

1. Please expand Appendix B on Page 58 of the main application document to include (i) any line item detail and ratios (including MCT) dropped from the comparable presentation in Appendix B on Page 26 of the 2007 main application document, (ii) separation of Safe Driver Recognition program demerit penalties from “Net Premiums Written Before Discounts”, and (iii) actual 2005 to 2008 information, with accompanying narrative on the significant assumptions made in the forecasting of MCT ratios.

**Saskatchewan Auto Fund  
Statement of Operations  
2009 Budget - Revised to reflect 4.2% rate increase eff. Nov 1/09**

year ended December 31 (\$000's)	Actual				Forecast				
	2005	2006	2007	2008	2009	2010	2011	2012	2013
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Premiums Written</b>									
Net Premiums Written before Discounts	581,172	624,106	623,589	681,775	731,678	803,327	850,655	899,687	951,542
Safe Driver Recognition Bonus	(67,683)	(67,894)	(69,291)	(76,110)	(84,660)	(92,779)	(99,039)	(105,304)	(111,660)
Safe Driver Recognition Malus	10,153	9,415	10,046	10,314	9,037	9,037	9,037	9,037	9,037
Business Recognition Bonus	(3,951)	(5,195)	(5,098)	(5,487)	(5,409)	(5,864)	(6,209)	(6,566)	(6,944)
<b>Net premiums written</b>	<b>519,691</b>	<b>560,432</b>	<b>559,246</b>	<b>610,492</b>	<b>650,646</b>	<b>713,721</b>	<b>754,444</b>	<b>796,854</b>	<b>841,975</b>
<b>Net premiums earned</b>	<b>519,954</b>	<b>542,204</b>	<b>557,087</b>	<b>587,918</b>	<b>632,326</b>	<b>681,363</b>	<b>734,436</b>	<b>776,017</b>	<b>819,806</b>
Claims incurred	436,768	403,087	476,826	509,301	549,623	584,267	624,719	662,478	701,540
Loss Adjusting Expense (LAE)	39,499	45,985	55,391	54,664	52,237	54,255	55,828	57,449	59,119
Premium Taxes	26,083	27,221	27,970	29,510	31,908	34,182	36,837	38,916	41,105
Issuer Fees	20,931	22,936	27,161	29,145	31,917	33,050	36,734	38,057	38,037
Administrative Expenses	28,062	29,945	36,180	42,332	50,569	49,560	50,907	51,427	53,497
Traffic Safety Programs	11,144	10,790	13,674	16,345	17,798	20,620	22,033	23,281	24,594
<b>Total claims and expenses</b>	<b>562,487</b>	<b>539,964</b>	<b>637,202</b>	<b>681,297</b>	<b>734,052</b>	<b>775,934</b>	<b>827,058</b>	<b>871,608</b>	<b>917,892</b>
<b>Underwriting loss</b>	<b>(42,533)</b>	<b>2,240</b>	<b>(80,115)</b>	<b>(93,379)</b>	<b>(101,726)</b>	<b>(94,571)</b>	<b>(92,622)</b>	<b>(95,591)</b>	<b>(98,086)</b>
Investment earnings	67,679	78,669	91,349	29,405	50,603	60,256	64,438	68,116	70,854
Other income	20,176	20,229	20,769	21,351	22,733	24,544	25,798	26,985	28,239
Increase (decrease) to RSR before rebate	45,322	101,138	32,003	(42,623)	(28,390)	(9,771)	(2,386)	(490)	1,007
Rebate to policyholders *	-	(44,097)	(99,308)	(68)	(610)	(659)	(696)	-	-
<b>Increase (decrease) to RSR</b>	<b>45,322</b>	<b>57,041</b>	<b>(67,305)</b>	<b>(42,691)</b>	<b>(29,000)</b>	<b>(10,430)</b>	<b>(3,082)</b>	<b>(490)</b>	<b>1,007</b>
<b>RSR:</b>									
Balance Beginning of Year	136,942	147,264	205,601	140,975	102,535	79,864	74,544	76,364	79,455
Appropriation from Redevelopment Reserve	(35,000)	1,296	2,679	4,251	6,329	5,110	4,902	3,581	3,140
<b>Balance, End of Year</b>	<b>147,264</b>	<b>205,601</b>	<b>140,975</b>	<b>102,535</b>	<b>79,864</b>	<b>74,544</b>	<b>76,364</b>	<b>79,455</b>	<b>83,602</b>
<b>Redevelopment Reserve (RDR) :</b>									
Balance, Beginning of Year	-	35,000	33,704	31,025	26,774	20,445	15,335	10,433	6,852
Appropriated (to) from Rate Stabilization Reserve	35,000	(1,296)	(2,679)	(4,251)	(6,329)	(5,110)	(4,902)	(3,581)	(3,140)
<b>RDR Balance, End of Year</b>	<b>35,000</b>	<b>33,704</b>	<b>31,025</b>	<b>26,774</b>	<b>20,445</b>	<b>15,335</b>	<b>10,433</b>	<b>6,852</b>	<b>3,712</b>
Pure loss ratio (excluding LAE)	84.0%	74.3%	85.6%	86.6%	86.9%	85.7%	85.1%	85.4%	85.6%
Loss ratio (including LAE)	91.6%	82.8%	95.5%	95.9%	95.2%	93.7%	92.7%	92.8%	92.8%
Issuer fee and premium tax ratio	9.0%	9.3%	9.9%	10.0%	10.1%	9.9%	10.0%	9.9%	9.7%
Administrative expense ratio	5.4%	5.5%	6.5%	7.2%	8.0%	7.3%	6.9%	6.6%	6.5%
Traffic safety ratio	2.1%	2.0%	2.5%	2.8%	2.8%	3.0%	3.0%	3.0%	3.0%
<b>Combined ratio</b>	<b>108.1%</b>	<b>99.6%</b>	<b>114.4%</b>	<b>115.9%</b>	<b>116.1%</b>	<b>113.9%</b>	<b>112.6%</b>	<b>112.3%</b>	<b>112.0%</b>
<b>MCT</b>	<b>160.4%</b>	<b>179.4%</b>	<b>132.2%</b>	<b>60.9%</b>	<b>51.9%</b>	<b>53.4%</b>	<b>56.7%</b>	<b>58.7%</b>	<b>60.9%</b>

\* The rebate in 2008 is the Green Vehicle initiative net of 2007 General Rebate cheques that were staledated in 2008.

From 2009 through 2011, the rebate relates to the Green Vehicle initiative.

Significant assumptions made with respect to the MCT calculation include:

- A discount factor of 3.33 per cent is applied to the net unpaid claims balance to estimate the impact of discounting claims.

- Simplifying assumption that an amount of 5.2 per cent of balance sheet assets be added to capital required. This reflects historical premium based on actual asset mix.

The previous schedule is based on information as it was presented in the original proposal document. This included investment income based on starting asset values as at Sept. 30, 2008. The following exhibit updates that analysis using a starting date for investments of Dec. 31, 2008, resulting in lower investment earnings overall. This provides a more realistic base against which to compare results for questions 2 and 3. In addition, minor inconsistencies in the earned premium amounts for 2009 and 2010 were corrected which also impacted forecasted premium taxes, issuer fees and traffic safety for those years.

