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.

CRUISER

Year	Make	Model	Declared Value	SGI - Current	SGI - Proposed	SGI - Indicated	Average MPI Current	Average ICBC Current
1981	HONDA	CM400A	$ 800	$124	$184	$504	$720	$550
1982	HONDA	CB750C	$ 1,175	$434	$534	$1,064	$1,219	$953
1984	HONDA	VT750C SHADOW	$ 1,300	$556	$656	$1,067	$1,219	$953
2003	YAMAHA	XVS65AV V-STAR CLASSIC	$ 3,275	$839	$965	$1,155	$1,336	$1,230
2006	HONDA	VT750C SHADOW AERO	$ 4,400	$890	$1,022	$1,155	$1,383	$1,336
2008	HONDA	VT750C SHADOW AERO	$ 5,575	$942	$1,082	$1,157	$1,383	$1,438
1981	HONDA	GL1100 INTERSTATE	$ 1,975	$566	$666	$1,320	$1,300	$1,214
1984	HONDA	VF1100C MAGNA	$ 1,625	$646	$766	$1,324	$1,306	$1,214
2002	YAMAHA	XVS11AS V-STAR 1100 CLASSIC	$ 4,175	$978	$1,124	$1,420	$1,393	$1,516
2007	SUZUKI	VL800 BOULEVARD C50	$ 5,000	$1,034	$1,189	$1,420	$1,305	$1,551
2009	YAMAHA	XVS950 V-STAR	$ 7,300	$1,102	$1,266	$1,423	$1,383	$1,710
1981	HARLEY DAVIDSON	FXWG WIDE GLIDE	$ 4,375	$650	$770	$1,548	$1,442	$1,601
1984	HONDA	GL1200 ASPENCADE	$ 2,875	$734	$854	$1,554	$1,386	$1,449
2001	HONDA	GL1800A GOLD WING	$ 9,775	$1,071	$1,231	$1,715	$1,516	$1,911
2007	HARLEY DAVIDSON	FLHTCUI ULTRA CLASSIC ELECTRA GLIDE EFI	$14,250	$1,169	$1,344	$1,717	$1,597	$2,184
2008	HARLEY DAVIDSON	FLHTCUI ULTRA CLASSIC ELECTRA GLIDE EFI	$15,450	$1,162	$1,335	$1,720	$1,597	$2,245

SPORT

Year	Make	Model	Declared Value	SGI - Current	SGI - Proposed	SGI - Indicated	Average MPI Current	Average ICBC Current
2008	HONDA	CBR125R	$ 2,250	$287	$367	$982	$1,242	$768
2004	YAMAHA	YZF R6	$ 4,900	$1,029	$1,337	$2,493	$1,978	$1,371
2007	HONDA	CBR600RR	$ 7,175	$1,090	$1,416	$2,498	$1,978	$1,535
2008	SUZUKI	GSX-R750	$ 8,350	$1,149	$1,493	$2,508	$2,119	$1,613
2004	YAMAHA	YZF R1	$ 6,200	$1,110	$1,443	$3,056	$1,978	$1,641
2007	SUZUKI	GSX-R1000	$ 8,850	$1,176	$1,529	$3,061	$2,119	$1,786

DUAL

Year	Make	Model	Declared Value	SGI - Current	SGI - Proposed	SGI - Indicated	Average MPI Current	Average ICBC Current
2005	HONDA	CHF50 JAZZ	$ 1,175	$214	$219	$219	$244	$328
2007	SUZUKI	DR-Z400S	$ 4,275	$214	$294	$530	$914	$979
2009	YAMAHA	VINO 125	$ 2,850	$227	$307	$530	$330	$828
2008	KAWASAKI	KLR650	$ 4,275	$844	$970	$1,158	$1,383	$1,336

*Use the average of three rates for MPI as they rate based on territory - rural, rural with commuting and Winnipeg.
*In order to compare rates to ICBC where a driver profile is required, SGI and MPI rates are adjusted for driving records. The adjustment for Saskatchewan rates is a 20% Safe Driver Recognition discount and the corresponding Driver Safety Rating discount for MPI is 30%.
*SGI and ICBC earn premium evenly over the year. MPI earns premium from May 1 to October 1.

2. Reference IR #6 – First Round
Does SAF have any ratepayer-focused considerations in forming its view of what constitutes rate shock?

When determining capping levels, reviews are held with SAF management, the SAF Rate Steering Committee, SGI senior management and the Board of Directors. While cushioning ratepayers from excessive increases is considered, it must also be balanced against rate payers that are currently paying too much.

3. Reference IR #7 – First Round
Please explain the 100% maximum decrease shown for Class L – Dealer plates – Motorcycles shown in this response.

This value should be 0%. As well, upon further review, the maximum dollar decrease for Class C & D Heavy Trucks and Vans should be $0. As of May 31, 2011, no exposures existed in that class that would have received a $47 decrease.

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.

Proportion of vehicles currently within +/- 5% of adequate rates: CLEAR 33%, Conventional 10%, All Vehicles 27%.

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.

Confirmed.

c. Please discuss SAF's ultimate goal in this regard.

SAF's ultimate goal is to have all vehicle classes within +/-5% of their appropriate rate in five rate programs.

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%.

Confirmed.

6. Reference IR #13 – First Round

a. Please confirm that ultimate losses are net of reinsurance recoveries.

Confirmed.

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

Earned exposures provided in First Round were as at May 31, 2011. Values as at December 31, 2011:

Class	2011 Earned Exposures
PT Urban	558
PT Rural	153

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.**

The Auto Fund can only speculate as to the cause of the trend. Active registrations were reviewed for the same time period and show the same trend.

d. **Please provide the "break-even" loss ratios for rural and urban taxis since 2005.**

The following loss ratios apply to both urban and rural taxis:

Year	2011	2010	2009	2008	2007	2006	2005
Undiscounted Break Even Loss Ratio	87.06%	86.67%	85.29%	83.96%	84.92%	86.24%	86.43%

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.**

Rural taxis don't have enough credible experience to derive their own classification system. As a result, they are included in the CLEAR-rated vehicles analysis and use the resulting classification system. These rural taxi rates are given a surcharge over the private passenger rates for the expected higher pure premium for the group, but use the same classification system to determine rate groups and relativities.

Urban taxis have more exposures than rural taxis, and were set up to have their own classification system. This system is currently very simple with only one variable: the size of city that the taxi operates in.

Comparing the two classes, it's likely that the urban taxi class could benefit by expanding its current classification system using either its own historical loss data or through the rate group information available for CLEAR-rated vehicles. The urban taxi class will be reviewed in a future rate indication.

