# Saskatchewan Auto Fund
# Proposal for Rate Adjustment – February 2012

# First Round Information Requests
# Prepared on Behalf of the Saskatchewan Rate Review Panel

## RATES

**Rate Comparison – Reference: Application, Pages 6, 7**

1. Please discuss whether there are any differences in benefits and/or coverages between the jurisdictions used in the comparison, and how these, in addition to other cost drivers (e.g. traffic density, weather, vehicle mix, road infrastructure, crime levels, etc.), are recognized.
2. Please indicate what liability limits and physical damage deductibles were used in this comparison.
3. Please provide the data sources used by SAF to assess the benefits, premiums, and rating criteria of other jurisdictions.
4. Please provide a comparable cross-Canada assessment of motorcycle rates, including both current and proposed SAF rates.
5. Please provide a comparison of SAF rates with Manitoba and British Columbia basic coverage motorcycle rates for a representative cross-section of motorcycles, including both current and proposed SAF rates.

**Rates and Rate Rebalancing – Reference: Application, Pages 2, 3, 12**

6. Please state SAF's view of what constitutes rate shock and the rationale for selecting the 15% cap as well as the $1,000 threshold below which a dollar cap is proposed.
7. For each vehicle class and sub-class shown in the table on Pg. 3 of the Application, provide the average % and (annual) $ rate changes, as well as the maximum %, (annual) $ increases and decreases for all vehicles within each sub-class, and the total number of vehicles and current annual written premium in each sub-class.
8. How many vehicles will have the dollar cap applied as opposed to the percentage cap?
9. Please discuss SAF's future plans to eliminate cross subsidization between vehicle sub-class premiums.
10. Please discuss the rationale for selecting a proposed rate, other than the indicated rate for vehicle sub-classes, which is not entirely related to capping.
11. Please discuss the objectives and workings of the rate rebalancing process.

12. How is movement in financial unpaid claims provisions and provisions for adverse deviations recognized in the ratemaking methodology in a manner consistent with the objective of targeting “adequate premium rates to break even”?
13. Please discuss the rationale for the distinct rating treatments accorded to urban vs. rural Taxis, including providing of comparative summary of experience justifying this approach.
14. Please discuss the rationale for not proposing a special capping arrangement for Buses (with an indicated average rate change of +107.9%) as was proposed for Motorcycles (with an indicated average rate change of +76.1%).

**Ratemaking Model – Reference: 2012 Rate Program All Indications; Actuarial Support Documents; May 2011 Valuation of Undiscounted Claim Liabilities**

15. Please provide a comparative summary of the selected past and future premium trend assumptions by class of vehicle, and provide supporting rationale for any significant differences between related past and future selections, or between corresponding selections across classes of vehicles.
16. Please provide a comparative summary of the selected past and future exposure trend assumptions by class of vehicle, and provide supporting rationale for any significant differences between related past and future selections, or between corresponding selections across classes of vehicles.
17. Please provide a comparative summary of the selected past and future claim frequency trend assumptions by coverage by class of vehicle, and provide supporting rationale for any significant differences between related past and future selections, or between corresponding selections across classes of vehicles for a given coverage.
18. Please provide a comparative summary of the selected past and future claim severity trend assumptions by coverage by class of vehicle, and provide supporting rationale for any significant differences between related past and future selections, or between corresponding selections across classes of vehicles for a given coverage.
19. Please provide a comparative summary of the selected past and future pure premium trend assumptions by coverage by class of vehicle, and provide supporting rationale for any significant differences between related past and future selections, or between corresponding selections across classes of vehicles for a given coverage.
20. Please discuss any general considerations, guidelines or selection criteria that were applied in the selection of premium, exposure, claim frequency, claim severity and pure premium trends.
21. With reference to Page 12 in the May 2011 Valuation of Undiscounted Claim Liabilities, please provide an illustration of the derivation of the graduated discount rates out to 20 years, using two sample bonds of significantly different terms to maturity (i.e., one short, one long).
22. With reference to Page 12 in the May 2011 Valuation of Undiscounted Claim Liabilities, please provide the basis for the expected yield on equities of 7.80% (before adjustment for investment expenses).