**SASKATCHEWAN AUTO FUND**  
**Statement of Operations (4.2% rate change effective November 1, 2009)**  
**(000s)**

Year ended December 31	Actual				Forecast				
	2005	2006	2007	2008	2009	2010	2011	2012	2013
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Premiums Written</b>									
Net Premiums Written before Discounts	581,172	624,106	623,589	681,775	731,678	803,327	850,655	899,687	951,542
Safe Driver Recognition Bonus	(67,683)	(67,894)	(69,291)	(76,110)	(84,660)	(92,779)	(99,039)	(105,304)	(111,660)
Safe Driver Recognition Malus	10,153	9,415	10,046	10,314	9,037	9,037	9,037	9,037	9,037
Business Recognition Bonus	(3,951)	(5,195)	(5,098)	(5,487)	(5,409)	(5,864)	(6,209)	(6,566)	(6,944)
<b>Premiums Written - net</b>	<b>519,691</b>	<b>560,432</b>	<b>559,246</b>	<b>610,492</b>	<b>650,646</b>	<b>713,721</b>	<b>754,444</b>	<b>796,854</b>	<b>841,975</b>
<b>Premiums Earned</b>	<b>519,954</b>	<b>542,204</b>	<b>557,087</b>	<b>587,918</b>	<b>631,135</b>	<b>682,725</b>	<b>734,436</b>	<b>776,017</b>	<b>819,806</b>
Claims Incurred	436,768	403,087	476,826	509,301	549,623	584,267	624,719	662,478	701,540
Loss Adjusting Expense (LAE)	39,499	45,985	55,391	54,664	52,237	54,255	55,828	57,449	59,119
Premium Taxes	26,083	27,221	27,970	29,510	31,669	34,250	36,837	38,916	41,105
Issuer Fees	20,931	22,936	27,161	29,145	31,917	32,751	36,734	38,057	38,037
Administrative Expenses	28,062	29,945	36,180	42,332	50,569	49,560	50,907	51,427	53,497
Traffic Safety Programs	11,144	10,790	13,674	16,345	17,798	20,482	22,033	23,281	24,594
<b>Total Expenses</b>	<b>562,487</b>	<b>539,964</b>	<b>637,202</b>	<b>681,297</b>	<b>733,813</b>	<b>775,565</b>	<b>827,058</b>	<b>871,608</b>	<b>917,892</b>
<b>Underwriting Loss</b>	<b>(42,533)</b>	<b>2,240</b>	<b>(80,115)</b>	<b>(93,379)</b>	<b>(102,678)</b>	<b>(92,840)</b>	<b>(92,622)</b>	<b>(95,591)</b>	<b>(98,086)</b>
Investment Earnings*	67,679	78,669	91,349	29,405	46,047	54,625	62,895	70,915	74,171
Other Income	20,176	20,229	20,769	21,351	22,733	24,544	25,798	26,985	28,239
<b>Increase (decrease) to RSR before rebate</b>	<b>45,322</b>	<b>101,138</b>	<b>32,003</b>	<b>(42,623)</b>	<b>(33,898)</b>	<b>(13,671)</b>	<b>(3,929)</b>	<b>2,309</b>	<b>4,324</b>
Rebate to Policyholders**	-	(44,097)	(99,308)	(68)	(610)	(659)	(696)	-	-
<b>Increase (decrease) to RSR</b>	<b>45,322</b>	<b>57,041</b>	<b>(67,305)</b>	<b>(42,691)</b>	<b>(34,508)</b>	<b>(14,330)</b>	<b>(4,625)</b>	<b>2,309</b>	<b>4,324</b>
<b>RSR :</b>									
RSR Balance, Beginning of Year	136,942	147,264	205,601	140,975	102,535	74,356	65,136	65,413	71,303
Prior Period Adjustment									
Appropriated (to) from Redevelopment Reserve	(35,000)	1,296	2,679	4,251	6,329	5,110	4,902	3,581	3,140
<b>RSR Balance, End of Year</b>	<b>147,264</b>	<b>205,601</b>	<b>140,975</b>	<b>102,535</b>	<b>74,356</b>	<b>65,136</b>	<b>65,413</b>	<b>71,303</b>	<b>78,767</b>
<b>Redevelopment Reserve (RDR) :</b>									
Balance, Beginning of Year	-	35,000	33,704	31,025	26,774	20,445	15,335	10,433	6,852
Appropriated (to) from Rate Stabilization Reserve	35,000	(1,296)	(2,679)	(4,251)	(6,329)	(5,110)	(4,902)	(3,581)	(3,140)
<b>RDR Balance, End of Year</b>	<b>35,000</b>	<b>33,704</b>	<b>31,025</b>	<b>26,774</b>	<b>20,445</b>	<b>15,335</b>	<b>10,433</b>	<b>6,852</b>	<b>3,712</b>
Pure Loss Ratio (excluding LAE)	84.0%	74.3%	85.6%	86.6%	87.1%	85.6%	85.1%	85.4%	85.6%
Loss Ratio (including LAE)	91.6%	82.8%	95.5%	95.9%	95.4%	93.5%	92.7%	92.8%	92.8%
Issuer Fee and Premium Tax Ratio	9.0%	9.3%	9.9%	10.0%	10.1%	9.8%	10.0%	9.9%	9.7%
Administrative Expense Ratio	5.4%	5.5%	6.5%	7.2%	8.0%	7.3%	6.9%	6.6%	6.5%
Traffic Safety Ratio	2.1%	2.0%	2.5%	2.8%	2.8%	3.0%	3.0%	3.0%	3.0%
<b>Combined Ratio</b>	<b>108.1%</b>	<b>99.6%</b>	<b>114.4%</b>	<b>115.9%</b>	<b>116.3%</b>	<b>113.6%</b>	<b>112.6%</b>	<b>112.3%</b>	<b>112.0%</b>
<b>Minimum Capital Test</b>	<b>160.4%</b>	<b>179.4%</b>	<b>132.2%</b>	<b>60.9%</b>	<b>48.9%</b>	<b>48.5%</b>	<b>51.2%</b>	<b>54.7%</b>	<b>58.6%</b>

\* Forecast Investment Earnings are based on the actual portfolio value as at December 31, 2008

\*\* The rebate in 2008 is the Green Rebate initiative net of 2007 general rebate cheques that were staledated in 2008. From 2009 through 2011, the rebate relates to the Green Rebate initiative.

- 2. Please provide a restatement of the schedule provided in response to Question 1 above assuming no change in rates (and no rebalancing) in 2009 (or thereafter).**

The requested schedule follows.

**SASKATCHEWAN AUTO FUND**  
**Statement of Operations (No Rate Change or Rebalancing)**  
**(\$000s)**

Year Ended December 31	Actual				Forecast				
	2005	2006	2007	2008	2009	2010	2011	2012	2013
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Premiums Written</b>									
Net Premiums Written before Discounts	581,172	624,106	623,589	681,775	726,321	770,906	816,328	863,383	913,148
Safe Driver Recognition Bonus	(67,683)	(67,894)	(69,291)	(76,110)	(82,976)	(89,039)	(95,047)	(101,059)	(107,159)
Safe Driver Recognition Malus	10,153	9,415	10,046	10,314	9,037	9,037	9,037	9,037	9,037
Business Recognition Bonus	(3,951)	(5,195)	(5,098)	(5,487)	(5,302)	(5,627)	(5,958)	(6,301)	(6,664)
<b>Premiums Written - Net</b>	<b>519,691</b>	<b>560,432</b>	<b>559,246</b>	<b>610,492</b>	<b>647,080</b>	<b>685,277</b>	<b>724,360</b>	<b>765,060</b>	<b>808,362</b>
<b>Premiums Earned</b>	<b>519,954</b>	<b>542,204</b>	<b>557,087</b>	<b>587,918</b>	<b>629,322</b>	<b>666,509</b>	<b>705,157</b>	<b>745,062</b>	<b>787,086</b>
Claims incurred	436,768	403,087	476,826	509,301	549,623	584,267	624,719	662,478	701,540
Loss Adjusting Expense (LAE)	39,499	45,985	55,391	54,664	52,237	54,255	55,828	57,449	59,119
Premium Taxes	26,083	27,221	27,970	29,510	31,579	33,439	35,373	37,368	39,469
Issuer Fees	20,931	22,936	27,161	29,145	31,917	32,751	36,734	38,057	38,036
Administrative Expenses	28,062	29,945	36,180	42,332	50,569	49,560	50,907	51,427	53,497
Traffic Safety Programs	11,144	10,790	13,674	16,345	17,798	19,995	21,155	22,352	23,613
<b>Total Expenses</b>	<b>562,487</b>	<b>539,964</b>	<b>637,202</b>	<b>681,297</b>	<b>733,723</b>	<b>774,267</b>	<b>824,716</b>	<b>869,131</b>	<b>915,274</b>
<b>Underwriting Loss</b>	<b>(42,533)</b>	<b>2,240</b>	<b>(80,115)</b>	<b>(93,379)</b>	<b>(104,401)</b>	<b>(107,758)</b>	<b>(119,559)</b>	<b>(124,069)</b>	<b>(128,188)</b>
Investment Earnings*	67,679	78,669	91,349	29,405	46,010	54,167	61,283	67,605	68,937
Other Income	20,176	20,229	20,769	21,351	22,733	24,544	25,798	26,985	28,239
<b>Increase (Decrease) to RSR Before Rebate</b>	<b>45,322</b>	<b>101,138</b>	<b>32,003</b>	<b>(42,623)</b>	<b>(35,658)</b>	<b>(29,047)</b>	<b>(32,478)</b>	<b>(29,479)</b>	<b>(31,012)</b>
Rebate to policyholders**	-	(44,097)	(99,308)	(68)	(610)	(659)	(696)	-	-
<b>Increase (Decrease) to RSR</b>	<b>45,322</b>	<b>57,041</b>	<b>(67,305)</b>	<b>(42,691)</b>	<b>(36,268)</b>	<b>(29,706)</b>	<b>(33,174)</b>	<b>(29,479)</b>	<b>(31,012)</b>
<b>RSR :</b>									
RSR Balance, Beginning of Year	136,942	147,264	205,601	140,975	102,535	72,596	48,000	19,728	(6,170)
Prior period adjustment									
Appropriated (to) from Redevelopment Reserve	(35,000)	1,296	2,679	4,251	6,329	5,110	4,902	3,581	3,140
<b>RSR Balance, End of Year</b>	<b>147,264</b>	<b>205,601</b>	<b>140,975</b>	<b>102,535</b>	<b>72,596</b>	<b>48,000</b>	<b>19,728</b>	<b>(6,170)</b>	<b>(34,042)</b>
<b>Redevelopment Reserve (RDR) :</b>									
Balance, Beginning of Year	-	35,000	33,704	31,025	26,774	20,445	15,335	10,433	6,852
Appropriated (to) from Rate Stabilization Reserve	35,000	(1,296)	(2,679)	(4,251)	(6,329)	(5,110)	(4,902)	(3,581)	(3,140)
<b>RDR Balance, End of Year</b>	<b>35,000</b>	<b>33,704</b>	<b>31,025</b>	<b>26,774</b>	<b>20,445</b>	<b>15,335</b>	<b>10,433</b>	<b>6,852</b>	<b>3,712</b>
Pure loss ratio (excluding LAE)	84.0%	74.3%	85.6%	86.6%	87.3%	87.7%	88.6%	88.9%	89.1%
Loss ratio (including LAE)	91.6%	82.8%	95.5%	95.9%	95.6%	95.8%	96.5%	96.6%	96.6%
Issuer fee and premium tax ratio	9.0%	9.3%	9.9%	10.0%	10.1%	9.9%	10.2%	10.1%	9.8%
Administrative expense ratio	5.4%	5.5%	6.5%	7.2%	8.0%	7.4%	7.2%	6.9%	6.8%
Traffic safety ratio	2.1%	2.0%	2.5%	2.8%	2.8%	3.0%	3.0%	3.0%	3.0%
<b>Combined Ratio</b>	<b>108.1%</b>	<b>99.6%</b>	<b>114.4%</b>	<b>115.9%</b>	<b>116.5%</b>	<b>116.1%</b>	<b>116.9%</b>	<b>116.6%</b>	<b>116.2%</b>
<b>Minimum Capital Test</b>	<b>160.4%</b>	<b>179.4%</b>	<b>132.2%</b>	<b>60.9%</b>	<b>47.9%</b>	<b>39.5%</b>	<b>28.1%</b>	<b>16.8%</b>	<b>5.3%</b>

\* Forecast Investment Earnings are based on the actual portfolio value as at December 31, 2008

\*\* The rebate in 2008 is the Green Vehicle initiative net of 2007 General Rebate cheques that were staledated in 2008. From 2009 through 2011, the rebate relates to the Green Vehicle initiative.

- 3. Please provide a restatement of the schedule provided in response to Question 1 above assuming implementation of the proposed rate revision (and rebalancing) effective Nov. 1, 2009 subject to a further uniform 1% loading for RSR replenishment.**

The requested schedule follows.