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.**

SAF does not track the urban vs. rural designation for any other vehicle classes.

g. **Has any consideration been given to introducing territorial rating beyond taxis?**

No.

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.

In the 2009 rate application, the premium forecasted for heavy farm vehicles was mistakenly reduced by $1,640 for expected SDR discounts and surcharges. This has been fixed in the current rate application.

The impact of fixing the misallocation of this small amount is negligible on the overall indication, especially when compared to the total forecasted rating year premium of more than $800 million.

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").

Many selections made on future trend assumptions were based on the judgment of the loss trend committees. The members on the committee have first-hand experience and knowledge of the relevant claims as well as the factors driving both the changes in frequency and severity of these claims. All members of the committee select the past and future trends using exhibits showing the historical pure premiums as well as regressions showing possible trend selections (Exhibit 3 for each coverage).

For increasing population density, we considered the following recent historical Saskatchewan population levels along with projected future population increases from Statistics Canada. The effect of the large 2010 increase would only be partly in our loss information since our data was as at May 31, 2011.

Year	Population
2007	1,000,257
2008	1,013,792
2009	1,029,124
2010	1,045,622
2011	1,047,919
2012	1,050,425
2013	1,053,244
2014	1,056,272
2015	1,059,405

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?

Using an average of recent historical estimates instead of the most current Aon Hewitt forecast of equity yields makes the assumption less responsive. However, using only the most current forecast would cause the assumption to be too responsive to short-term trends for the Auto Fund's use.

The Aon Hewitt forecast is for a 10-year horizon. The Auto Fund forecast is for a 21-50 year horizon as the yield on equities is only used to discount claim payments made at least 21 years after the start of the rating year. By using an average of recent historical estimates, the estimated yield forecast is more appropriate for the Auto Fund's longer term, as compared to the most current Aon Hewitt forecast.

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?

A constructed yield curve based on investments purchased in the current and prior periods does not represent a best estimate assumption of the expected yield curve based on investments to be purchased in future periods. The expected yield curve we use in discounting for the rating year is not the same as the one constructed based as at May 31, 2011, using investments purchased in the current and prior periods.

We use the constructed yield curve as at May 31, 2011, as a starting point for our forecast, but we adjust it for the expected changes in risk-free yield rates and expected changes in the risk spreads on corporate bonds. Specifically, we use Conference Board of Canada (CBOC) risk-free rate forecasts to adjust the original constructed yield curve. The resulting yield curve is representative of the expected yields to be earned on investments purchased in future periods that will generate investment income to offset the rating year's claims.

As a simple example, suppose we were holding a five-year corporate bond at May 31, 2011 with an effective 3.5% yield. Suppose the five-year CBOC forecasted risk-free rate for the rating year was 0.5% higher than the May 31, 2011 CBOC risk-free rate, and the five-year yield spread for corporate bonds was expected to shrink by 0.1%. We would then expect that a five-year corporate bond similar to the one we were holding at May 31, 2011, would have a yield of 3.9% at the time of the rating year.

The process used in this example is exactly the same as the process that we use to adjust the May 31, 2011 yield curve, the only exception being that it is applied to the general curve of yield rates as opposed to the yield of a specific bond.

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

a. Please provide the MCT ratios for January, February and March 2012, if available.

CONFIDENTIAL

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.

CONFIDENTIAL

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.

CONFIDENTIAL

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.

No revisions to the Capital Management Policy will be made in response to the changes to the MCT calculation that became effective for 2012. Until the Auto Fund knows with certainty what the impact will be from future changes to the MCT calculation, SAF cannot state definitively whether changes will be made to the Capital Management Policy.

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.**

The account for provisions for adverse deviation is expected to grow by approximately $10 million in the rating year, corresponding to a contingency margin of about 1.25%. The proportion of the contingency margin attributable to covering the possibility of incorrect rating assumptions leading to inadequate rates is 2.25%.

b. **Please discuss whether SAF considers that rating assumptions can also be misestimated resulting in premium revenue in excess of that estimated.**

The Auto Fund has considered the possibility of over-estimation or under-estimation in our selection of all best estimate assumptions, as well as in the decision of implementing a contingency margin.

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.

If CLEAR-rated and Heavy vehicle classes' future frequency, severity and pure premium trend assumptions were identical to past trend assumptions for covers 21- damage to others' auto, 31 – damage to own auto, and income replacement benefits, the overall rate increase would decrease from 3.7% to 1.6%.

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.

The Redevelopment Reserve was established in November 2005, shortly after the Auto Fund Redevelopment Project was approved at a cost not to exceed $35 million, with the timeline for completion expected over five years. At the time, the Auto Fund was projecting a 2005 year end Rate Stabilization Reserve (RSR) of $189 million, while the capital policy suggested an RSR of approximately $120 million was adequate.

The redevelopment project was a significant project and the Redevelopment Reserve was established with an allocation of $35 million from the surplus balance in the RSR. The rationale for the appropriation was as follows:

- it demonstrated that the funds had been committed and should not be considered as part of the Rate Stabilization Reserve balance for any other purpose, including rate changes, program enhancements or rebates;
- by appropriating the $35 million, future rate programs were able to exclude the ongoing depreciation costs from consideration, as these costs were already allocated within the Redevelopment Reserve; and,
- it provided transparency on how the Auto Fund manages the RSR.

Costs of the redevelopment project have been incurred in the RSR each year since the project began. As much of the project was capitalized, depreciation costs are still being incurred although the project has been completed. As costs have been incurred, the Redevelopment Reserve has been drawn down by an equivalent amount and allocated back to the RSR. As a result, after the initial $35 million appropriation, there has been no impact each year on the RSR balance except for the additional $1.0 million being the difference between the actual cost of $36 million and the $35 million appropriation. As at December 31, 2011, the Redevelopment Reserve was $9.3 million. The redevelopment project is expected to be completely depreciated in 2014, at which point the Redevelopment Reserve will be drawn down to zero.

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.

The Auto Fund operates on a self sustaining basis viewed over a long-term time frame. To the extent that major one-time expenditures, including capital expenditures or other system improvements are required to maintain the Auto Fund's insurance program for Saskatchewan residents under the legislative requirements of the *Automobile Accident Insurance Act*, then it is appropriate for those costs to be funded from the Rate Stabilization Reserve. To make this determination, the Auto Fund maintains governance processes over the approval of major expenditures, including capital expenditures.