23. In the context of SAF's investment asset-liability matching policy, please discuss the relevance of the May 2011 graduated discount rates (reflecting previously purchased assets supporting existing liabilities) to the prospective ratemaking exercise (where "new money" purchased assets will support future liabilities).
24. How does the adjustment process outlined on Page 25 of the Actuarial Support Documents account for shifts over time in the corporate bond yield spread and the effect of this on the selection of graduated discount rates?
25. With reference to the Relativity Analysis for CLEAR-Rated Vehicles provided in the 2012 Rate Program All Indications, please describe and document the derivation of the columns headed "Rate Group Relativity Adjustment", "Current Discount/Surcharge", "Capped Discount/Surcharge", and "Selected Discount/Surcharge".
26. With reference to the Relativity Analysis for Motorcycles provided in the 2012 Rate Program All Indications, please provide explanatory narrative for the steps through this process, including discussion of the basis for underlying assumptions.
27. Please have Mr. McCulloch state that the indicated rates provided or summarized in the Application have been prepared in accordance with accepted actuarial practice in Canada, or alternatively identify in what respects these indicated rates have not been prepared in accordance with accepted actuarial practice in Canada.

## MCT RATIOS AND CAPITAL MANAGEMENT POLICY

**Reference: Tab 5**

28. Please confirm that the ratios shown in the Application (Appendix B, Pg. 43) are for a point in time, namely December 31st of any year.
29. Please discuss whether there is a bias to a 12-month rolling average MCT ratio being higher than or lower than the year-end ratio, or whether the variance is random, depending on circumstances prevailing from month to month.
30. Please provide the actual month-end MCT ratios for the period from January 2008 to now.
31. Has the 12-month rolling average MCT ratio ever fallen below the target range, and if so what recommendations for remedial action been made to the Board?
32. If the 12-month rolling average at the time of submission of this Application was at 50%, what size of RSR replenishment loading would the Capital Management Policy indicate? Please provide the analysis supporting this finding.
33. Please discuss and quantify the expected impact of the changes to the MCT ratio introduced by OSFI to take effect in 2012.
34. Please discuss and quantify the expected impact of any changes expected to the MCT ratio to take effect after 2012.

## CONTINGENCY MARGIN

**Reference: Application, Page 11; Tab 2, Page 1**

35. Confirm that the 3.5% contingency margin is applied uniformly to all vehicle classes.

36. Please provide support for the selection of the level of contingency margin being proposed.
37. Please discuss whether it is the intent to incorporate the concept of a contingency margin in all future rate indication analyses, and whether SAF's intention is to track the associated revenue discretely.
38. Please discuss the appropriateness of SAF's proposed contingency margin in the context of Section 2620 of the Standards of Practice of the Canadian Institute of Actuaries, which states:

    "*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.*"
39. Please discuss the appropriateness of SAF's proposed contingency margin in the context of the Statement of Principles Regarding Property and Casualty Insurance Ratemaking of the Casualty Actuarial Society, which states, in part:

    "*Principle 1: A rate is an estimate of the expected value of future costs.*"; and
    "*The underwriting profit and contingency provisions are the amounts that, when considered with net investment and other income, provide an appropriate total after-tax return.*"
40. The Application (Tab 2, Pg. 1) states "In past rate indications, some trend assumptions were conservative. In this indication, best estimate assumptions were selected, and the contingency margin explicitly recognizes potential volatility in critical assumptions." Please describe those conservative trend assumptions in the prior Application, and quantify the impact on the indicated overall rate change indication attributable to the use of conservative trend assumptions.
41. Were any assumptions other than trend set on a conservative rather than a best estimate basis in the prior Application? If so, please provide details.
42. Please discuss whether any revenues generated by the margin, if not required to meet unexpected expenses, will flow to the Rate Stabilization Reserve as additional net income, and if more than 3.5% is actually needed due to adverse circumstances, whether the shortfall be deducted from the RSR?
43. Please define the purpose of the RSR (including providing specific examples of when it would be used, either by choice or unexpectedly), and describe how it differs from the purpose of the contingency margin.
44. How is incorporation of the contingency margin consistent with the stated objective of targeting "adequate premium rates to break even"?
45. Please discuss the purpose of reinsurance in comparison to the purpose of a contingency margin, in the context of managing risk.
46. Please discuss SAF's view of the differences and relative merits between applying a contingency margin of 3.5% versus adding a 3.5% RSR replenishment loading, including the matter of transparency to consumers.