**SASKATCHEWAN AUTO FUND**  
**Statement of Operations (4.2% Rate Change Nov. 1 + 1% RSR Surcharge)**  
**(\$000s)**

Year Ended December 31	Actual				Forecast				
	2005	2006	2007	2008	2009	2010	2011	2012	2013
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Premiums Written</b>									
Net Premiums Written before Discounts	581,172	624,106	623,589	681,775	731,346	811,046	858,829	908,331	960,683
Safe Driver Recognition Bonus	(67,683)	(67,894)	(69,291)	(76,110)	(83,549)	(93,669)	(99,990)	(106,314)	(112,731)
Safe Driver Recognition Malus	10,153	9,415	10,046	10,314	9,037	9,037	9,037	9,037	9,037
Business Recognition Bonus	(3,951)	(5,195)	(5,098)	(5,487)	(5,339)	(5,920)	(6,268)	(6,629)	(7,011)
<b>Premiums Written - Net</b>	<b>519,691</b>	<b>560,432</b>	<b>559,246</b>	<b>610,492</b>	<b>651,495</b>	<b>720,494</b>	<b>761,608</b>	<b>804,425</b>	<b>849,978</b>
<b>Premiums Earned</b>	<b>519,954</b>	<b>542,204</b>	<b>557,087</b>	<b>587,918</b>	<b>631,567</b>	<b>686,586</b>	<b>741,407</b>	<b>783,388</b>	<b>827,597</b>
Claims incurred	436,768	403,087	476,826	509,301	549,623	584,267	624,719	662,478	701,540
Loss Adjusting Expense (LAE)	39,499	45,985	55,391	54,664	52,237	54,255	55,828	57,449	59,119
Premium Taxes	26,083	27,221	27,970	29,510	31,691	34,443	37,185	39,284	41,495
Issuer Fees	20,931	22,936	27,161	29,145	31,917	32,751	36,734	38,057	38,036
Administrative Expenses	28,062	29,945	36,180	42,332	50,569	49,560	50,907	51,427	53,497
Traffic Safety Programs	11,144	10,790	13,674	16,345	17,798	20,598	22,242	23,502	24,828
<b>Total Expenses</b>	<b>562,487</b>	<b>539,964</b>	<b>637,202</b>	<b>681,297</b>	<b>733,835</b>	<b>775,874</b>	<b>827,615</b>	<b>872,197</b>	<b>918,515</b>
<b>Underwriting Loss</b>	<b>(42,533)</b>	<b>2,240</b>	<b>(80,115)</b>	<b>(93,379)</b>	<b>(102,268)</b>	<b>(89,288)</b>	<b>(86,208)</b>	<b>(88,809)</b>	<b>(90,918)</b>
Investment Earnings*	67,679	78,669	91,349	29,405	46,056	54,734	63,279	71,703	75,417
Other Income	20,176	20,229	20,769	21,351	22,733	24,544	25,798	26,985	28,239
<b>Increase (Decrease) to RSR Before Rebate</b>	<b>45,322</b>	<b>101,138</b>	<b>32,003</b>	<b>(42,623)</b>	<b>(33,479)</b>	<b>(10,010)</b>	<b>2,869</b>	<b>9,879</b>	<b>12,738</b>
Rebate to policyholders**	-	(44,097)	(99,308)	(68)	(610)	(659)	(696)	-	-
<b>Increase (decrease) to RSR</b>	<b>45,322</b>	<b>57,041</b>	<b>(67,305)</b>	<b>(42,691)</b>	<b>(34,089)</b>	<b>(10,669)</b>	<b>2,173</b>	<b>9,879</b>	<b>12,738</b>
<b>RSR :</b>									
RSR Balance, Beginning of Year	136,942	147,264	205,601	140,975	102,535	74,775	69,216	76,291	89,751
Prior period adjustment									
Appropriated (to) from Redevelopment Reserve	(35,000)	1,296	2,679	4,251	6,329	5,110	4,902	3,581	3,140
<b>RSR Balance, End of Year</b>	<b>147,264</b>	<b>205,601</b>	<b>140,975</b>	<b>102,535</b>	<b>74,775</b>	<b>69,216</b>	<b>76,291</b>	<b>89,751</b>	<b>105,629</b>
<b>Redevelopment Reserve (RDR) :</b>									
Balance, Beginning of Year	-	35,000	33,704	31,025	26,774	20,445	15,335	10,433	6,852
Appropriated (to) from Rate Stabilization Reserve	35,000	(1,296)	(2,679)	(4,251)	(6,329)	(5,110)	(4,902)	(3,581)	(3,140)
<b>RDR Balance, End of Year</b>	<b>35,000</b>	<b>33,704</b>	<b>31,025</b>	<b>26,774</b>	<b>20,445</b>	<b>15,335</b>	<b>10,433</b>	<b>6,852</b>	<b>3,712</b>
Pure loss ratio (excluding LAE)	84.0%	74.3%	85.6%	86.6%	87.0%	85.1%	84.3%	84.6%	84.8%
Loss ratio (including LAE)	91.6%	82.8%	95.5%	95.9%	95.3%	93.0%	91.8%	91.9%	91.9%
Issuer fee and premium tax ratio	9.0%	9.3%	9.9%	10.0%	10.1%	9.8%	10.0%	9.9%	9.6%
Administrative expense ratio	5.4%	5.5%	6.5%	7.2%	8.0%	7.2%	6.9%	6.6%	6.5%
Traffic safety ratio	2.1%	2.0%	2.5%	2.8%	2.8%	3.0%	3.0%	3.0%	3.0%
<b>Combined Ratio</b>	<b>108.1%</b>	<b>99.6%</b>	<b>114.4%</b>	<b>115.9%</b>	<b>116.2%</b>	<b>113.0%</b>	<b>111.7%</b>	<b>111.4%</b>	<b>111.0%</b>
<b>Minimum Capital Test</b>	<b>160.4%</b>	<b>179.4%</b>	<b>132.2%</b>	<b>60.9%</b>	<b>49.1%</b>	<b>50.6%</b>	<b>56.7%</b>	<b>63.6%</b>	<b>70.9%</b>

\* Forecast Investment Earnings are based on the actual portfolio value as at December 31, 2008

\*\* The rebate in 2008 is the Green Vehicle initiative net of 2007 General Rebate cheques that were staledated in 2008. From 2009 through 2011, the rebate relates to the Green Vehicle initiative.

- 4. Please provide a side-by-side comparison of the actual Statement of Operations for 2007 and 2008 (provided in response to Question 1 above) versus those forecast in Appendix B on Page 26 of the 2007 main application document (amended to reflect the implemented overall 2007 rate level reduction of 7.1%), showing dollar and percentage differences, with accompanying explanatory narrative for any significant variances.**

Please see the following table.



**2007 and 2008 Forecast vs Actual**  
**7.1% Rate Decrease Effective July 1, 2007**  
**SASKATCHEWAN AUTO FUND**  
**Statement of Operations**  
**(000s)**

year ended December 31	Forecast	Actual	Variance	Variance	Note	Forecast	Actual	Variance	Variance	Note
	2007	2007				2008	2008			
	\$	\$	\$	%		\$	\$	\$	%	
<b>Premiums Written</b>										
Net premiums written before discounts	634,920	633,635	(1,285)	-0.2%		652,485	692,089	39,604	6.1%	(4)
Safe Driver Recognition discounts	(76,699)	(69,291)	7,408	-9.7%		(83,650)	(76,110)	7,540	-9.0%	
Business Recognition discounts	(4,268)	(5,098)	(830)	19.4%	(1)	(4,454)	(5,487)	(1,033)	23.2%	(5)
<b>Premiums Written - net</b>	<b>553,953</b>	<b>559,246</b>	<b>5,293</b>	<b>9.6%</b>		<b>564,381</b>	<b>610,492</b>	<b>46,111</b>	<b>20.2%</b>	
<b>Premiums Earned</b>	<b>556,245</b>	<b>557,087</b>	<b>842</b>	<b>0.2%</b>		<b>557,858</b>	<b>587,918</b>	<b>30,060</b>	<b>5.4%</b>	(4)
Claims Incurred	506,629	532,217	25,588	5.1%	(2)	536,196	563,965	27,769	5.2%	(6)
Premium Taxes	27,931	27,970	39	0.1%		28,008	29,510	1,502	5.4%	
Issuer Fees	24,732	27,161	2,429	9.8%		26,735	29,145	2,410	9.0%	
Administrative Expenses	33,885	36,180	2,295	6.8%		33,690	42,332	8,642	25.7%	(7)
Traffic Safety Programs	14,542	13,674	(868)	-6.0%		14,599	16,345	1,746	12.0%	(8)
<b>Total Expenses</b>	<b>607,719</b>	<b>637,202</b>	<b>29,483</b>	<b>4.9%</b>		<b>639,228</b>	<b>681,297</b>	<b>42,069</b>	<b>6.6%</b>	
<b>Underwriting Loss</b>	<b>(51,474)</b>	<b>(80,115)</b>	<b>(28,641)</b>	<b>55.6%</b>		<b>(81,369)</b>	<b>(93,379)</b>	<b>(12,010)</b>	<b>14.8%</b>	
Investment Earnings	62,287	91,349	29,062	46.7%	(3)	65,588	29,405	(36,183)	-55.2%	(9)
Other Income	20,293	20,769	476	2.3%		21,019	21,351	332	1.6%	
<b>Increase to RSR before rebate</b>	<b>31,106</b>	<b>32,003</b>	<b>897</b>	<b>2.9%</b>		<b>5,238</b>	<b>(42,623)</b>	<b>(47,861)</b>	<b>-913.8%</b>	
Rebate to policyholders	(100,000)	(99,308)	692	-0.7%		-	(68)	(68)		
<b>Increase (decrease) to RSR</b>	<b>(68,894)</b>	<b>(67,305)</b>	<b>1,589</b>	<b>-2.3%</b>		<b>5,238</b>	<b>(42,691)</b>	<b>(47,929)</b>	<b>-915.1%</b>	
RSR Balance, Beginning of Year	205,601	205,601				139,598	140,975			
Prior period adjustment										
Appropriated (to) from Redevelopment Reserve	2,891	2,679	(212)	-7.3%		3,800	4,251	451	11.9%	
<b>RSR Balance, End of Year</b>	<b>139,598</b>	<b>140,975</b>	<b>1,377</b>	<b>1.0%</b>		<b>148,636</b>	<b>102,535</b>	<b>(46,101)</b>	<b>-31.0%</b>	
Loss Ratio	91.1%	95.5%		4.5%		96.1%	95.9%		-0.2%	
Issuer Fee and Tax Ratio	9.5%	9.9%		0.4%		9.8%	10.0%		0.2%	
Administrative Expense Ratio	6.1%	6.5%		0.4%		6.1%	7.2%		1.1%	
Traffic Safety Program Expense Ratio	2.6%	2.5%		-0.2%		2.6%	2.8%		0.2%	
<b>Combined Ratio</b>	<b>109.3%</b>	<b>114.4%</b>		<b>5.1%</b>		<b>114.6%</b>	<b>115.9%</b>		<b>1.2%</b>	
<b>Minimum Capital Test</b>	<b>123.5%</b>	<b>132.2%</b>		<b>8.7%</b>		<b>124.6%</b>	<b>60.9%</b>		<b>-63.7%</b>	

