

Saskatchewan Auto Fund

Proposal for Rate Adjustment – February 2012

Second Round Information Requests

Prepared on Behalf of the Saskatchewan Rate Review Panel

1. Reference IR #5 – First Round

Please provide an additional column in this table showing the 2012 SAF indicated rate for each motorcycle.

2. Reference IR #6 – First Round

Does SAF have any ratepayer-focused considerations in forming its view of what constitutes rate shock?

3. Reference IR #7 – First Round

Please explain the 100% maximum decrease shown for Class L – Dealer plates – Motorcycles shown in this response.

4. Reference IR #9 – First Round

- a. Please provide an estimate of the percentage of CLEAR and Conventionally Rated vehicles (separately and combined) that are currently within 5% of their appropriate rate.
- b. Please confirm that SAF has assumed that the same rate caps, including exceptions, will be applied, and that no change in indicated rate levels will arise, in order to get 95% of all vehicles to within 5% of their appropriate rate within 3 years.
- c. Please discuss SAF's ultimate goal in this regard.

5. Reference IR #10 – First Round

Please confirm that the shift from an indicated average rate change of +1.5% for CLEAR-Rated Vehicles to a proposed average rate change of +3.2% is attributable to the rebalancing process after application of capping, in order to preserve the overall average rate change of +3.7%.

6. Reference IR #13 – First Round

- a. Please confirm that ultimate losses are net of reinsurance recoveries.
- b. Please confirm that the earned exposures for 2011 are for only a portion of the year, and provide the annual numbers, if now available
- c. Please discuss why the earned exposures for rural taxis for 2007, 2008 and 2009 have declined significantly and appear to have increased in 2010.
- d. Please provide the “break-even” loss ratios for rural and urban taxis since 2005.

- e. Please provide the rationale for adopting a much more refined classification structure for rural taxis (i.e., including CLEAR rate groups) than is used for urban taxis.
- f. Please discuss whether SAF tracks the urban vs. rural designation for the experience of private passenger vehicles, motorcycles, or any other vehicle classes, as is the case for rural and urban taxis.
- g. Has any consideration been given to introducing territorial rating beyond taxis?

7. Reference IR #15 – First Round

Please discuss the impact on this Application arising from the correction of the past error that allowed some Class F –Farm Vehicles - Heavy Trucks and Vans to qualify for SDR discounts as referenced in the attached table.

8. Reference IR #17, #18, #19, #20 – First Round

To the extent available, please provide or summarize the statistical evidence considered (i.e., something beyond just a judgment call) in support of overriding past statistically-based trend assumptions in selecting future trend assumptions (e.g., frequency – “claims per exposure will stabilize”, “increasing population density”, “negative trend will decrease in the future”; severity – “expectation of CPI”, “expected severity growth”, “severity will stabilize”).

9. Reference IR #22 – First Round

Considering that the Aon Hewitt forecast at a point in time presumably takes into consideration all of the relevant historical experience up to that point in time, what does this mean for the responsiveness of an assumption based on an average of recent historical forecasts?

10. Reference IR #23 – First Round

How does a constructed yield curve based on investments purchased in the current and prior periods represent a best estimate assumption of the expected yield curve based on investments to be purchased in future periods?

11. Reference IR #30, #32 – First Round

- a. Please provide the MCT ratios for January, February and March 2012, if available.
- b. Please also provide the 12 Month rolling average MCT ratio ending with the most recent month for which the data is available, and recalculate the response to First Round IR # 32 based on this ratio.
- c. Please explain why the MCT ratios shown for December 2011 are 50% without a rate increase and 52% with a 3.7% rate increase in Appendix B, and 60% in the response to First Round IR #30.

12. Reference IR #33, #34 – First Round

Please discuss whether SAF has considered the need to prepare amendments to the Capital Management Policy to reflect any changes in the MCT ratio that have been introduced in 2012, and or may be introduced in future years.

13. Reference IR #38 – First Round

- a. Please discuss the proportion of the proposed 3.5% contingency margin that is attributable to the expected growth of the provision for adverse deviations (“PfAD”), and the proportion attributable to incorrect rating assumptions leading to inadequate rates.
- b. Please discuss whether SAF considers that rating assumptions can also be misestimated resulting in premium revenue in excess of that estimated.

14. Reference IR #40 – First Round

Please discuss the impact on overall rates if future frequency, severity and pure premium trend assumptions were identical to past trend assumptions for the three predominant covers for the CLEAR-rated and Heavy classes of vehicles.

15. Reference IR #43 – First Round

- a. Please discuss the circumstances that resulted in the Auto Fund Redevelopment Project being funded by the RSR, and the ultimate impact on the current RSR level resulting from this past approach to funding.
- b. Please discuss whether it is SAF’s view that the RSR should be used to fund other major one time planned expenditures, including capital expenditures or other system improvements.