47. For the Motorcycle sub-classes, please discuss any changes in resulting proposed premiums, if the 3.5% contingency margin were removed and replaced by a 3.5% RSR replenishment loading.
48. Please restate the overall rate change indications, in the absence of the 3.5% contingency margin and with all assumptions set on a best estimate basis. Please provide the analysis supporting this finding.
49. Please restate the schedule on Appendix B, Page 43 of the Application assuming that:
    a. The 3.5% contingency margin is not included in the required rate, but rather as a RSR replenishment loading;
    b. The contingency margin is set at 2%, with a 1.5% RSR replenishment loading;
    c. The contingency margin is set at 4.5%; and
    d. The contingency margin is set at 2.5%.

# PERFORMANCE MEASURES

**Reference: Tab 7**

50. Please provide the variance between budgeted amounts and actual results for each year from 2006 to 2011 for: Number of claims, Number of Policies, Claims expense per claim, Administrative expenses per policy.
51. With respect to the balanced scorecard (Tab 7, Pg. 25), please provide the calculations that support the 692 value cited for "Licensed Drivers and Policies per FTE" for 2011.

# REINSURANCE

**Reference: Application, Page 10; Tab 8**

52. Please detail the number and nature of claim recoveries made under the Physical Damage Catastrophe Reinsurance Program.
53. Please discuss whether there is an explicit correlation between claims and future premiums, and the basis on which SAF forecasts reinsurance premiums.
54. Please discuss how related premiums and claim recoveries are treated in the rate making model.
55. Please discuss the process used by SAF to select reinsurer(s) for the 2 programs.

# INJURY RATE GROUPS

56. Please summarize the differences in experience indications for CLEAR injury rate groups between Industry advisory rate group differentials vs. those based on SAF experience.
57. Please discuss how many years of SAF injury data was used in the analysis.
58. Please discuss the consequences for premium dislocation for CLEAR-rated vehicles with respect to the introduction of injury rate groups based on SAF experience.

# REVENUE

**Reference: Tab 4**

59. For each year from 2006 to 2011, please provide a breakdown of net premiums written showing each year's increment due to rate changes, vehicle drift, and fleet growth, including budgeted amounts compared to actual results.
60. For each forecast year from 2012 to 2016, please provide a breakdown of net premiums written showing each year's increment due to rate changes, vehicle drift and fleet growth.
61. Please provide a schedule showing the number of motorcyclists that have utilized partial premiums or temporary registrations in lieu of annual registrations and premiums from 2006 to 2011.
62. Please discuss SAF's view on the probable impact on Motorcycle rates and premiums if all motorcyclists were to opt for partial premiums rather than annual premiums.

# CLAIMS

**Reference: Application, Pages 8, 9, 15; Tab 2; Tab 4**

63. For each year from 2006 to 2011, provide a breakdown of claims incurred by cover, including a separation into frequency and severity components, showing budgeted and actual values as well as the forecasted values from 2012 to 2016.
64. Please discuss any changes in the process used to determine the indexing of annual benefits since 2009.
65. Please provide details with respect to the former double counting of the index factor and salvage purchases referenced at Tab 2 (Pg. 2).
66. How is the natural expected growth in financial unpaid claims provisions (including provisions for adverse deviations) recognized in the ratemaking methodology in a manner consistent with the objective of targeting "adequate premium rates to break even"?

**Injury Claims**

67. Please summarize the impact of the change in the attribution of injury related costs to the at-fault vehicle, providing incurred loss information before and after re-allocation, with $ and % change by vehicle class or sub-class for each of the last five accident years.
68. Please provide a breakdown of the number and $ amount of Private Passenger Vehicle claims for 2010 and 2011 by the at fault percentage assigned to the vehicle.
69. Please provide a breakdown of the number and $ amount of Motorcycle claims for 2010 and 2011 by the at fault percentage assigned to the vehicle.
70. Please describe the claims interaction processes between SAF and Workers Compensation.

**Deductible Levels**

71. When did SAF last change the level of deductible to the current $700 for most vehicles, and what was the extent of the change made at that time?
72. Please provide an overview of the financial and average premium impact of this last change, and what reactions from drivers were noted following implementation.
73. Please summarize what consideration has been given to pursuing another increase in the level of deductible, now or in the future.