Significant variances:

- (1) Business Recognition discount - the BR program was started in 2004 leaving a short history against which to project future trends. The actual BR discount amounted to \$830,000 more than forecast on a small, but growing base.
- (2) Claims incurred were higher than budget due to higher than expected current year damage claims resulting from an unusually severe summer storm season and poor winter driving conditions.
- (3) Investment earnings were substantially higher than budget due to stronger than anticipated realized capital gains. Part of the portfolio was liquidated to raise funds for the \$100 million rebate to policyholders.
- (4) Both premiums written and premiums earned were higher than budget as a result of Saskatchewan's growing economy which resulted in higher than anticipated growth in the number of vehicles insured.
- (5) As noted in (1) above, the BR program is inherently difficult to forecast. In 2006 when this forecast was prepared, the BR discount amount was estimated to grow at slightly more than premium growth. The actual growth was stronger and when applied to a higher base than anticipated, result in BR discounts significantly higher than budget.
- (6) Claim costs were higher than anticipated due to a higher number of insured vehicles. The overall loss ratio in 2008 of 95.9 per cent was comparable to the budgeted loss ratio of 94.9 per cent.
- (7) When estimated in 2006, the initial forecast of 2008 administrative expenses was based on the simplifying assumption of maintaining a 6.1 per cent administrative expense ratio. There were a number of significant developments that the initial forecast did not anticipate (and could not as these developments were not foreseen when the forecast was prepared). The primary development was a change in cost allocation to the "step-down" method which resulted in additional costs being allocated to administrative expenses. Other administrative cost increases included additional salaries and benefits based on a new union contract and costs being allocated to administrative expense from the Auto Fund Redevelopment Project.
- (8) The initial budget was based on spending 2.6 per cent of premiums on traffic safety. The Auto Fund has now committed to a budget of spending three per cent of premiums on traffic safety, which is more reflective of the 2008 actual result.
- (9) The forecast did not anticipate the market downturn in 2008.

**5. For each year from 2005 to 2013, please provide the breakdown of net written premium showing each year's increment due to each of (i) rate changes, (ii) vehicle mix drift (fleet upgrading), and (iii) vehicle fleet growth. For each year from 2000 to 2008, please provide similar detail showing budgeted amounts vs. actual amounts, with accompany explanatory narrative for any significant variances.**

The requested data is shown in the following table:

Calendar Year	Written Exposures	Written Premium After Incentives	Actual Change	Change in Written Exposures		Rate Change	Changes in Incentives	Calculated Change	Budgeted Written Premium	Variance
2001	831,826	\$ 449,066,603							\$ 464,689,528	-3.36%
2002	846,560	\$ 469,350,637	4.52%	1.77%	4.80%	0.00%	2.01%	4.52%	\$ 473,402,121	-0.86%
2003	859,816	\$ 488,644,077	4.11%	1.57%	4.97%	0.00%	2.35%	4.11%	\$ 498,599,170	-2.00%
2004	867,878	\$ 514,989,445	5.39%	0.94%	4.68%	0.00%	0.26%	5.39%	\$ 531,370,630	-3.08%
2005	887,690	\$ 511,886,532	-0.60%	2.28%	5.63%	0.00%	8.00%	-0.60%	\$ 514,051,961	-0.42%
2006	910,610	\$ 552,261,577	7.89%	2.58%	4.41%	0.00%	-0.73%	7.89%	\$ 529,107,971	4.38%
2007	960,950	\$ 553,059,100	0.14%	5.53%	-1.21%	-3.55%	0.24%	0.30%	\$ 566,966,278	-2.45%
2008	1,000,021	\$ 600,963,311	8.66%	4.07%	8.33%	-3.55%	0.09%	8.64%	\$ 587,480,658	2.29%
Projected										
2008	996,027	\$ 612,226,884			4.68%					
2009	1,012,857	\$ 652,896,590	6.64%	1.69%	4.50%	0.70%	0.00%	7.01%		
2010	1,029,971	\$ 716,020,937	9.67%	1.69%	4.25%	3.50%	0.00%	9.72%		
2011	1,047,373	\$ 756,744,053	5.69%	1.69%	4.00%	0.00%	0.00%	5.76%		
2012	1,065,070	\$ 799,154,071	5.60%	1.69%	4.00%	0.00%	0.00%	5.76%		
2013	1,083,066	\$ 844,274,740	5.65%	1.69%	4.00%	0.00%	0.00%	5.76%		

-Please note the July 1, 2007 rate change also rebalanced rates, which impacted the drift. The Saskatchewan economy was quite strong in 2008 and new vehicle purchases outpaced any anticipated drift.

Please refer to the response provided in question 35 for additional explanatory narrative on drift.

**6. Please summarize any changes to the Safe Driver Recognition program and Business Recognition program made since 2005. Please also indicate future initiatives currently planned for these programs.**

Changes to the Safe Driver Recognition and Business Recognition programs since 2005 were:

- On Jan. 1, 2005, Safe Driver and Business Recognition discount levels doubled.
- Since July 1, 2005, drivers with at-fault collisions and related summary offences occurring on the same day have reduced consequences.
- On Jan. 1, 2006, the maximum discount in Safe Driver Recognition was set at 20 per cent (associated with a safety rating of 10). However, long-term safe drivers could continue to earn safety points to achieve a safety rating of more than 10 to mitigate the effects of a future driving incident. Drivers with a safety rating of 10 or more became known as "platinum customers".
- On Nov. 8, 2008, penalties assigned to drivers considered equally responsible for a collision (50-50 collision) were reduced to three demerit points each (rather than six).
- On Nov. 8, 2008, drivers new to the province were given the opportunity to provide full driving histories for consideration under the Safe Driver Recognition program to provide better comparability with existing residents.

- On March 1, 2009, a \$2,500 financial penalty was introduced for driving-related Criminal Code offences resulting in injury or death. Also, five street-racing offences from the Code were introduced to Safe Driver Recognition.
- On April 1, 2009, the date of an offence (rather than date of conviction) became the basis for determining the end of the next clear year under Safe Driver Recognition.

No further initiatives are currently planned for the Safe Driver Recognition program. A review of the Business Recognition program is planned for the fall of 2010. Specific changes have not yet been determined.

**7. Please comment on the extent to which the Safe Driver Recognition program and Business Recognition program merit discounts and demerit penalties can be considered to be actuarially justified, and the implications of this for “fairness in rating.”**

Safe Driver Recognition discounts and demerit penalties and Business Recognition discounts and surcharges are not actuarially determined.

However, the financial impact of discounts and surcharges is attributed back to each class of vehicles as part of the rating process. Demerit revenue is attributed to exposures for each class that is eligible for Safe Driver Recognition. The net impact of these incentives and penalties is therefore absorbed within the rate group where they originate, enhancing fairness among rate groups.

Although the Auto Fund’s discount, surcharge and penalty rates are not determined actuarially, the view of the public, and the Auto Fund, is that it is fair for drivers who exhibit safer driving behaviours to pay less premium than those who are at fault for collisions or who are convicted of offences related to unsafe driving.

**8. Please describe all sources of “Other Income”, including the details of any applicable schedules of fees or charges, and provide financial details by source on an annual basis since 2005. Please also provide a summary of variances between budgeted and actual amounts by source for 2005 to 2008.**

The following schedule outlines all sources of other income and provides actual results and comparison to budget from 2005 through 2008.

	Saskatchewan Auto Fund Other Income (\$000)											
	2008			2007			2006			2005		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
Payment Options:												
Short-Term Registration	6,165	5,995	170	5,962	5,950	12	6,093	6,287	(194)	6,291	6,476	(185)
Auto-Pay	9,841	9,439	402	9,156	8,512	644	8,504	7,894	610	7,868	7,604	264
Total Payment Options	16,006	15,434	572	15,118	14,462	656	14,597	14,181	416	14,159	14,080	79
Salvage Net Profit	5,345	5,128	217	5,651	5,831	(180)	5,632	5,594	38	6,017	7,298	(1,281)
Total Other Income	21,351	20,562	789	20,769	20,293	476	20,229	19,775	454	20,176	21,378	(1,202)

Fees and charges for payment options are as follows:

- Auto-Pay – customers are able to pay for their vehicle registration through monthly automatic bank withdrawals. A down payment of one month is due up front and the remainder, plus a four per cent finance fee is payable equally over the remaining 11 months.
- Short-Term Registration Plan – the short-term fee consists of a flat administration fee of \$11.00 (\$8.50 to SGI and \$2.50 to the Ministry of Finance) plus a variable term fee. The variable term fee is

added to the premium to compensate for the fact that premium dollars are not invested for the full 12-month term assumed in the rate setting process. The variable term fees for 2008 and 2009 are as follows:

<b>Term</b>	<b>2009 Rate (%)</b>	<b>2008 Rate (%)</b>
3 month	2.6	2.5
4 month	2.4	2.2
5 month	2.2	2.1
6 month	1.8	1.7
7 month	1.5	1.4
8 month	1.2	1.1
9 month	0.9	0.8
10 month	0.6	0.6
11 month	0.3	0.3

Salvage net profit represents the gross salvage revenue less direct and allocated expenses. Salvage prices are set based on market prices.