Whether a Redevelopment Reserve was established or not, the redevelopment project was funded by the RSR. In this case, the establishment of the Redevelopment Reserve was beneficial due to the significant cost of the redevelopment project and because the costs were being incurred over a number of years. It allowed the Auto Fund to remove the required funds from the RSR at the beginning of the project, rather than the RSR being impacted by costs related to the project each year. This achieved the benefits discussed in the answer to information request #15 (a).

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.

Correct, the contingency margin in the rate making model will not have a compounding effect over time. Each application will determine pure premium from actual loss experience, and then the expenses and contingency margin will be applied to calculate the required premium.

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.**

In IR#50 – First Round, the Auto Fund LAE per claim was prepared using financial claim counts. The Auto Fund was able to obtain reported claim counts for ICBC and MPI. In order to provide comparable ratios, the Auto Fund numbers have been recalculated using reported claims.

Loss Adjusting Expense per Reported Claim

	Auto Fund	**ICBC**	**MPI**
2011	$ 250	n/a	n/a
2010	$ 262	$360	$ 402
2009	$ 267	$338	$ 364
2008	$ 262	$321	$ 355
2007	$ 267	$304	$ 301
2006	$ 289	$318	$ 297

Note:

- 2011 info unavailable for ICBC and MPI
- Information based on reported claims

Administrative Expenses per Insured Year

	Auto Fund	ICBC	MPI
2011	$ 61	n/a	n/a
2010	$ 60	$ 88	$ 95
2009	$ 55	$ 77	$ 91
2008	$ 51	$ 72	$ 88
2007	$ 46	$ 71	$ 73
2006	$ 39	n/a	n/a

Note:

- 2006 & 2011 info unavailable for ICBC and MPI

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%.**

The increase in administrative expenses per insured year over the 2006-2011 period is driven by the increase in administrative expenses. Significant administrative expense variances were explained in IR#126 – First Round. IR#33 provides additional information for administrative expenses for 2009-2011 and 2012 budget.

c. **Please provide similar numbers anticipated for the 2012 budget.**

Admin expense per insured year - $61
LAE per claim - $494 (calculated using financial claim counts – same basis as IR#50 – First Round)

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.

The difference between 1,807 and 1,459 is the result of removing the FTEs related to Underwriting and Canadian Operations, which do not incur expenses related to the Auto Fund. Detail on that difference is provided in the table below.

	2010 Actual			2011 Actual			2012 Budget		
	All	U/W and Cndn Ops	Net	All	U/W and Cndn Ops	Net	All	U/W and Cndn Ops	Net
In-scope	1,524	280	1,244	1,496	263	1,233	1,529	274	1,255
Management	301	82	219	311	85	226	328	91	237
	1,826	363	1,463	1,807	348	1,459	1,857	365	1,492

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.

The losses on all 2011 damage catastrophes (including those 4 hail storms) are as follows at the end of March, 2012. Catastrophe number 201101 did not occur in Saskatchewan. Although the catastrophe number 201104 does not have any expected recoveries, it affects the 2011 reinsurance program because it is large enough to use some of the 2011 annual aggregate deductible.

Catastrophe Number	Direct Ultimate Loss	Ceded Ultimate Loss	Net Ultimate Loss	Ceded LAE Recoveries
201102	$593,106	$0	$593,106	$0
201103	$540,561	$0	$540,561	$0
201104	$5,140,286	$0	$5,140,286	$0
201105	$11,221,433	$1,361,720	$9,859,714	$284,400
201106	$3,846,531	$0	$3,846,531	$0
201107	$4,564,103	$0	$4,564,103	$0
201108	$6,148,069	$1,148,069	$5,000,000	$217,250
201109	$21,842,038	$16,842,038	$5,000,000	$726,800
Total	$53,896,128	$19,351,827	$34,544,302	$1,228,450

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.

<u>Auto Physical Damage Catastrophe Reinsurance Program</u>

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	$4,961,965
2011 - 2012	2,427,000	$20,022,294

<u>Personal Auto Injury Insurance Excess of Loss Cover Reinsurance Program</u>

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

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

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.

The change to using SAF data to determine the injury rate groups instead of using CLEAR data has no anticipated effect on the overall rate indication. Changing rate group assignments and relativities affects only the classification system within the CLEAR-rated vehicle class, and is not considered in the analysis to determine the class's rate change to ensure adequate premium.

The impact on specific vehicle indicated rates from using Auto Fund data with IBC's original five rate groups, as compared to IBC's relativities, was never measured. The IBC accident benefits rate groups were expanding, and thus the original five rate groups were no longer going to be used. Also, from the resulting differentials, SAF concluded that the IBC accident benefits rate groups were completely inappropriate for the Auto Fund, and thus using them even with Auto Fund derived differentials had little value.

The impact on individual vehicle rates from using the new Auto Fund injury rate groups derived from Auto Fund data as opposed to the old IBC accident benefits rate groups can be seen in the response to IR #58 – First Round.

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.

If the deductible level for motorcycles was set at $1,000 instead of $700, based on historical experience, physical damage claim costs would decrease by 5.7%, which are 1.8% of total motorcycle claim costs. The overall indicated rate increase for motorcycles would decrease from 76.1% to 74.8%, and the indicated rate increase for sport motorcycles would decrease from 159% to 155%.

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.

In 2011, the tail factors selected for several coverages were reviewed and significant changes were made:

- Income Replacement Benefits:
  - Tail factor was updated with another year of paid loss information from the Quebec insurer SAAQ.
  - More significantly, we increased the length of the payment pattern expected for these long-term claimants from 38 years to 45/50 years depending on whether or not they will be collecting benefits until age 65 or for life.
- Medical Benefits
  - Tail factor was updated with another year of paid loss information from the Worker's Compensation Board of Saskatchewan.
- Care Benefits
  - Tail factor was updated with another year of internal paid loss information.
  - Increased the length of the payment pattern expected for these long-term claimants from 40 years to 50 years, consistent with the expectation in Income Replacement Benefits as these claimants can collect for life.
- Appeal and Tort Liability

- Updated tail factor with another year of internal paid/incurred loss information.

The overall discounted impact of all changes was $10.1 million. This impact was separately reported in the budget vs. actual exhibit because of the unique change to payment pattern lengths for income replacement and care benefits above.

24. Reference IR #64 – First Round
Please discuss the basis for the assumed 3% trend for indexing of annual benefits in the future.

The future index factor of 3% on care and income replacement benefits is selected using a long-term expectation of Saskatchewan CPI. Although recent historical Saskatchewan inflation since 1993 has generally varied from 1.5% to 3.0%, the period from 1984-1992 had inflation rates of around 4-5%, and many years preceding 1984 had inflation in excess of 10%.