**No-Fault vs. Tort**

74. Please provide a summary of the differences in coverage between these two options, and how the claim settlement process functions within and between the two options.
75. Please discuss whether SAF actively advertises and/or promotes the fact that the customer has a choice in this regard.
76. Please detail the differences in premiums, benefits, and claim processes between these two plans with respect to injury claims.
77. Please provide an historical perspective of the No-Fault vs. Tort option, including the number of drivers opting for each option.
78. Please discuss what consideration has been given to introducing a price distinction between these two options, now or in the future.

# COST ALLOCATION

**Reference: Tab 9**

79. For each of 2009 and 2010 actual, 2011 projected, and 2012 forecasted, please provide a summary of the results of SGI's cost allocation to SGI, SAF, SGIC, SCISL, Coachman, and ICPEI in terms of dollars and percentage of total for the following:
    a. Admin direct costs,
    b. Admin indirect costs,
    c. Loss adjustment expenses.

    As well, please provide the total cost amounts that were assigned directly and that were allocated for each entity.
80. Please discuss when the last review of the cost allocation methodology was conducted, when the cost driver factors were last changed, and when SGI is proposing, if at all, to revisit this matter.
81. Please discuss whether SGIC still holds an interest in Charlie Cook Insurance and, if so, how this impacts the 2012 allocation of costs.
82. Please discuss whether the newly created Product Management Department provides services to departments other than SAF, and the resultant impacts on cost allocation.

# OPERATING AND ADMINISTRATIVE EXPENSES

**Administrative, Capital, and Budgeting – Reference: Tab 4, Page 6, Appendix A**

83. Please provide a breakdown of total administrative expenses into the following categories, showing budgeted amounts and actual results. Also, please discuss any major variances, for 2006 to 2011, and provide the basis of forecasting each expense element from 2012 to 2016: wages, salaries, benefits, pension, external services, materials and supplies, travel vehicle costs, insurance, tools & equipment, amortization of capital projects, building maintenance and rehabilitation, and other.
84. Please confirm that there have been no changes in the budgeting process and accounting treatment for capital projects since 2009.
85. Please discuss when the existing collective agreement(s) were agreed to and how long they are to be in effect.
86. Please provide a summary of the Ward Group Study related to benchmarking SAF's operation of the Auto Fund against the results of a peer group of insurance companies, on a confidential basis, if deemed to be necessary.
87. Please summarize the financial implications of SAF assuming responsibility for drivers' education, and describe how this has been reflected in the Application.

**Repair Costs and Rehabilitation Costs – Reference: Tab 10; Tab 11**

88. Confirm that there have been no changes in the method for determining labour and repair remuneration rates and medical/rehabilitation rates since 2009.
89. Confirm that there have been no changes in the controls to ensure that written-off and unsafe vehicles are not re-registered.
90. Please explain the reasons for the large increase in glass damage claims from 2008 to 2009 and beyond (Tab 10, Page 1).
91. Since 2006, please provide a breakdown of rehabilitation payments to Sask Health by SAF for each of the treatments listed on Tab 10, Page 4.
92. When does SAF anticipate any changes in either the repair or rehabilitation rates? Also discuss the process(es) followed in order to implement any changes.
93. Does SAF track the number of total loss vehicles on an annual basis? If so please provide these numbers, as well as indicating how many are eventually designated as being road worthy and then re-registered.

**Taxes, Other Payments to Government – Reference: Tab 13**

94. Other than premium tax, does SAF make any other payments to the Province, either directly or indirectly?
95. Please provide a record of premium taxes (and other payments, if applicable) made by SAF or SGI on behalf of SAF from 2006 to 2011.
96. Confirm that the premium tax amount is not within the jurisdiction of SGI.
97. When was the last change in the rate of premium tax?

# PROGRAMS AND INITIATIVES

98. Please discuss the status and expected scope of the anticipated 2012 Auto Fund product review with stakeholder input.

**SDR and BR Programs – Reference: Tab 4, Appendix A; Tab 15; Tab 16**

99. Please provide a schedule showing the total number of drivers that have received rebates, as well as surcharges under the SDR from 2006 to 2011, by year.
100. Please provide similar information for the BR program on a fleet basis for the same time period.
101. Please confirm that there have been no changes in any element of these programs since 2009.
102. Why does the BR program use an 80% loss ratio as the trigger point when overall claims costs represent something closer to 85% of premiums?