**9. With respect to each payment plan option available to policyholders, please describe how the administrative fees and/or interest charges inherent to these plans relate to the extra expense incurred by SAF and/or investment income foregone by SAF due to the timing and frequency of premium payments.**

There are two payment plan options available to customers, Auto-Pay and the Short-Term Registration Plan. The rates are listed in the response to question 8 above. In both cases, the rates are based on cost-recovery.

Auto-Pay Finance Fee

In the fall of 1996 the Auto-Pay program fee proposal was approved. There has been no change to the four per cent administrative fee since that time.

The amount was arrived at based on recovery of head office processing costs (salaries, forms, postage, stickers, computer processing, PAC cancellations and bank charges), issuer remuneration, and foregone investment income.

Short-Term Registration Plan

The flat fee of \$11.00 is based on recovery of fixed costs relating to the transaction (salaries, forms, postage, computer processing, issuer remuneration and the Ministry of Finance share).

The variable term fee is calculated annually and is based on the five-year average earnings of the Auto Fund portfolio. The calculation considers the foregone revenue based on the number of months the premium is uninvested, and sets the rate to recover that amount of revenue.

With issuer remuneration moving to a commission system based on premiums, both the four per cent administration finance fee for Auto-Pay and the \$11.00 flat fee for the Short-Term Registration Plan will be reviewed prior to the next rate program.

**10. Regarding investment income:**

- a) **Please provide a revised projection of investment income for 2009 and 2010 considering actual results to the end of May 2009.**

The following table reflects anticipated investment income for 2009 based on a forecast investment return of 2.83 per cent for 2009 and 3.99 per cent for 2010.

<b>Forecast for Fiscal Year ending December 31</b>	<b>2009 \$000s</b>	<b>2010 \$000s</b>
Investment Yield Forecast	31,230	31,420
Capital Gains Forecast Including Investment Writedowns*	(33,109)	4,180
Total Investment Income	(1,879)	35,528

<b>Preliminary Year to Date as at May 31, 2009</b>	<b>\$000s</b>
Investment Yield	12,405
Capital Gains (losses including writedowns)	(15,846)
Total Investment Income	(3,441)

\*Includes writedown on pooled international equity fund

- b) Please provide a schedule showing the components of investment income (cash flow from invested assets, and gains/losses realized from the sale of investments) from 2005 to 2008, and forecast for 2009.

<b>Investment Income Breakdown</b>	<b>2005 \$000s</b>	<b>2006 \$000s</b>	<b>2007 \$000s</b>	<b>2008 \$000s</b>	<b>2009* \$000s</b>
Investment Yield (interest, dividends, rents)	36,127	44,050	48,172	41,063	40,202
Realized Capital Gains	31,552	34,619	43,177	(11,658)	10,401
Total Investment Income	67,679	78,669	91,349	29,405	50,603

\* Based on original forecast included in proposal.

- c) Please provide a schedule showing the components of other comprehensive income (changes in unrealized gains/losses on investments) for 2007 and 2008, and forecast for 2009.

<b>Other Comprehensive Income</b>	<b>2007 \$000s</b>	<b>2008 \$000s</b>	<b>2009 \$000s*</b>
Opening Value	104,363	68,300	(21,122)
Unrealized Gain (Loss) in on Available for Sale Investments during the year	7,114	(101,079)	3,337
Reclassification for Realized Losses (Gains) on Sale of Investments net of Investment Writedowns	(43,177)	11,657	
Closing Value	68,300	(21,122)	(17,785)

\* 2008 closing was not known when the initial 2009 forecast was prepared. The 2009 amounts shown here are from the revised forecast prepared as reflected in the response to Question 1 above. The amount reflects the anticipated growth in the real estate portfolio. No other capital gains were forecast and none were realized.

- d) Please discuss how frequently the benchmark portfolio weights are reviewed and possibly subject to change.

The Statement of Investment Policies and Goals (SIP&G) is reviewed at least annually. The benchmark portfolio weights can be reviewed at any time, but are formally assessed and could possibly be subject to change during the annual policy review. The SIP&G was last reviewed in the fall of 2008 with new benchmark portfolio weights implemented effective Dec. 1, 2008.

- e) Please provide the graph, with underlying data, referenced in the final paragraph of Section 1.1.2 of the filing supplement provided on May 22, 2009.

Please see the attached updated filing supplement that had originally been provided on May 22, 2009.

## **Auto Fund Financial Requirements**

The following section provides a detailed explanation of financial components that impact the Statement of Operations and five-year forecast in Appendix B and the Annual Report. It is important to remember that the proposed rate indication is an actuarially based rate indication and not a financial based rate indication.

### **1.1 Revenues**

#### **1.1.1 Premiums**

As demonstrated in the financial forecast in Appendix B, net Auto Fund premiums will increase from approximately \$588 million in 2008 to \$632 million in 2009, when the proposed 4.2 per cent rate increase is applied. The per cent growth from 2008 to 2009 is 6.5 per cent. This larger than proposed rate increase is due to other factors that have a significant impact on Auto Fund premiums:

- volume of vehicles;
- mix of vehicles; and,
- discounts and surcharges under driver recognition programs.

#### **Volume of Vehicles**

Because the Auto Fund is a monopoly, it insures all vehicles in the province and its projected premium revenue changes based on the number of vehicles insured in the province. Over the past 9 years, overall growth for vehicles excluding trailers has been 1.58 per cent. Exhibit 2 of Appendix B.1 in the Actuarial Support Documents section of the application details this information.

#### **Vehicle Mix**

Vehicle owners upgrading to newer models impacts the mix of vehicles in the province. As an example, a Saskatchewan resident upgrades to a 2009 model vehicle and sells their 2000 vehicle. The 2009 model will cost more to insure because it is more expensive to repair or replace. In recent years the premium mix has generated, on average, an annual premium increase of over three per cent for the Auto Fund. The combined growth in premiums for mix and volume is projected to be 4.5 per cent in 2009, assuming no changes in rates. However, the mix is expected to decrease to four per cent in 2010 due to the impact of the rate change and rebalancing proposed in this application.

#### **Safe Driver Recognition**

The majority of customers in Saskatchewan qualify for Safe Driver Recognition (84 per cent). To the end of 2008, the program provided over \$317 million in discounts to vehicle owners and will provide an estimated \$77 million in discounts in 2009 and \$82 million in

2010. The program also collects revenue from drivers who are in the penalty zone of the program at the time of the incident. While rating rules and discount levels under Safe Driver Recognition are to be accepted by the panel as given, more details about this program are provided in the Proposal for Rate Adjustment and under the Safe Driver Recognition tab of the binder.

### **Business Recognition**

Approximately 13 per cent of Saskatchewan vehicle owners qualify for the Business Recognition program, which was implemented on May 1, 2004. To the end of 2008, the Auto Fund will have provided approximately \$18 million in discounts to Saskatchewan businesses, and will provide an additional estimated \$4.8 million in discounts in 2009 and \$5 million in discounts in 2010.

While rating rules and discount levels under Business Recognition are to be accepted by the panel as given, more details about this program are provided in the Proposal for Rate Adjustment and under the Business Recognition tab of the binder.

#### **1.1.2 Investment Income**

The Auto Fund has an investment portfolio of approximately \$1 billion. The portfolio is derived from two main sources: (1) the accumulation of profits and losses over time in the RSR (roughly \$100 million); and, (2) money set aside and invested to meet future liabilities (primarily claim liabilities of over \$900 million).

For private insurers whose goal, at minimum, is to break even on their insurance operations, the investment portfolio in large part is used to provide profit for the company. However, as the Auto Fund operates on a break-even basis over time, its portfolio is used to reduce rates for vehicle owners. Over the 10 years ended December 31, 2008, the Auto Fund's portfolio has provided investment income equal to 11 per cent of premiums annually, resulting in lower rates for its customers.

Section 92 of *The Automobile Accident Insurance Act* authorizes the investment of monies by the Auto Fund subject to the restrictions and limitations contained in the *Insurance Companies Act (Canada)*. This legislation provides the framework for the Auto Fund's investment policy which is reviewed and approved annually by the Board of Directors. Among other considerations, the policy provides detailed requirements for permissible investments, quality and quantity guidelines and asset mix parameters. A copy of the Auto Fund's Statement of Investment Policies and Goals is included under a separate tab in our submission document.

Because a large portion of insurance companies' portfolios are monies set aside to meet future claim obligations, the legislation requires a substantial amount of the portfolio to be invested in fixed income investments. The table below illustrates the asset allocation policy parameters for investment of the Auto Fund's portfolio.



	Minimum %	Benchmark* %	Maximum %
Canadian equities	<u>9</u>	<u>15</u>	<u>20</u>
U.S. equities	0	5	7
Non-North American equities	<u>0</u>	<u>5</u>	<u>7</u>
Foreign equities	<u>4</u>	<u>10</u>	<u>14</u>
Total equities	<u>13</u>	<u>25</u>	<u>29</u>
Real estate	<u>0</u>	<u>5</u>	<u>7</u>
Total Equities and Real Estate	<u>13</u>	<u>30</u>	<u>35</u>
Bonds of Canadian issuers (1 year & over)	50	62	85
Mortgages	<u>0</u>	<u>5</u>	<u>7</u>
Total bonds and mortgages	<u>55</u>	<u>67</u>	<u>85</u>
Short-term investments and cash	0	<u>3</u>	20
		100	