Considering this historical inflation information, we selected 3% as the future long-term inflation expectation. This same assumption is used in the valuation of care and income replacement benefits claim liabilities that determine the ultimate loss assumptions used in the determining the indicated rate changes.

25. Reference IR #65 – First Round
To what degree did this "double counting" impact the 2012 indicated rates?

The "double counting" does not impact the 2012 indicated rates. Both salvage and the future index factor are correctly applied in the 2012 indicated rates. These issues only affected the 2009 rate indication.

Double counting the salvage would have decreased the 2009 indicated rates, and double counting the indexing would have increased the 2009 indicated rates. Overall, the net effect of both double counting errors was to decrease the 2009 overall indication by 0.8%.

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.

Loss information is extracted and aggregated from individual claim files. The injury-related claims for each accident are assigned to the vehicle that the injured party was in for the "Injury Based on No Fault". The same injury-related claims for the accident are assigned to the vehicle at fault for the loss in the "Injury Based on Fault".

As explained in the response to first round IR #67, the only measurements we have on the impact of the change were performed in 2010 on data for accident years 2000-2009, but at that time the impact of the change to the overall rate indication was estimated to be a decrease of 0.2%.

The expected impact on the overall indicated rate change is small because the total amount of loss dollars hasn't changed, they are just allocated differently among the classes (as can be seen in the response to first round IR #67).

27. Reference IR #68, #69 – First Round
When does SAF expect the responses to these responses to be available?

The breakdown of loss dollars by fault assigned to the vehicle is unavailable at this time. The Auto Fund plans to have this information available with the next rate application. Although SAF was also unable to split the fault counts by class, SAF has provided the information for all two-door and four-door cars to compare against the motorcycle information.

The breakdown of the number of motorcycle collision claims for 2006-2011 by fault assigned to the vehicle follows. When reviewing this information, please note that the most recent years may not be fully developed yet. The number of claims reported, and the final determination of fault for the claims, may change.

Cruiser/Touring

	2006	2007	2008	2009	2010	2011	Total
Not at Fault	115	114	123	156	149	183	840
Less than 50% at Fault	2	3	5	4	4	2	20
50% or More at Fault	134	113	138	145	154	141	825
Total	251	230	266	305	307	326	1685

Sport

	2006	2007	2008	2009	2010	2011	Total
Not at Fault	82	89	84	86	79	94	514
Less than 50% at Fault	0	4	0	3	0	1	8
50% or More at Fault	159	168	157	110	108	84	786
Total	241	261	241	199	187	179	1308

Dual Purpose / Other

	2006	2007	2008	2009	2010	2011	Total
Not at Fault	14	10	17	11	16	17	85
Less than 50% at Fault	0	0	0	1	0	0	1
50% or More at Fault	13	10	13	10	15	16	77
Total	27	20	30	22	31	33	163

Two-Door Cars
(Across all Classes)

	2006	2007	2008	2009	2010	2011	Total
Not at Fault	8,171	8,442	8,034	7,417	6,758	6,522	45,344
Less than 50% at Fault	74	89	81	70	60	65	439
50% or More at Fault	7,676	7,646	7,479	6,950	6,093	5,793	41,637
Total	15,921	16,177	15,594	14,437	12,911	12,380	87,420

Four-Door Cars
(Across all Classes)

	2006	2007	2008	2009	2010	2011	Total
Not at Fault	17,708	19,571	19,926	20,408	19,926	20,536	118,075
Less than 50% at Fault	148	190	197	178	176	178	1,067
50% or More at Fault	16,768	18,220	18,488	18,959	17,887	18,665	108,987
Total	34,624	37,981	38,611	39,545	37,989	39,379	228,129

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.

The majority of benefit levels shown for Tort and No Fault were the maximum entitlements for 2012 and are indexed each year. There are three exceptions: the Funeral Benefit is a set amount and the two Death Benefits are minimums.

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.

In order to change their injury coverage, a Saskatchewan resident must fill out a declaration form, which can be found on the Auto Fund website and is available at licence issuer offices. The signed declaration form can then be returned to any SGI branch office, any licence issuer office or mailed to SGI Head Office in Regina. Coverage can be changed at any time. The coverage a customer has at the time of a collision is the coverage they receive for any injuries suffered.

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.

The 2011 administrative expense and loss adjusting expense (LAE) amounts of $54.0 million and $61.5 million in Appendix B are based on the 2011 forecast which was created in August/September 2011. The amounts as provided in first round question #79 are the December 31, 2011, actual amounts.

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.

Throughout the year, costs are allocated based on allocation formulas provided by the departments, generally based on the prior year end. During the fourth quarter of each year, the departments review their activity for the year and provide Finance with updated allocation formulas based on the actual work performed. The individual departments and Finance are jointly responsible for reviewing the allocation method to ensure that the method being used is the most appropriate. The updated formulas adjust the allocation of expenses retroactive to the beginning of the year. This allows for the most accurate allocation of expenses based on actual activity during the year. For the majority of departments, the change in formulas is relatively immaterial. However, changes to formulas in a few departments, like Systems for example, can produce large swings. As such, Systems departments, and certain other more volatile departments, are reviewed mid-year to minimize the adjustment late in the year.

31. Reference IR #80 – First Round
a. Please discuss the internal process whereby managers review cost drivers for cost allocation purposes annually.

Please see the response to information request #30b.

b. Please discuss whether SAF has ever had any external input respecting its cost allocation methodology.

Since the process was updated in 2007, no external party has been engaged to provide input respecting the Auto Fund's cost allocation methodology. At the time, it was provided to the Auto Fund's internal auditor and external auditors for comment. The cost allocation process is tested annually by the Auto Fund's auditors as part of their annual financial statement audit.

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.**

Confirmed.

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.**

The Product Management division consists of four departments: (1) Auto - Non SK, (2) Auto - SK (3) Personal Lines and (4) Commercial Lines/Agro. Only the Auto - SK department has a portion of its expenses allocated to the Auto Fund. For this department, costs are allocated based on an estimate of the department's time spent on the Auto Fund compared to SGI CANADA extension auto insurance. This time estimate is provided by the department manager and reviewed by the Finance department with the department manager.