**Traffic Safety – Reference: Tab 14**

103. In Tab 14, Page 1, SAF states "Cost-benefit analysis is used to estimate the impacts of individual safety programs and assist in guiding program/initiative selection." Please provide the analyses conducted for each of the seven main areas of focus approved in the 2011-2015 Traffic Safety Strategy.
104. Please expand on the methods used to monitor the effectiveness of these programs and initiatives, and how the results relate to the initial cost-benefit analyses, in particular to the Recent Initiatives discussed in Tab 14, Pages 4 to 9.
105. Please expand on and discuss any changes planned in the near future related to traffic safety, with respect to programs, initiatives, analyses, and monitoring effectiveness, within 2011-2015 and beyond, as applicable.
106. Please provide, to the extent available, details of the components of HTB costs paid by SAF from 2006 to 2011, shown in the table on Page 2, Traffic Safety Costs.
107. Please confirm that all traffic safety expenses are the responsibility of the Auto Fund, and discuss why some of these costs are not allocated to SGI Canada.
108. Please discuss the rationale for treating traffic safety expenses as a premium-variable expense.

# AUTO FUND REDEVELOPMENT PROJECT

**Reference: Tab 3**

109. Please provide the final total cost of this project by major categories, including carrying costs, and indicate when the project was initiated and when the system(s) became operational.
110. Confirm that the project was fully funded by the RSR and indicate the amount of the capital cost amortization. Also, please confirm that it will be fully amortized by 2014.

111. In response to 2009 first round Information Request 25(d), SAF stated that “When completed, redevelopment will save about $750,000 to $1 million per year in staffing costs depending on internet take-up and other factors. In addition, there will be an estimated reduction in ongoing maintenance costs of $200,000 to $300,000 per year.” Please discuss whether this statement is still valid, and indicate where these savings are reflected in the 2011 and later years’ budgets. Please also explain any changes now anticipated in the savings.
112. Please summarize the actual amount of annual savings discussed in Tab 3.
113. With respect to the approximate $625,000 in reduced staffing costs, please discuss whether the amount is related to the 15 positions “eliminated because of the redevelopment project”, for the 8 positions completely eliminated, and / or for some other consideration.
114. Please expand on and quantify anticipated future annual savings, and discuss those efficiencies that cannot be quantified.

# FINANCIAL STATEMENTS

**Reference: Application, Appendix A; Tab 6**

**Investment Strategy and Income – Reference: Tab 6**

115. Please summarize the various monitoring and control measures exercised by SGI’s Management Board with respect to SAF’s investment portfolio.
116. Please discuss any occasions arising in 2010 and 2011 where remedial action was recommended with respect to deviation from the asset mix policy.
117. Please discuss any circumstances where the investment manager has not performed to the satisfaction of the Board, including remedial actions taken.
118. Please describe the basis of forecasting investment earnings in Appendix B (Pg. 43), and provide supporting details for these forecasts.
119. It has been shown that the cash flow matching practices followed by SAF in 2011 limited the impact of changing interest rates over 2011 to an estimated -$6,967,000. Please provide background as to why this impact wasn’t closer to $0, and what steps might be taken to improve the effectiveness of SAF’s cash flow matching practices.
120. Please discuss whether the Investment Policy requires any investments with or within the Province of Saskatchewan.
121. Please summarize the extent of any current investments held with or within the Province of Saskatchewan.

**Issuer Fees – Reference: Application, Appendix A; Tab 12**

122. When did SAF change the issuer fee to a percentage basis for driver and insurance premiums?
123. Please quantify and discuss the annual impact of this change.
124. How frequently are the other remuneration charges established, and how long will the existing remuneration charges remain unchanged?

125. Were the issuers involved in any cost sharing related to the Redevelopment project costs, and are there any annual issuer fees or charges related to the use of the systems?

**Financial Results – Reference: Application, Appendix A; 2010 Annual Report**

126. Please provide a table indicating the variances between budgets and actual results for each of 2006, 2007, 2008, 2009, 2010, and 2011 (projected, if actual not yet available) and discuss the reasons for major year to year variances, most particularly:
    a. 2010 to 2011 claims incurred, and the analyses resulting in the 2012 estimates.
    b. 2010 to 2011 issuer fees, and 2012 estimates.
127. Please quantify and discuss the impacts of implementation of IFRS on 2010 and 2011 financial statements, as well as future anticipated impacts.

**Other Income**

128. Please provide a schedule showing the variance between budgeted amounts and actual results for the 4 components of Other Income, and discuss all significant variances from 2006 to projected 2011.