**Convertible securities and preferred shares are considered to be equities in the asset mix guidelines.**

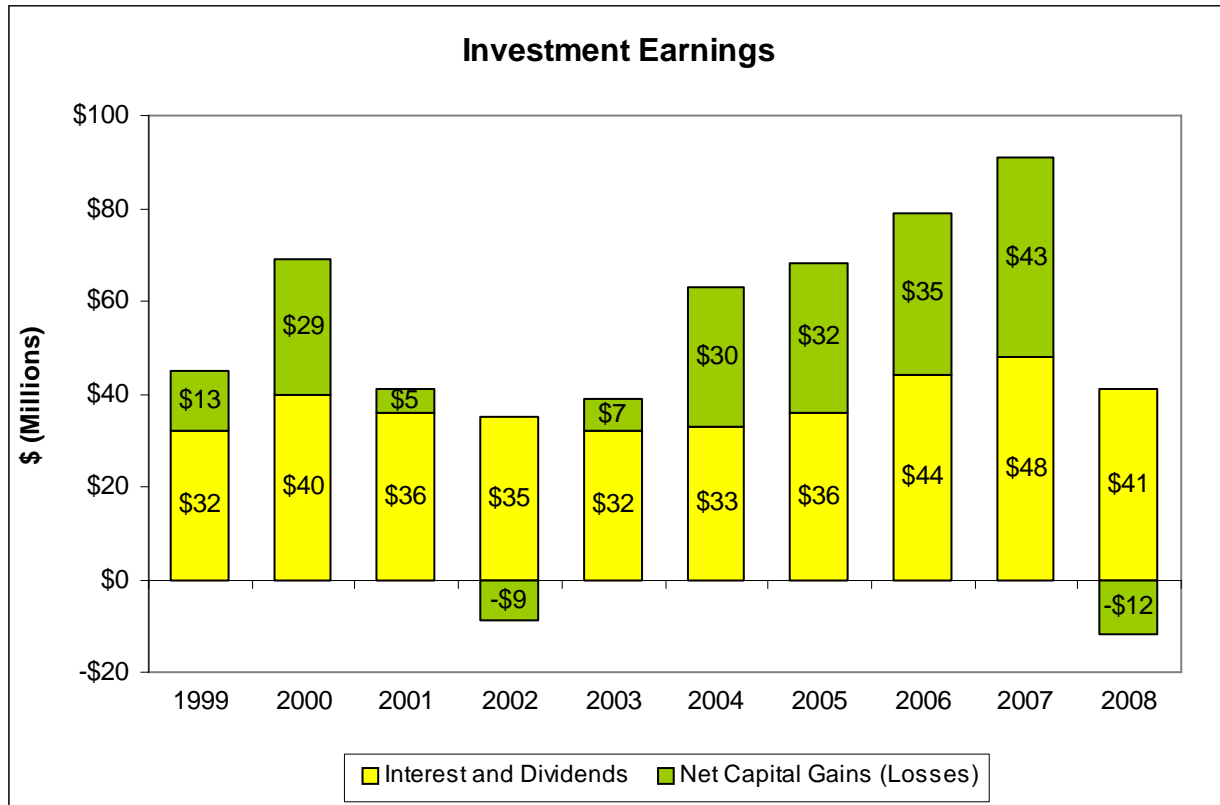
**\* Effective December 1, 2008**

The Auto Fund uses the services of a professional investment management firm which has been successful in providing above average investment returns for the Auto Fund. The investment manager's performance is measured against a benchmark portfolio, weighted with investment returns from various market indices, consistent with the Auto Fund's portfolio. Over the 10-year period ended December 31, 2008, the investment manager returned an additional 0.7 per cent per year over the benchmark portfolio return.

Investment earnings for the Auto Fund are derived from two main sources: (1) cash flow from invested asset, such as interest and dividends; and, (2) gains realized on the sale of investments. While investment assets may increase or decrease in value, the Auto Fund does not realize this gain or loss until the investment is sold.

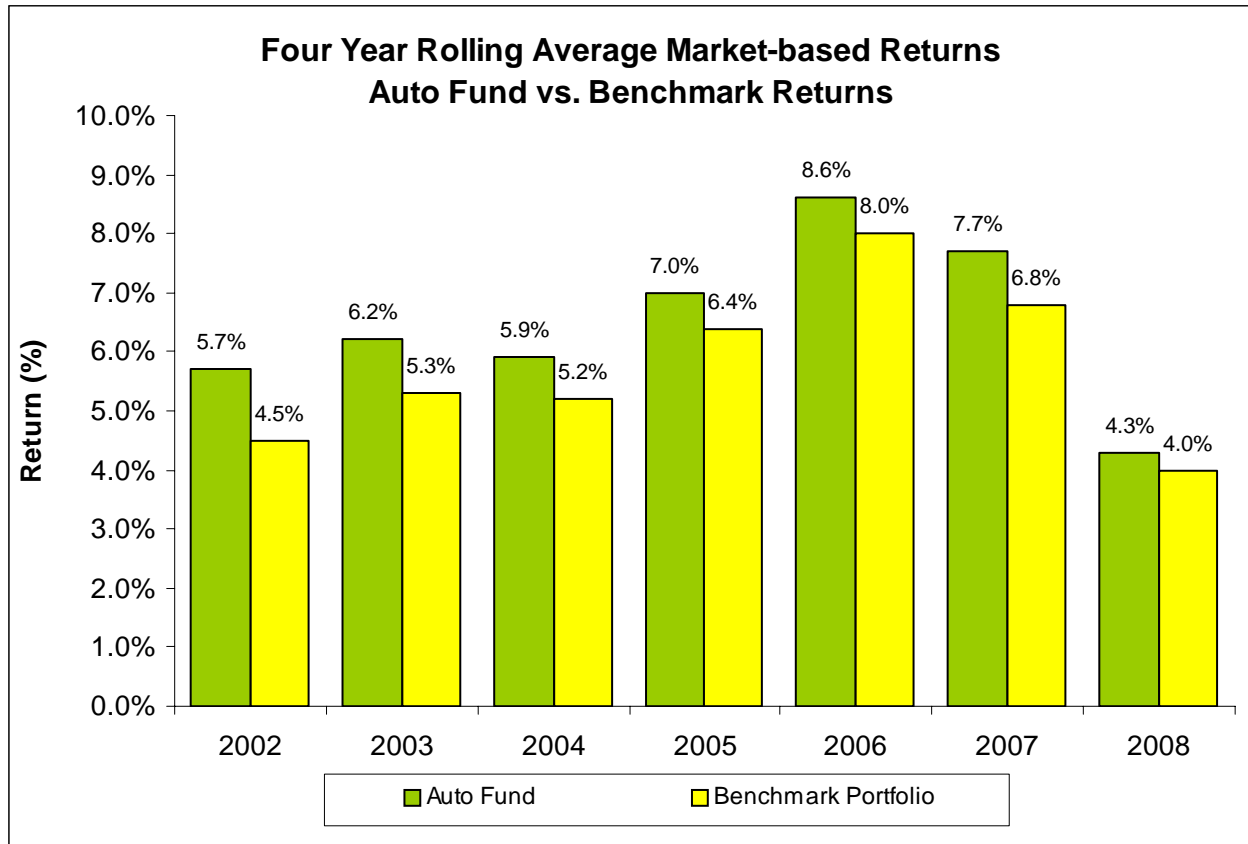
Using asset class return forecasts prepared as at March 31, 2008, the initial 2009-2010 return forecast for the Auto Fund portfolio was 5.18 per cent. A revised estimate was prepared using December 31, 2008 asset class projections which provided a return forecast of 3.99 per cent for the Auto Fund portfolio.

The following graph illustrates the major components of investment earnings over the past 10 years. These investment earnings are calculated using cost-based accounting principles and include interest, dividends, net realized capital gains and losses and investment write-downs.



For purposes of portfolio management, a market-based rate of return is calculated which captures all interest and dividend income, as well as the impact of the change in market value of securities, both realized and unrealized.

The primary investment performance objective for the Auto Fund is to earn a market-based return in excess of a benchmark portfolio return. The asset mix for the benchmark portfolio is set by the Board to be consistent with the Auto Fund’s risk profile and is reviewed on an annual basis. The investment manager is permitted to vary the actual asset class weights around the benchmark portfolio, within the policy asset mix guidelines. The benchmark portfolio return is calculated by applying the benchmark portfolio weights to capital market index returns. While the portfolio’s rate of return is compared to the benchmark portfolio return on a quarterly basis, the performance measure is expected to be met over four years, a long enough period to capture a full market cycle. This longer-term measure is appropriate as it recognizes that the effectiveness of investment management styles varies depending on the market environment. Performance relative to the benchmark portfolio varies from year to year, but over rolling four-year periods, investment performance remains satisfactory as illustrated in the following graph.



### 1.1.3 Other Income

The Auto Fund’s other income includes income from premium payment options, which consists of charges for administration and lost investment income for short-term financing (insurance terms of three months to 11 months) and for monthly payment financing. Also included in other income is profit from salvage operations, which consists of salvage recovery from total loss vehicles through sales of whole vehicles and vehicle parts. The following table provides a breakdown of other income by category for 2008 to 2010.

	2008 (000's)	2009 (000's)	2010 (000's)
Payment Options:			
Short-Term Registration	6,189	6,568	7,322
Auto Pay	9,798	10,570	11,571
Salvage Income*	13,909	14,844	15,150
<b>Total Other Income</b>	<b>29,897</b>	<b>31,983</b>	<b>34,044</b>

\*Includes salvage purchases from claims in addition to net profit from salvage operations.

## 1.2 Expenses

### 1.2.1 Claim Costs

#### **Actuarial Estimation**

For insurance companies, claim costs represent the largest expense and for the Auto Fund on average they represent eighty per cent of total costs. To determine claim costs, insurance companies utilize the services of professional actuaries. Actuaries consider many different factors to estimate claim costs, including historical trends involving claim payments, economic conditions, inflation and the characteristics of the class of business.

Claim costs are grouped into accident years, which is the year in which the claim occurred. At the end of each accident year, the actuary estimates the total ultimate costs for all claims that have occurred and that are reported during the current accident year along with those that have occurred but have not yet been reported to the insurance company. As well, at the end of the fiscal year, the actuary reviews prior accident years to determine if the estimates are still appropriate. If an adjustment is required on prior accident years, it is included in the current year's financial statements. It is a reduction to claim costs if the estimate was too high, which is commonly referred to as a redundancy and an increase to claim costs if the estimate was too low, which is described as a deficiency.

For the Auto Fund, claim costs are separated into three categories:

- Damage claims – damages to a vehicle due to a collision or other occurrence such as hail, fire or theft
- Liability claims – damages to property of others, or injuries caused to others
- Personal injury claims – injury or death benefits if involved in an automobile accident; includes no-fault injury and tort injury

Generally, damage claims represent 66 per cent of total claim costs in a loss year, with the injury and liability component accounting for 44 per cent. Damage claims are typically resolved and paid fairly quickly with 76 per cent of total claim costs paid in the year the loss is reported. Within 12 months of the end of the loss year, 99 per cent of damage claim costs are paid. Because these claims (referred to as short-tail claims) are settled fairly quickly, there is minimal risk that the estimate by the actuary of the unpaid claims will create a redundancy or deficiency that will materially impact the current year financial results.