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**

	2009	2010	2011	Budget 2012
	$	$	$	$
Wages & Salaries	65,922,897	67,144,231	66,843,104	68,316,777
Benefits	11,708,515	11,853,492	11,547,233	11,902,113
Pensions	3,683,284	3,759,353	3,857,454	4,419,431
External Services	3,035,640	5,208,513	3,790,369	6,468,194
Driver Education	-	-	2,495,022	7,375,000
Material and Supplies	757,751	800,456	707,277	757,749
Travel (including vehicle costs)	1,826,946	1,892,373	1,969,159	1,879,063
Insurance	398,740	411,799	404,965	406,248
Tools and Equipment	151,551	180,939	164,547	169,859
Building Rehabilitation	1,896,591	1,730,934	2,005,364	2,717,223
Amortization Costs	1,142,352	1,293,034	2,265,714	2,420,669
Data Processing	8,115,143	10,113,172	12,398,531	11,650,663
Safety Awareness	3,283,937	3,077,511	3,411,208	3,096,304
Issuer Bank Charges	3,020,495	3,634,893	4,009,517	5,785,574
Drinking and Driving Awareness	2,518,176	2,634,797	2,654,809	2,668,624
Postage	1,807,494	2,002,142	2,684,147	2,880,577
License Plates	932,678	1,230,261	832,712	766,349
Advertising	159,631	302,031	158,092	582,142
Employee Training	1,742,702	1,568,260	1,570,799	1,841,827
Other Expenses	234,884	306,400	346,826	1,717,737
	112,339,407	119,144,590	124,116,849	137,822,122

b. Please provide a breakdown of the "Other" expense category shown in this response, for those expenditures exceeding $50,000.

SGI allocates expenses between SGI CANADA and the Auto Fund at the department level, not at the account level. It also manages responsibility for expenses primarily at the department level. For instance, as noted in question 32 (b), the Product Management Auto - SK department is allocated to the Auto Fund, based on an estimate of the time spent by that department on Auto Fund business. The manager of that department is accountable for managing all of the expenses of his department based on the department budget. As such, to break down the Auto Fund's administrative expenses on an account basis, as requested in this question, is a very difficult and labour intensive process, especially to categorize all allocated accounts over $50,000.

As such, our objective was to at least bring the other category of expenses down to below 1% of overall expenses. This was achieved for all years, except for the 2012 budget where other represents 1.2% of total expenses.

c. Please discuss significant year-to-year variances for all of the above categories.

Significant Variances:

(1) Wages and Salaries, Benefits

Wages have been relatively consistent between 2009 and 2011, averaging $66.6 million annually. Prior to 2009 there was a significant increase in the Salaries & Wages expense, which is attributable to the compounding effect of economic increases, cost of living adjustment, step unionized increments and merit (management) increments. In addition, growth in the number of positions compounds the effect of the rate increases.

Benefits and pension generally increase in correlation with wage increases.

(2) Driver Education – The Auto Fund assumed responsibility for driver education part way through 2011. Refer to IR#87 – First Round.

(3) Data Processing – Data processing costs are $8.0 million higher than in 2006. This includes redevelopment project costs of $5.3 million in 2011 compared to $1.3 million in 2006. In addition the implementation of the one-part driver's licence in 2011 cost $2.1 million.

(4) Issuer Bank Charges – In 2006, the Auto Fund began allowing customers to pay for transactions using credit cards. The Auto Fund reimburses issuers for credit card charges. The increase in issuer bank charges is related to a continued increase in credit card usage by the Auto Fund's customers.

(5) External services – External services costs relate primarily to consulting services and can fluctuate year to year. External services costs were high in 2010 due primarily to post-implementation support of the redevelopment project.

d. Please provide the data in the above format, or in greater detail, as appropriate, for the 2012 budget.

Please see the response to information request #33a.

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.

Wages and salaries increased $1.5 million or 2.2% between the 2011 expense and the 2012 budgeted expense. Following are the significant salary increases included in the 2012 budget:

<u>Union staff</u>
Economic Increase 1.5%
Pay level increments 0.5%
<u>Out-of-Scope staff</u>
Economic increase 2.0%
Merit increase 2.0%

In addition, corporately, we budgeted an increase of 18.24 FTEs. Of this increase, approximately 7.32 FTEs related to the Auto Fund. The 7.32 FTE increase is comprised primarily of 3.62 FTEs from the corporate internship program, 1.50 FTEs from Audit Services related to CEO/CFO Certification, 1.31 FTEs from Claims, and 1.03 FTEs from Systems.

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.

Operational efficiencies beyond the redevelopment project have been provided separately as part of IR#114 – First Round. Beyond what has been provided, the Auto Fund does not have efficiency projects identified at the expenditure type level. In addition to the above-noted information, we have provided information indicating that the Auto Fund's operations are efficient relative to the industry (as reported by the Ward Group, IR #86), and relative to MPI and ICBC (IR #17 (a)).

The Auto Fund's main measure for maintaining efficient operations administratively, while achieving its strategic plan objectives and its legislative requirements, is its balanced scorecard target administrative expense ratio. The target administrative expense ratio is set based on the annual administrative expense budget and is approved by the SGI Board of Directors and Crown Investments Corporation (CIC) annually. It is reported on quarterly to the Board of Directors and CIC.

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.

CONFIDENTIAL

b. Please confirm that SAF Staff to Management ratio is also 8.91, as it is for SGI.

CONFIDENTIAL

c. Please provide the numbers underpinning the FTE's per $100 million premiums written shown in this table on Page 1.8.

CONFIDENTIAL

d. Please discuss the relative performance of SGI with respect to Claims Service and Human Resources as shown on Page 2.7.

CONFIDENTIAL

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.

CONFIDENTIAL

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?

The timeline for the Auto Fund Review is currently being determined with the Shareholder.

b. Please describe the process anticipated for stakeholder involvement in this review, and whether SAF considers the Panel to be a stakeholder.

SGI will arrange for meetings with stakeholders in order to get their input. Public meetings will also be held. SGI does consider 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%.

The customer counts provided in the Information Requests – First Round include the number of customers that had a BR assessment rating at the end of each year even if the customer did not have active vehicles registered for the year noted. BR assessments take into account the previous five years of premiums and claims and the counts from 2010 to 2006 included a significant amount of customers that had BR assessments solely because they had premiums in 2005. In 2011, 2005 dropped out of the five year window so that is why the counts dropped so significantly in 2011.

A query was run to show the number of customers that had current BR assessments in each of the years noted and the counts are as follows:

2011	2010	2009	2008	2007	2006
50,672	50,531	50,451	50,542	49,822	49,761

These numbers show that the total number of customers in BR each year has remained quite consistent and has actually increased since 2006. The number of vehicles registered in BR has increased significantly since 2006 as a result of the growth in the Saskatchewan economy.

b. Please discuss SAF's views of the major deficiencies of the BR program, and the possible solutions to those deficiencies.