16. Reference IR #46 – First Round

Please confirm that if a contingency margin as proposed by SAF is incorporated into the rate making model, it will not have a compounding effect over time, in that each Application will have rate analyses that calculate the pure premium based only on actual updated loss experience, and then a separate contingency margin will be applied to the calculated pure premiums.

17. Reference IR #50 – First Round

- a. Please provide comparative numbers for the other Canadian public insurers used in the rate comparison provided in the response to First Round IR #5.
- b. Please explain the reasons for the significant increase in Admin. Expenses per insured year of approximately 40% from 2006 to 2011, while the increase in insured years is approximately 13.6%.
- c. Please provide similar numbers anticipated for the 2012 budget.

18. Reference IR #51 – First Round

Please reconcile the FTE number shown as 1,807 in this response and the 1,459 number shown in the Application in Tab 18.

19. Reference IR #52 – First Round

What are the expected total losses for the four 2011 hail storms for which \$19.3 million in recoveries are expected? Please provide the data on a per event basis.

20. Reference IR #54 – First Round

Please provide the net impact on the overall indicated rate for each of the two reinsurance programs from 2006 to 2011.

21. Reference IR #56 – First Round

Please discuss the impact on the 2012 indicated rates resulting from the change in the basis for injury rate groups from CLEAR data to SAF data.

22. Reference IR #62 – First Round

Please estimate the expected change in physical damage claims costs that would occur if the deductible level for motorcycles was set at \$1,000, instead of \$700, and the impact of such a change on the overall required average premium for sport bikes, and the motorcycle class overall.

23. Reference IR #63 – First Round

Please provide additional background about the referenced “tail factor change” with about a \$10 million impact on No Fault Injury claim costs in 2011.

24. Reference IR #64 – First Round

Please discuss the basis for the assumed 3% trend for indexing of annual benefits in the future.

25. Reference IR #65 – First Round

To what degree did this “double counting” impact the 2012 indicated rates?

26. Reference IR #67 – First Round

Please discuss the process used by SAF to quantify the change in attribution of injury related claims to the at-fault vehicle and the impacts of this change on the 2012 overall rate indication.

27. Reference IR #68, #69 – First Round

When does SAF expect the responses to these responses to be available?

28. Reference IR #74 – First Round

Please confirm that the benefit levels shown for both No Fault and Tort are the maximum entitlements under SAF’s Basic program.

29. Reference IR #74 – First Round

Please describe the process necessary for an individual to choose either No Fault or Tort coverage, and indicate how frequently the option can be exercised.

30. Reference IR #79 – First Round

- a. Please reconcile the 2011 and 2012 expenses allocated to SAF shown in this response and those shown in Appendix B, Page 43 of the Application.

- b. Please confirm that the cost allocation factors for any year are based on prospective costs and are not changed on a retrospective basis once actual results are known.

31. Reference IR #80 – First Round

- a. Please discuss the internal process whereby managers review cost drivers for cost allocation purposes annually.
- b. Please discuss whether SAF has ever had any external input respecting its cost allocation methodology.

32. Reference IR #82 – First Round

- a. Please confirm that the budgeted amount for Product Management of approximately \$2.0 million is the total 2012 budget for this Division.
- b. Please describe the methodology used to allocate Product Management charges to the various other companies, to the extent it differs from the cost allocation methodology described in Tab 9 of the Application.

33. Reference IR #83 – First Round

- a. Please provide further details related to OM&A expenses, similar to the responses to First Round IR 18(a), (b) and (c) from the 2009 review, and explain significant year-to-year variances. In this response, please provide the level of detail on a line by line basis as was done for the previous Application, specifically:
 - Wages & Salaries
 - Benefits
 - Pensions
 - External Services
 - Materials and Supplies
 - Travel, including Vehicle Costs
 - Insurance
 - Tools and Equipment
 - Building Maintenance
 - Building Rehabilitation
 - Amortization Costs
 - Driver Education
 - Data Processing
 - Safety Awareness
 - Drinking and Driving Awareness
 - Postage
 - License Plates
 - Other
- b. Please provide a breakdown of the “Other” expense category shown in this response, for those expenditures exceeding \$50,000.

- c. Please discuss significant year-to-year variances for all of the above categories.
- d. Please provide the data in the above format, or in greater detail, as appropriate, for the 2012 budget.
- e. For Wages & Salaries, please indicate and discuss the magnitude of the increases from projected 2011 to projected 2012 related to collective agreement settlements, salaried increases, bonuses, merit pay increases, and staffing levels for union and out-of-scope personnel.
- f. Please discuss and quantify SAF's goals for achieving internal efficiencies by expenditure types that are reflected in the prior year's (2011) actual results, and indicate the anticipated efficiencies budgeted for 2012, apart from the Auto Fund Project efficiencies previously discussed.