Injury and liability claims, however, take much longer to resolve than damage claims. For the injury program, only 17 per cent of total estimated costs are paid in the year the loss is reported, and for liability claims only four per cent of total estimated costs are paid in the year the loss is reported; compared to 76 per cent for damage. As an example of the long-term nature of these claims (referred to as long-tail claims), for some catastrophic injuries the no-fault injury program will make claim payments for the remainder of the

person's life. As well, the no-fault program provides lifetime coverage for traffic accident-related injuries. Therefore, a claim file could be dormant with no payments for 10 to 20 years and then be reopened because the injured party had a reoccurrence of the injury requiring medical treatment. These examples illustrate the uncertainty inherent in estimates for these types of claims. Other factors will also have an impact on the estimate for these claims, such as inflation (no-fault benefits are indexed to inflation), medical innovations and rehabilitation programs.

At implementation of the no-fault injury program in 1995, the actuary had limited information to rely on in determining claim costs and it was prudent to estimate claims conservatively. The actuary now has over 13 years of historical data and experience with the injury program. In the last several years, actuarial estimates have been revised resulting in material redundancies, which have positively impacted the financial results. While 13 years of data certainly provides some comfort that the Auto Fund is in a better position to estimate injury costs, factors such as reoccurrence rates are very difficult to anticipate 10 to 20 years into the future. While the Auto Fund's objective is to keep estimates as accurate as possible with minimal changes to prior-year claim estimates, given the nature of this program, changes are inevitable in the future.

No costs are included in the financial results for a change in estimates of prior-year claims.

### **Accident Year Costs**

Accident year costs can change significantly from year to year for the Auto Fund, but generally on average will increase each year.

Damage claim costs typically increase annually as the cost to repair or replace vehicles and property rises each year as a result of several factors, including:

- insuring newer vehicles which cost more to replace and repair;
- technological advances in vehicles are more expensive to replace and repair; and
- increases in vehicle parts prices and labour rates to repair vehicles.

Since 2000, damage loss year costs have increased on average by 5.6 per cent per year, with the largest growth in 2007 at 12.2 per cent, primarily due to significant winter storm activity. In developing damage loss cost estimates, historical trends are utilized to assist in developing the budget. For 2009, damage claims are forecasted to increase by 5.7 per cent.

Injury claims will also generally increase each year as no-fault injury and tort accident benefits are indexed to inflation. Since 2000, injury costs have increased on average by 3.8 per cent each year. However, there is a larger variance from year to year than for damage claims due to a lower volume of claims and a higher average cost per claim. With a smaller volume of claims and a large average cost per claim, increases in the number of claims can significantly impact the total ultimate costs for the loss year. Since

2000, the largest increase was ten per cent in 2003 and the largest decrease was 8.7 per cent in 2004. The 2009 forecast assumes a 14.6 per cent increase in loss costs over 2008.

### **1.2.2 Insurance Issuance Costs**

Insurance issuance costs include a five per cent premium tax charge on insurance premiums, which is collected and remitted to the provincial government. The other component of issuance costs is issuer fees, which is compensation paid to Auto Fund motor licence issuers for driver's licence issuance and vehicle insurance transactions. The issuer fee accounts for 4.3 per cent of total Auto Fund costs.

### **1.2.3 Administrative Expenses**

Administrative expenses consist of operating expenses such as salaries, infrastructure and system support costs. Operating expenses in relation to total costs is approximately 6.2 per cent. The other component of administrative expenses is traffic safety costs. These costs consist of programs, sponsorship and advertising associated with promoting traffic safety. The goal of this investment is to provide social and economic benefits through the promotion of safe driving, which reduces accidents. The cost of the safety traffic program in relation to total costs is 2.4 per cent.

## **1.3 Rate Stabilization Reserve**

More details about the RSR are provided in the Proposal for Rate Adjustment and under the Rate Stabilization Reserve tab of the binder.

## **1.4 Summary of Financial Requirements and Rationale for Recommendation**

The actuarial rate indication showed that premium revenue needs to increase by 4.2 per cent to allow the Auto Fund to break even for policies sold between November 1, 2009 and October 31, 2010. However, the inherent difficulty that all insurance companies face (including the Auto Fund) is pricing insurance products in advance of knowing what claim costs are.

Volatility in claim costs is caused by many factors the Auto Fund has no control over. These include winter driving conditions and summer storm activity that cause fluctuations in accident frequency (number of claims) and severity (average cost per claim) where small variations can have a significant impact on financial results in any year. Increases in parts prices and labour rates and insuring newer vehicles also increase the cost to repair or replace vehicles. In addition, there is complexity associated with determining the cost of injury claims today when benefits for some customers are provided for life.

Other factors, such as investment returns and vehicle mix also impact financial results. The following illustrates how a one per cent change in the following can affect the overall rate indication:

- A 1 per cent increase in vehicle drift will change the rate indication from 4.2 per cent to 2.2 per cent (2 per cent impact); and
- A 1 per cent decrease in investment earnings will change the rate indication from 4.2 per cent to 5.3 percent (1.1 per cent impact).

The uncertainty of the above factors requires the Auto Fund to proceed prudently in reducing rates. The recommendation ensures adequacy in rates by proposing an increase of 4.2 per cent. The recommendation also proposes reasonable rate adjustments to ensure customers are not subject to rate shock.

- f) Please discuss the nature and extent of SAF’s exposure to currency exchange risk, and quantify the impact, if any, of forecast US exchange rates on forecast investment income for 2009 and 2010.**

The Auto Fund is subject to changes in the U.S./Canadian dollar exchange rate on its U.S. equity investment portfolio and its EAFE (Europe, Australasia and Far East) currencies through its investment in the non-North American Pooled Fund. Exposure to both U.S. equities and non-North American equities is limited to a maximum seven per cent each of the market value of the total investment portfolio. At Dec. 31, 2008, the Auto Fund’s exposure to U.S. equities was 6.3 per cent (2007 – 5.2 per cent) and its exposure to non-North American equities was 4.8 per cent (2007 – 5.2 per cent).

The Auto Fund’s exposure to foreign exchange risk within its bond and debenture portfolio is limited to a maximum five per cent of the market value of the bond and debenture portfolio. At Dec. 31, 2008, the Auto Fund had no foreign exchange exposure within its bonds and debentures.

The Auto Fund does not forecast foreign exchange rates. However, at Dec. 31, 2008, a 10 per cent appreciation/depreciation in the Canadian dollar versus U.S. dollar exchange rate would result in an approximate \$7 million decrease/increase in other comprehensive income and accumulated other comprehensive income. The Auto Fund investment portfolio is expected to maintain the same benchmark weightings for 2009 and 2010 resulting in no change in foreign exchange risk.

**11. Regarding repair / rehabilitation costs:**

- a) Please discuss whether there is any limitation on the type of recycled or aftermarket parts that are allowed for vehicle repairs.**

Effective Jan. 1, 2004 SGI and the repair industry agreed on the use of Certified Aftermarket Parts Association (CAPA) approved aftermarket body repair parts. The repairers and SGI must inform the customer of the use of aftermarket body repair parts. The “Technical Committee,” comprised of representatives from SGI and the repair industry, have developed procedures and guidelines to specify the use of aftermarket body repair parts.

As well, the use of recycled parts in the repair process is common practice for the repair of collision damaged automobiles. Only quality recycled parts are used for the repairs of vehicles.

- b) Please discuss whether SAF has any concerns related to liability arising from the use of recycled or aftermarket parts.**

Only CAPA-approved and quality recycled original equipment manufacturer (OEM) parts are used in the repair process, which is completed by SGI-accredited repair facilities. Any issues that arise are dealt with on a priority basis and investigated by SGI’s Claims Technical Services department. This department monitors repair techniques and is represented at the “Technical Committee” (noted in 11 a).

- c) Please provide a schedule showing the costs of recycled, aftermarket and OEM parts used in auto repairs from 2005 to 2008 and forecast for 2009, accompanied by the estimated savings from the use of recycled or aftermarket parts.**

**Cost of Parts:**

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>Forecast 2009</b>
Recycled	\$25,101,785	\$25,886,614	\$26,825,918	\$27,548,582	\$28,440,000
Aftermarket	6,972,718	7,190,726	7,451,644	7,652,384	7,900,000
OEM	37,652,677	38,829,922	40,238,878	41,322,874	42,660,000



Total	\$69,727,180	\$71,907,262	\$74,516,440	\$76,523,840	\$79,000,000
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**Estimated Savings With the Use of Recycled and Aftermarket parts:**

	2005	2006	2007	2008
Recycled	\$11,431,643	\$11,685,747	\$12,565,632	\$13,087,971
Aftermarket	4,194,082	7,321,538	9,477,350	10,309,910

**d) Please provide a breakdown of overall auto repair costs into labour, paint allowance, shop material, glass repair, air-bag costs and other costs, since 2005.**

	2005	2006	2007	2008
Labour	\$64,760,518	\$67,583,705	\$73,873,344	\$73,893,341
Paint allowance	13,663,791	14,187,266	15,090,719	15,340,105
Shop material & other	3,668,417	3,958,059	4,194,152	4,688,324
Glass repair	312,738	338,758	346,869	469,431

We do not track air-bag costs separately. This information can be extracted and we have arranged for this in the past for analysis for the years 2006 and 2007. Airbag part costs for 2006 were \$ 2,427,409 and for 2007 they were \$ 2,837,358. Mitchell International would require three weeks to prepare such a report for 2005 and 2008.

Since 2004, side curtain air-bags have become standard equipment on most vehicles. The actual cost of the air-bag modules and the related control/activation units is one factor in repairs. As well, air-bag deployment results in collateral damage such as dash boards, steering wheel, glass, head liners, seatbelt assemblies, pre-tensioners and seat cushions/covers that have sensors. In isolation the air-bag costs don't capture the entire cost of replacement. In preparing an appraisal estimate of damage for a vehicle, the collateral damage from the air bag deployment and damage from the collision are not separated and in many cases there may be some overlap.