The BR program will be included as part of the Auto Fund's upcoming coverage review. The Auto Fund plans to consult customers to get their view on the benefits and deficiencies of the BR program. The Auto Fund will strive to balance the needs of each industry that is part of the BR program. Solutions to any deficiencies will be addressed as part of the review. Deficiencies currently identified by customers and management:

- Individuals can never receive a surcharge for at-fault accidents because they get assessed demerit points in SDR. This causes an uneven playing field for companies compared to individuals in BR.

- Discounts awarded far outweigh the surcharges we collect resulting in an annual cost to the Auto Fund of approximately $5 million dollars.

- Claim amounts included in BR do not include all types of payments. i.e. expenses.

- In IRP, fleets with five or fewer vehicles are not subject to additional surcharges.

- The optics of the BR program are not favourable because the maximum discount offered is 10% while the maximum surcharge is 200%.

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.

The impact of using capped losses to determine the BR loss ratio as opposed to uncapped losses reduces the overall loss ratio by about 7%. The use of an 80% loss ratio in the BR program as opposed to overall claims costs being about 85% of premiums is consistent with the approximate impact of capping the losses.

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.

The savings associated with the Report Impaired Driver and Seatbelt Challenge programs cannot yet be quantified since they are relatively new initiatives. At least 3 -4 years of data are required for such analysis. Since the implementation in 2010, the RID program has helped to remove an additional 500 impaired drivers from Saskatchewan roads over and above what is normally achieved with other enforcement initiatives.

With respect to the Seatbelt Challenge, there have been immediate improvements in belt use rates in the communities that have participated to date. The SGI Seatbelt Challenge began in 2008, and has involved 39 communities. Results are determined by looking at the community that had the greatest percentage of gain towards the goal of 100% seatbelt use. For example, last year, Keeseekoose First Nation covered 80% of their available gain, bringing their seatbelt use rate from 66% pre-challenge to 93% post-challenge.

SGI is currently investigating the long-term impact of red light cameras across the province to ascertain associated cost savings. The initial analysis indicates that the red light cameras are associated with annual savings of $18,000 to $65,000 per site from reductions in right-angle collisions. Over the same period of analysis, rear-end collisions have increased in costs of $17,000 to $34,000 per site.

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.

To date, 36,700 new motorcycle riders have been enrolled in the Motorcycle Graduated Driver's Licensing program. A formal evaluation will be conducted of the program four years from implementation date (June 20, 2011), when enough data have been collected.

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).

SGI is currently investigating options for training as well as working to expand training capacity across the province.

Representatives of SAF have met with representatives of the Saskatchewan Sport Bike Association (SSBA) to talk about more public awareness of motorcycle safety. The SSBA reps were pleased that SGI initiated a meeting and they were very helpful in providing a motorcyclist's perspective on safety issues like the importance of training for new riders and wearing the proper riding gear. It was a productive meeting that concluded with an agreement that SGI and the SSBA would work collaboratively moving forward.

SGI is currently working with its ad agency to create a radio campaign aimed at both motorcycle riders and other vehicle operators. The message to motorcyclists is wear the proper gear and for the other vehicle operators it is to watch for motorcycles. This radio campaign should be on the air by late April/early May.

Another public awareness activity that SGI has recently undertaken is to send posters to all the motorcycle dealers in the province that stress the importance of getting training before heading out on a motorcycle. SAF is hopeful that the dealers will assist us by putting these posters on the wall of their shops.

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.

In Saskatchewan, motorcycle helmets are mandatory, and are enforced by law enforcement. Consultation will be conducted with motorcycle associations, like the Sportbike Association, motorcycle dealerships and safety training schools to see if regulating the need to be properly attired is acceptable and has the support of the user groups.

Farm plates are only issued to active farms that meet the minimum size criteria established in the *Vehicle Classification and Registration Regulations.* At the time of issuance or renewal, the farmer is required to complete a farm declaration indicating that they meet the requirements.

Information on what a farm plate can be used for is made available to farmers through brochures and the SGI website to ensure they understand what the allowed uses are.
If a vehicle that is displaying a farm plate has an insurance claim, the registered owner is required to complete a farm declaration and checks would be completed to ensure the vehicle was operating within its allowed uses. Operating outside of the allowed farm class rules would be a breach of the statutory conditions and could result in denial of coverage.

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.

SGI CANADA competes with 35 insurers for personal and commercial auto business in Saskatchewan. When comparing individual rates, sometimes SGI CANADA is lower and sometimes the competitor is lower.

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.

SGI assigns traffic safety expenses as premium-variable expenses because vehicles with higher premiums will see a greater benefit from the traffic safety programs. The goal of traffic safety is to prevent deaths, serious injuries and property damage due to traffic collisions, which, in turn, will have a direct impact on rates. A reduction in the frequency or the severity of claims will have a greater benefit to higher premium vehicles as the claim costs savings associated to these vehicles are also higher. To promote fairness, the vehicles receiving the greatest benefit from the traffic safety programs will be charged a larger proportion of the costs for those programs.

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.

The traffic safety expenses included in the original 'Forecast Without Rate Increase' in appendix B of the rate application are incorrect. An updated Appendix B is attached. The impact on the increase (decrease) to RSR and the MCT are minimal as a result of the change. This error does not impact the rate indication.

An updated Appendix B and the requested information follows.

Appendix B

The following tables illustrate the five-year projection of the Statement of Operations from the 2012 budget both without and with a 3.7% rate increase.

	Forecast Without Rate Increase					
year ended December 31	2011	2012	2013	2014	2015	2016
($000's)	$	$	$	$	$	$
Direct premium	747,886	794,973	845,026	898,228	954,780	1,014,894
Ceded premium	(3,316)	(4,917)	(5,163)	(5,421)	(5,692)	(5,977)
Net premiums written	**744,570**	**790,056**	**839,863**	**892,807**	**949,088**	**1,008,917**
Net premiums earned	**726,059**	**769,196**	**817,680**	**869,220**	**924,007**	**982,247**
Claims incurred	700,396	642,345	674,205	697,983	771,444	828,713
Prior year claims (Net of Disc/PFAD)	35,267	-	-	-	-	-
Loss adjusting expense (LAE)	61,455	62,570	67,540	72,854	78,113	83,989
Issuer fees and premium taxes	82,398	69,889	83,361	88,610	94,189	100,120
Administrative expenses	54,003	54,504	58,321	59,499	61,746	64,583
Traffic safety	21,013	26,275	23,724	24,336	24,901	25,507
Total claims and expenses	**954,532**	**855,583**	**907,151**	**943,282**	**1,030,393**	**1,102,912**
Underwriting loss	**(228,473)**	**(86,387)**	**(89,471)**	**(74,062)**	**(106,386)**	**(120,665)**
Investment earnings	52,761	44,186	31,144	39,706	75,563	87,279
Other income	30,345	31,764	34,098	35,760	37,518	39,375
Increase (decrease) to RSR	(145,367)	(10,437)	(24,229)	1,404	6,695	5,989
MCT	**52%**	**45%**	**36%**	**36%**	**36%**	**36%**