34. Reference IR #86 – First Round

- a. Please provide the staff and management numbers underpinning the Staff to Management ratios of 8.91 for SGI, 5.66 for Canada Personal Lines Benchmark, and 5.88 for the Total Universe.
- b. Please confirm that SAF Staff to Management ratio is also 8.91, as it is for SGI.
- c. Please provide the numbers underpinning the FTE's per \$100 million premiums written shown in this table on Page 1.8.
- d. Please discuss the relative performance of SGI with respect to Claims Service and Human Resources as shown on Page 2.7.

35. Reference IR #87 – First Round

Please discuss when in 2011, SAF assumed responsibility for Driver Education Costs, the basis for all costs being assumed by SAF, as opposed to the general population, and why the expected costs remain at the same dollar level from 2012 to 2016.

36. Reference IR #98 – First Round

- a. When does SAF expect final approval for the 2012 Auto Fund Product Review, outlining the scope and time line?
- b. Please describe the process anticipated for stakeholder involvement in this review, and whether SAF considers the Panel to be a stakeholder.

37. Reference IR #99 – First Round

- a. Please discuss SAF's opinion for the reasons why total BR customers have **declined** significantly since 2006 (about 25%) while the number of BR registered vehicles has **increased** by about 26%.
- b. Please discuss SAF's views of the major deficiencies of the BR program, and the possible solutions to those deficiencies.

38. Reference IR #102 – First Round

Please discuss the extent to which the use of capped losses in the determination of the BR program loss ratio relates to the loss ratio difference noted here.

39. Reference IR #103, #104 – First Round

Please discuss whether SAF can quantify the annual or one time savings associated with the three traffic safety initiatives discussed in the responses to First Round IR #103 and IR #104 that are reflected in this Application.

40. Reference IR #105 – First Round

- a. Please provide an update to the status of the Motorcycle GDL Program, in terms of enrollments, acceptance by the public, and indicate when the benefits can be expected to be evident in the experience.
- b. Please discuss whether SAF has any further plans, or intends to develop any plans for programs directed towards motorcyclist safety (or increase emphasis for existing programs).
- c. Please discuss the types of monitoring, controls and enforcement systems, on its own or in cooperation with other agencies, used to ensure motorcyclists are properly attired, and that Farm vehicles are used only for farm uses, including statistics respecting violations, prosecutions and convictions.

41. Reference IR #107 – First Round

Please provide some measure of the extent of the competition faced by SGI Canada on the competitive auto lines in Saskatchewan.

42. Reference IR #108 – First Round

Please discuss the importance of the treatment of traffic safety expenses as premium-variable expenses with respect to the allocation of these costs between vehicle classes.

43. Reference IR #108 – First Round

Please discuss and quantify the traffic safety initiatives and programs undertaken in 2011, and those planned for 2012 that total the projected and forecast expenditures of \$21.0 million and \$28.5 million, respectively.

44. Reference IR #109 – First Round

- a. How was the Auto Fund Redevelopment Project cost, in excess of \$36 million, funded?
- b. Please discuss the components of the “SGI Business Staff” cost of \$9,465,635, for each year of the project.

45. Reference IR #114 – First Round

Please discuss how SAF intends to verify the annual projected cost savings of \$326,827.

46. Reference IR #125 – First Round

Please discuss whether Issuers are responsible for their computer hardware costs.

47. Reference IR #126 – First Round

- a. What is the approximate timing of the preparation of each reference budget relative to the year for which budget information is being provided?
- b. With respect to the discussion of 2010 Investment Earnings, why does the budget contain no provision for unrealized losses on bonds, unrealized gains on common shares and unrealized gains on real estate?

48. Reference Application Appendix B, Page 43

Please provide the estimated impact on the overall indicated average rate change if the deductible was increased from \$700 to \$900.

49. Reference Application Tab 10, Page 1

Please provide 2011 actual or projected numbers for the three tables shown.

50. Reference Application Tab 18 – Staffing

- a. Please provide a table showing the actual number of in-scope staff and management staff for 2010, 2011, and forecast for 2012.
- b. Please discuss SAF's policies, goals, and objectives respecting staff diversity.

51. Reference Fraud

To what extent does SAF face challenges with respect to claims fraud, and what steps are being taken to control this risk?

52. Reference Capital Expenditures

- a. Please confirm that there have been no changes in either the capitalization policy or amortization periods and rates for the various asset classes from those used in the 2009 Application.
- b. Please provide a list of capital projects undertaken in 2010, 2011, and those planned for 2012.
- c. Please indicate the impact on overall rates resulting from capital project expenditures for each of 2010, 2011, and 2012.