monitoring are diligently pursued. While we are unable to assess the reasonableness of remaining $0.9 million budgeted for systems, human resources, claims and marketing, our view is that some allowance for such items is prudent, but the amount may be debatable.

21.12.3 Capital Costs and Building Rehabilitation

With an aging infrastructure, capital costs for buildings will vary from year to year and year over year increases can also be expected. We note that the impact of all capital projects on the 2012 indicated rate is 0.2%, and suggest the associated costs, including IFRS depreciation changes, to be reasonable.

Building rehabilitation costs are budgeted to increase by $0.7 million (35.5%). In response to a supplemental Information Request, SAF provided a breakdown of this increase: $544,000 for asphalt repaving/repairs at four locations due to deteriorated conditions of the lots; $100,000 for structural repairs to SGI Head Office; $95,000 for mechanical repairs at two locations. We consider the justification for these projects and estimates to be reasonable.

21.12.4 Data Processing

The 2012 decrease in data processing costs of $747,868 flows from the AFRP implemented processes and is consistent with original output expectations and anticipated cost savings.

21.12.5 Issuer Bank Charges

SAF attributes the increase of $1.8 million over 2011 issuer bank charges to an anticipated much greater use of credit cards for online registrations and uptake of MySGI. Increased costs will be offset to a certain degree by increased revenue flowing to SAF from customers using the services.

21.12.6 Other Administrative Expenses

We note that SAF was ultimately able to attribute a total of approximately $1.069 million of the $1.37 million increase in Other Expenses to specific items (bad debt - $525,000, building space rental cost - $545,000), but could provide no further details, citing complexities and time constraints of obtaining the requested detail. We further note the example of complexities in attributing a large number of smaller accounts to SAF; that of SGI telephone expense, expected to increase by $294,000 (8.3%) over 2011 expenditures, arising from over 180 departments, each of which is allocated to SAF using their own cost drivers. We were unable to assess the necessity of the approximate $300,000 remaining in other expenditures.

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

21.12.7 Summary

The total OM&A budgeted increase for 2012 is $13.7 million over 2011 actual expenditures. Of this amount, $5.3 million is related to traffic safety, and $8.4 million for LAE and administrative expenses. On an overall basis, the traffic safety budget increase is primarily because of the assumption of funding for all driver education in the Province by SAF in 2011, with other budgeted changes in this area generally offsetting one another.

We are of the view that the 2012 increases for Wages and Salaries, Benefits and Pension expense of $2.4 million are reasonable, largely influenced by the recently negotiated CBA. Further, we consider building rehabilitation cost increases ($0.7 million) are dictated by the condition of the infrastructure, and in general costs cited are within the cost range of such projects. While we have some concern related to the lack of detail provided for some of the expense categories, we recognize the issue of materiality and can appreciate a tendency to be conservative in estimates, given the emergence of the new information systems flowing from the AFRP implementation. It is not possible, however, for us to quantify this.

We note SAF's observation that variance analysis at an account level is a very difficult and time consuming exercise as accounts are managed at the department level and then allocated between SGI CANADA's various entities. We further note SAF's submission that department managers are accountable for their expenses and these are reviewed regularly and monitored monthly and compared to budgets by the Finance Department.

We also note that SAF has a mandate to break even over time and thus pays no dividends nor receives any additional funding from the Province. Thus any overall under expenditure will flow to the RSR, while an overall over expenditure will reduce the RSR balance. **We recommend the Panel consider requiring SAF to identify all surpluses and deficiencies flowing to the RSR on a more detailed basis than currently provided. We recommend that the Panel consider requiring SAF, in preparing budgets, to include a discrete internal efficiency/productivity factor, to be a percentage of total OM&A costs to offset costs that would be attributed to inflationary pressures. We understand that this is a requirement for another**

Crown Corporation that regularly submits rate change Applications for Panel review, and we consider it to be reasonable to extend such a requirement to SAF. We suggest an amount of perhaps 0.5% as an efficiency/productivity factor as an initial target to be included in the next budget.