	Forecast With 3.7% Rate Increase					
Year ended December 31	2011	2012	2013	2014	2015	2016
($000's)	$	$	$	$	$	$
Direct premium	747,886	806,464	876,291	931,462	990,106	1,052,443
Ceded premium	(3,316)	(4,917)	(5,163)	(5,421)	(5,692)	(5,977)
Net premiums written	**744,570**	**801,547**	**871,128**	**926,041**	**984,414**	**1,046,466**
Net premiums earned	**726,059**	**772,608**	**843,311**	**901,547**	**958,380**	**1,018,796**
Claims incurred	700,396	642,345	674,205	697,983	771,444	828,713
Prior year claims (Net of Disc/PFAD)	35,267	-	-	-	-	-
Loss adjusting expense (LAE)	61,455	62,570	67,540	72,854	78,113	83,989
Issuer fees and premium taxes	82,398	70,634	86,207	91,888	97,674	103,824
Administrative expenses	54,003	54,504	58,321	59,499	61,746	64,583
Traffic safety	21,013	26,275	23,724	24,336	24,901	25,507
Total claims and expenses	**954,532**	**856,328**	**909,997**	**946,560**	**1,033,878**	**1,106,616**
Underwriting loss	**(228,473)**	**(83,720)**	**(66,686)**	**(45,013)**	**(75,498)**	**(87,820)**
Investment earnings	52,761	44,274	31,272	40,510	78,468	92,150
Other income	30,345	32,066	34,943	36,658	38,471	40,389
Increase (decrease) to RSR	(145,367)	(7,380)	(471)	32,155	41,441	44,719
MCT	**52%**	**46%**	**46%**	**56%**	**66%**	**75%**

	2011	2012
TRAFFIC SAFETY PROMOTION		
Child Passenger Safety Training Program	6,000	6,000
Ride's On Us	55,000	55,000
SADD	102,069	102,069
Saskatchewan Safety Council	142,718	108,000
Saskatchewan Wildlife Federation	20,000	20,000
Server Intervention	5,000	5,000
Community Grants	50,000	50,000
Enforcement Overdrive	450,400	483,500
No Regrets Program	16,500	16,500
Police Partnership – Training	10,000	10,000
Police Partnership – Vehicles	19,200	19,200
Safe Saskatchewan	50,000	
Atoskata Youth Camp	9,480	
Red Feather Spirit Lodge	10,000	
PA Intersection Enforcement	50,000	50,000
Expanded Intersection Enforcement		180,000
Report Impaired Drivers	100,000	125,000
Multi-Agency Seat Belt Blitz	30,000	30,000
Automatic Licence Plate Recognition	129,491	100,000
Selective Traffic Enforcement Program	33,785	33,000
Winter Road Maintenance	25,000	25,000
55 Alive	70,000	70,000
Infrastructure Improvements	238,500	238,500
Safety Awareness - Corporate Relations	66,000	66,000
Traffic Safety Scholarship	25,000	
Highway Safety Signs	120,000	120,000
Wildlife Solutions	100,000	100,000
Seat Belt Challenge	165,000	165,000
Pedestrian Safety Project	10,000	10,000
Impaired Driving Project	87,996	87,996
First Nations Traffic Safety Positions	174,000	152,000
Child Traffic Safety Position	76,811	76,811
Total	**2,447,950**	**2,504,576**

TRAFFIC SAFETY PROGRAM EVALUATION		
Motorcycle Safety	20,000	20,000
GIS Development	18,336	15,000
Total	**38,336**	**35,000**

TRAFFIC SAFETY ADVERTISING		
Booster Seats	167,000	167,000
Child Restraint	86,380	165,000
Drinking & Driving	790,000	750,000
Driver Distraction	276,537	276,537
Road Safety – Year Long	544,000	48,674
Rural Seat belts	263,000	263,000
Aboriginal Media	100,000	100,000
Drive Right	250,000	
Cell phones	450,000	
Speed Issues	50,000	
Miscellaneous	59,430	
Safety Awareness - Brochures	301,705	
Wildlife		100,000
Motorcycle		75,000
Total	**3,338,052**	**1,945,211**

DRIVER PROGRAMS		
Medical Payments	364,027	364,027
District Health Funding	1,337,024	1,337,024
Rehabilitation Assessment	600,000	600,000
Total	**2,301,051**	**2,301,051**

DRIVER DEVELOPMENT (driver education)		
Aboriginal Driver Education	50,000	
Immigrant Driver Education	100,000	
High School Driver Education	1,700,000	7,375,000
Annual Driver Educator Seminar	40,000	45,000
Total	**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**

44. Reference IR #109 – First Round

a. How was the Auto Fund Redevelopment Project cost, in excess of $36 million, funded?

As noted in the answer to question 15 (a), $35.0 million was allocated from the RSR to the Redevelopment Reserve to fund the redevelopment project. The total cost of the redevelopment project was $36.0 million, the excess $1.0 million being funded from annual operations.

b. Please discuss the components of the "SGI Business Staff" cost of $9,465,635, for each year of the project.

SGI internal staff were used for testing, support and training for the various releases of the redevelopment project. The staff came from the Finance, Systems and the Auto Fund division. Certain staff were allocated to the Auto Fund redevelopment project and their positions were backfilled by other SGI staff. This created a situation whereby incremental costs were incurred by SGI due to the fact that the backfills ultimately resulted in a temporary position being added at some level. For this reason, those costs for internal staff assigned to the project, where their home position had to be backfilled, were charged to the project. A summary of the salaries and benefits follows:

		2010	2009	2008	2007	2006	2005	Total
Salary		1,280,045	2,089,159	2,114,970	1,366,250	1,115,667	69,653	8,035,744
Benefits		238,341	388,588	388,501	222,727	180,723	11,011	1,429,891
Total Salary and Benefits		1,518,386	2,477,747	2,503,471	1,588,977	1,296,390	80,664	9,465,635

45. Reference IR #114 – First Round

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

SAF should see favourable variances compared to budget in 2012 because of these efficiencies that have been implemented. Our budget in future years will be adjusted based on the savings realized in 2012. SAF will also follow up with the business areas at the end of the year for the larger savings efficiencies.