21.13 FUTURE MINIMUM FILING REQUIREMENTS

Based on our experience with the current review process and upon review of the existing Minimum Filing Requirements (MFRs) for SGI-Saskatchewan Auto Fund, we recommend that the following MFRs be adopted for future Applications:

1. Latest annual report, updated as available through review process.
2. Current and proposed organization structures.
3. Current long term business and strategic plans, including Application year Performance Management Plan and Balanced Scorecard (Confidential, if necessary).
4. Most recent parameters of all incentive programs, including SDR and BR.
5. Details of indicated and requested rates supported by rate setting methodology details, and actuarial documents.
6. Detailed explanations of rationale for differences between indicated and requested rates.
7. Detailed explanation of all rate rebalancing measures proposed, including implementation schedule and anticipated future timing for and impacts of rebalancing.
8. Changes to CLEAR-rated vehicle categories.
9. Changes to conventionally-rated vehicle categories.
10. Details and narrative related to any changes to vehicle classifications systems.
11. Detailed financial information for 3 years prior to Application year, Application year, and five year projections. Details should include all operating revenues, investment income, and Bonus and Malus discounts/surcharges for all incentive programs. As well, all claims costs and expenses should be provided in detail as requested in the 2012 Application, on a consistent basis, so as to be comparable from year to year, including the Application year. Detailed explanations for variances between actual and forecast results and variances for forecasts for year of Application from prior year results should be provided.
12. Details of any changes in provisions for adverse deviations.
13. MCT ratios and any changes in Capital Management Policy.
14. RSR balances, and needs for replenishment or refund.
15. Taxes and Grants-in-lieu of taxes, as applicable.
16. Detailed explanation of all shared service costs, and assignment of and cost allocation of common costs (direct and indirect) inter and intra company, noting any changes.
17. Past, current and future staff levels by Division for SAF and support staffing from other SGI entities, including detailed analysis justifying any staff additions, reductions or redeployments.
18. Any new programs introduced or eliminated, by type.

19. Descriptions of traffic safety programs, including hard cost/benefit analyses justifying new programs implemented, and quantified benefits flowing from prior and existing programs.
20. Details of specific internal productivity improvement goals and results, efficiencies and cost control measures, by improvement type, including parameters used.
21. Capital improvements amounts and funding, as well as impact on indicated and requested rates.
22. Any external studies conducted that concern the administration of SAF by SGI.
23. Report on implementation of previous Panel recommendations.

We note that the existing MFRs comprise 21 specific items. The proposed future MFRs primarily attempt to clarify the intent and provide more guidance for the Applicant. In addition to clarifying, expanding on details to be provided and amalgamating certain existing requirements, the recommended future MFRs suggest including additional information related to specific internal productivity and efficiency targets and measures, forecasting variances, and impact on rates of capital expenditures.

21.14 SAF STAKEHOLDER INSURANCE PRODUCT OFFERING REVIEW

We applaud SAF's initiative to undertake an open and transparent product review in 2012, engaging all stakeholders in the process. From the evidence provided in support of this rate Application, as well as suggestions and criticisms submitted by presenters and the general public, we recommend the review include at least the following:

- Motorcycle safety and driver training;
- Physical damage deductible levels;
- Premiums for seasonal use vehicles, including short duration permitting options;
- Proper use classification of Farm vehicles;
- Safe Driver Recognition and Business Recognition Programs; and
- Review of risk classifications for all vehicles, in particular urban and rural taxis.

22.0 GLOSSARY OF ACRONYMS

AFRP	Auto Fund Redevelopment Project
BR	Business Recognition (Program)
CBA	Collective Bargaining Agreement
CIC	Crown Investments Corporation
CLEAR	Canadian Loss Experience Automobile Rating
CPI	Consumer Price Index
FTE	Full Time Equivalents
GAAP	Generally Accepted Accounting Principles
GDL	Graduated Driver Licensing
GRL	Graduated Rider License
GVW	Gross Vehicle Weight
IBAS	Insurance Brokers Association of Saskatchewan
IBC	Insurance Bureau of Canada
ICBC	Insurance Corporation of British Columbia
ICPEI	Insurance Company of Prince Edward Island
IFRS	International Financial Reporting Standards
IRP	International Registration Plan
IR	Information Request
IT	Information Technology
LAE	Loss Adjustment Expenses
MCT	Minimum Capital Test
MFR	Minimum Filing Requirement
MPI	Manitoba Public Insurance
OM&A	Operating, Maintenance and Administrative (Expenses)
PIPP	Personal Injury Protection Plan
PPV	Private Passenger Vehicles
RSR	Rate Stabilization Reserve
SAAR	Saskatchewan Association of Automobile Repairers
SADA	Saskatchewan Automotive Dealers Association

SAF	Saskatchewan Auto Fund
SCISL	SGI CANADA Insurance Services Ltd.
SDR	Safe Driver Recognition (Program)
SGI	Saskatchewan Government Insurance
SGIC	SGI CANADA
SPDA	Saskatchewan Powersport Dealer Association
STA	Saskatchewan Trucking Association