46. Reference IR #125 – First Round

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

No, issuers are not responsible for their computer hardware costs. The Auto Fund supplies them with their hardware and takes care of maintaining and replacing it when required.

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?**

The budgeting process begins in May and is completed by the end of August for the coming year. The budget is approved by senior management in September and is presented for approval to the Audit and Finance Committee and the Board of Directors in October.

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?**

Previously, under Canadian generally accepted accounting principles (GAAP), unrealized gains and losses were reported as Other Comprehensive Income, while realized gains and losses were reported as investment income within the Increase/Decrease to the RSR. With the change to International Financial Reporting Standards (IFRS), all gains and losses are reported through net income. As such, no provision is made to separate out realized and unrealized gains and losses for budget purposes. The budget for gains on the sale of bonds and common shares include both realized and unrealized gains and are based on expected investment market performance. The budget for revenue from real estate is included within pooled fund revenue.

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.

Increasing the deductible from $700 to $900 would reduce the overall rate increase required from 3.7% to an increase of 1.2%.

49. Reference Application Tab 10, Page 1
Please provide 2011 actual or projected numbers for the three tables shown.

The following table shows the costs of recycled, aftermarket and OEM parts used in auto repairs for 2011:

	2011
Recycled	$ 32,044,579
Aftermarket	10,921,112
OEM	43,627,249
Total	$ 86,592,940

The table below shows the estimated savings from the use of recycled or aftermarket parts:

	2011
Recycled	$ 16,107,612
Aftermarket	13,792,714

The overall auto repair costs in labour, paint allowance, shop material and other costs for 2011 are as follows:

	2011
Labour	$ 96,895,824
Paint allowance	18,504,489
Shop material & other	3,612,177
Glass repair	1,419,717

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.

Please see table under information request #18.

b. Please discuss SAF's policies, goals, and objectives respecting staff diversity.

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%

SGI continues its commitment to equity, diversity and inclusiveness. The SGI balanced scorecard includes an overall strategy; Attract and Retain. This involves achieving the corporate balanced scorecard diversity member targets, which are aligned with divisional and individual performance goals. Our performance management system ensures that corporate objectives cascade down to the divisional and departmental levels. These mechanisms measure and ensure that all management is committed to our diversity goals and objectives. In 2008 we added a measurement to track external hires. As a result, we set a goal on the corporate and divisional balanced scorecard to ensure 25% of all new hires represent a diversity group.

SGI has further enhanced its equity program initiatives through the development of an all encompassing Corporate Diversity & Inclusiveness Strategy. The Diversity Strategy is a broader based inclusive strategy which includes the principals and goals of employment equity.

Going forward, the Diversity Strategy ensures programming, initiatives and activities further support equity objectives to build a diverse workforce representative of all diversity groups.

A number of initiatives supporting the overall program goals are ongoing. The following are a few of the accomplishments:

- SGI continues to manage a successful internally created Internship/Apprenticeship Program. The program was initially designed based on an initiative to develop and grow a representative workforce in underrepresented areas. The program offers training opportunities in various SGI divisions for a period of up to one year. This program is designed to support diversity and is a mechanism for potential advancement within the corporation. The SGI Diversity Internship Program carries nine opportunities annually.
- SGI's commitment to diversity, work-life balance, wellness and community involvement, among other things, continues to be recognized nationally and provincially through receiving recognition as one of Canada's Top 100 Employers and Canada's Best Diversity Employers.
- SGI's Summer Student Program
- SGI has a strong commitment to communities across the province. In addition to sponsorships and donations provided to organizations across the province, SGI supports cultural diversity through funding initiatives and youth support.
- Developed sub-strategy to "Attract Youth to the Insurance Industry".

The Recruitment and Diversity area in Human Resources is accountable to manage equity and diversity programming. A key component to making an impact in the community for attracting and recruiting to SGI is participation in employment-related events.

The Recruitment and Diversity team has direct responsibility for programs and initiatives that support attraction, recruitment and diversity throughout the province.

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?

Claims fraud is certainly a challenge for any insurance company. Steps SGI has taken to mitigate the risk of fraud include:

For auto:

- Adjusters and appraisers are provided training to recognize red flags related to possible fraudulent activity.

- Suspected fraudulent activities are followed up by the adjuster or appraiser and if required, SGI's Special Investigation Unit (SIU) will assist.
- Process controls for payments and documentation are in place.
- Vehicle damages are inspected by SGI appraisers.
- Post-repair audit program ensures vehicle repairs paid for have been completed as charged.

For injury:

- Personal Injury Representatives (PIRs) are provided training to recognize red flags related to possible fraudulent activity.
- Suspected fraudulent activities are followed up by the PIRs and if required, SGI's Special Investigation Unit (SIU) will assist.
- Process controls for payments and documentation are in place.
- Medical substantiation is required for all treatment and care undertaken.
- Tax and payroll information is required for income benefits to be paid.

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.

There has been no changes to the Auto Fund's capitalization policy since 2009. However, certain amortization periods have changed. Beginning in 2011, the Auto Fund adopted International Financial Reporting Standards (IFRS). IFRS requires that each component of an item of property and equipment, with a cost that is significant compared to the total cost of the item, should be depreciated separately. Previously, under Canadian generally accepted accounting principles (GAAP), the Auto Fund had capitalized the cost of acquiring its buildings, including all its components, and depreciated them over their useful lives of either 20 or 40 years. Under IFRS, certain building components, including heating and cooling systems, elevators, roofs and parking lots are depreciated separately over their estimated lives of between 15-30 years. The remaining costs of the Auto Fund's buildings continue to be depreciated over their useful lives of either 20 or 40 years.

For perspective, depreciation for the year ending December 31, 2010, was $24,000 lower under IFRS than previously reported under GAAP, a relatively insignificant amount as many of the Auto Fund's assets were fully depreciated by 2010 under both IFRS and GAAP.

b. Please provide a list of capital projects undertaken in 2010, 2011, and those planned for 2012.

	Capital Purchases 2010	Capital Purchases 2011	Capital Purchases 2012
Buildings			
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
	2,771,567	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	**$ 4,276,475**	**$ 6,546,433**	**$ 9,124,961**

c. Please indicate the impact on overall rates resulting from capital project expenditures for each of 2010, 2011, and 2012.

The impact of depreciation on all capital expenditure projects was an increase to the overall indicated rates of 0.2%. Information technology accounted for 0.1%, and all other projects combined account for the other 0.1%.