For purposes of addressing this question we have obtained the following information to provide an example of how the costs have increased for the common airbag part components on a GMC Envoy:

	2005 \$	2008 \$
Drivers Frt Module	743	807
Pass Frt Module	844	917
Air Bag SDM *	898	1000
Side Sensor	137	207
Side Curtain	696	787

\*SDM - Sensing Diagnostic Module - controls the safety restraint system and provides diagnostic info on system

**e) Please provide a schedule of labour rates paid for auto damage repair, by class. Provide data from 2005 to 2008 and forecast for 2009.**

Maximum body/paint hourly labour rate (\$)	2005	2006	2007	2008	2009
Accredited car/light truck	52.35	53.92	55.54	57.76	67.00
Accredited large truck (>12,000 lbs GVW)	58.99	60.76	62.58	65.08	67.00
Accredited Refinish	52.35	54.57	56.21	58.46	67.00
Non-accredited	35.35	35.35	35.35	35.35	35.35

<b>Max frame/mechanical hourly labour rate (\$)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Car/light truck frame	55.94	55.94	57.62	59.92	67.00
Truck >12,000 lbs GVW frame	62.30	62.30	64.17	66.74	67.00
Mechanical labour rate for operations outlined in the appraisal policies	52.35	80.00	82.40	85.70	67.00

Effective March 1, 2009, a blended rate of \$67.00 was agreed to with the repair industry organizations in Saskatchewan (SADA and SAAR) for all car and light truck operations.

Effective May 1, 2008, an additional category of rates for large trucks was implemented. Prior to that large truck rates was the rate noted above for Truck>12,000 lbs GVW.

<b>Maximum body/refinish hourly labour rate (\$)</b>	<b>May 1/08</b>	<b>May 1/09</b>
Accredited heavy truck > 19,500 GVW	77.50	89.36
Accredited refinish – heavy truck	77.50	89.36

<b>Maximum frame/mechanical hourly labour rate (\$)</b>	<b>May 1/08</b>	<b>May 1/09</b>
Frame heavy truck > 19,500 GVW	80.40	92.70
Mechanical labour rate for operations	91.57	105.58

**f) Please describe how, and how frequently, labour rates are determined.**

Car and light truck repair labour rate discussions occur between SGI and representatives from the Saskatchewan Automobile Dealers Association (SADA) and the Saskatchewan Association of Automobile Repairers (SAAR) on an annual basis unless agreement is reached for a longer term. Discussions will include the repair industry profitability, the ability to attract and retain employees in the repair industry and changes in repair techniques and requirements which constantly evolve with the repair of new vehicles.

Heavy vehicle repair labour rate discussions occur between SGI and the Commercial Vehicle Repairers Association of Saskatchewan (CVRAS) on an annual basis.

**g) Please provide a schedule showing salvage revenue from written-off vehicles since 2005.**

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Salvage Revenue \$	22,355,548	22,643,283	23,773,475	24,788,977

**h) Please discuss the controls SAF has in place to ensure that written-off and unsafe vehicles are not re-registered.**

Since 1987, the *Vehicle Inspection Regulations* administered by the Auto Fund have required written-off (total loss) vehicles to pass a mechanical fitness inspection before allowing subsequent registration. In 2002, this program, as part of a National Stolen and Wrecked Vehicle Monitoring Program, was expanded to require written-off vehicles that have sustained structural damage or have evidence of structural damage or corrosion that would jeopardize the structural integrity of the vehicle to also pass a body (structural) integrity inspection. Once the vehicle passes the required inspections, the vehicle is branded as a rebuilt total loss vehicle as a consumer protection service. If SGI, as administrator, determines the total loss vehicle cannot be repaired in accordance with industry standards or it is not in the public's best interest to allow registration, the vehicle is deemed non-repairable and is not eligible for further

registration. The Auto Fund provides the same protection against out-of-province total loss vehicles by checking for the status of each imported vehicle prior to permitting registration in Saskatchewan. Saskatchewan's written-off/total loss vehicle inspection program does not include motorcycles, snowmobiles or trailers not equipped with air brakes.

Section 113 of *The Traffic Safety Act* prohibits anyone from operating a vehicle on a highway that is not equipped in accordance with the Act and its regulations. Law enforcement routinely enforces this requirement by authority of section 279 of *The Traffic Safety Act*. Since 1997, the Auto Fund has supported law enforcement's efforts to make deficient and unsafe vehicles compliant or safe through a program referred to as the unsafe vehicle program. This program allows a law enforcement officer to report unsafe vehicles to SGI, as administrator, to ensure the vehicles are made safe prior to subsequent registration or renewal of registration. This may include the termination of the existing registration of an identified unsafe vehicle. The Auto Fund also provides related training and technical support to law enforcement.

Since 1994, Saskatchewan has required used vehicles that have most recently been registered, licensed or titled in another jurisdiction, to pass inspection to ensure the roadworthiness of the vehicle prior to registration in Saskatchewan.

**i) Please confirm that SGI follows rates determined by Health Saskatchewan for medical services.**

SGI reimburses the Ministry of Health for hospital and physician services provided to individuals injured in motor vehicle collisions. This is done by way of contract and quarterly payments to the Ministry of Health. This contract also includes the insured portion of chiropractic treatments. For the uninsured portion of chiropractic visits, SGI follows the rates determined by Saskatchewan Health. For other rates, such as outpatient physiotherapy visits for motor vehicle collision clients, Saskatchewan Health does not provide coverage for nor do they determine the rate. In instances like this SGI negotiates the rate with the health care provider association.

**j) Please provide a schedule of medical services rates since 2005.**

<b>Treatment</b>		<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
		<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Chiropractic	Initial	20	22	22	23	23
Chiropractic	Subsequent	14	16	16	17	17
Massage	Initial	25	25	25	25	31
Massage	Subsequent	25	25	25	25	30
Physiotherapy	Initial	75	75	75	75	76.88
Physiotherapy	Subsequent	31.75	31.75	33.75	33.75	34.60
Acupuncture	Initial	55	55	55	55	55
Acupuncture	Subsequent	40	40	40	40	40
Voc Rehab		90/hr	90/hr	90/hr	90/hr	90/hr
Occup Therapy		90/hr	90/hr	90/hr	90/hr	90/hr

**12. In general terms, discuss the attribution rules followed by SAF in assigning claims costs by class of vehicle.**

The claims system captures a number of data elements related to a claim including personal identification code (pic), plate, at-fault indicator, as well as financial information sorted by the applicable

coverages. The “vehicle experience” reporting extracts information from the claims system and performs the attribution process.

For damage claims the at-fault vehicle is attributed with the claim costs for all of the vehicles involved.

For injury claims the claim costs are allocated to the vehicle that the injured person was travelling in at the time of the collision.

**13. For each year from 2005 to 2013, please provide the breakdown of claims incurred, by coverage, including separation into frequency and severity components. For each year from 2005 to 2008, provide similar detail showing budgeted vs. actual amounts, with accompanying explanatory narrative for any significant variances.**

Please see the following tables that show the actual earned exposures, ultimate claim counts, ultimate claims incurred, frequency and severity for loss years 2000 to 2008. The values for loss years 2009 and 2010 have been projected using the same assumptions as in Appendix B.1 from the actuarial support documents. Claim counts are only projected out as far as the calendar years encompassed by the rating year in question, and as such, the 2011 to 2013 loss years have not been provided. The values in the attached tables are on the same basis as the values that were used to produce the Damage and Injury Severity and Frequency graphs as included in the May 21, 2009 presentation to the Panel.

Also attached is the comparison of actual versus budgeted claim counts, claims incurred and severity for years 2005 to 2008.

Loss Year	Earned Exposures incl Trailers	Damage				Care			
		Ultimate Claim Count	Ultimate Losses in \$000s	Frequency %	Severity	Ultimate Claim Count	Ultimate Losses in \$000s	Frequency %	Severity
2000	825,382	98,124	214,693	11.89	2,188	804	8,145	0.10	10,127
2001	823,289	95,229	214,767	11.57	2,255	881	9,142	0.11	10,380
2002	835,661	89,618	236,928	10.72	2,644	933	9,451	0.11	10,126
2003	850,996	84,847	257,898	9.97	3,040	991	10,465	0.12	10,560
2004	862,853	82,593	260,886	9.57	3,159	1,049	9,746	0.12	9,291
2005	878,909	81,848	264,456	9.31	3,231	957	9,175	0.11	9,589
2006	895,266	83,305	279,734	9.31	3,358	1,035	9,366	0.12	9,051
2007	931,156	91,898	315,169	9.87	3,430	1,198	10,110	0.13	8,441
2008	980,431	91,777	318,936	9.36	3,475	1,220	10,128	0.12	8,299
2009	1,007,608	95,990	341,942	9.53	3,562	1,254	10,721	0.12	8,548
2010	1,035,537	100,396	366,616	9.70	3,652	1,289	11,349	0.12	8,805

Loss Year	Earned Exposures incl Trailers	Income Replacement				Death Benefits			
		Ultimate Claim Count	Ultimate Losses in \$000s	Frequency %	Severity	Ultimate Claim Count	Ultimate Losses in \$000s	Frequency %	Severity
2000	825,382	1,505	40,090	0.18	26,635	144	9,710	0.02	67,416
2001	823,289	1,411	33,532	0.17	23,773	171	13,758	0.02	80,347
2002	835,661	1,512	34,456	0.18	22,785	143	12,892	0.02	90,138
2003	850,996	1,572	33,032	0.18	21,019	141	16,539	0.02	117,289
2004	862,853	1,510	29,019	0.18	19,214	132	14,404	0.02	109,027
2005	878,909	1,466	30,394	0.17	20,737	151	16,598	0.02	109,844
2006	895,266	1,445	32,192	0.16	22,283	130	15,025	0.01	116,017
2007	931,156	1,539	35,324	0.17	22,947	137	19,032	0.01	138,469
2008	980,431	1,510	35,579	0.15	23,555	147	17,386	0.02	118,139
2009	1,007,608	1,552	38,851	0.15	25,027	151	19,078	0.02	126,142
2010	1,035,537	1,595	42,424	0.15	26,592	155	20,936	0.02	134,688

Loss Year	Earned Exposures incl Trailers	Medical Expenses				Permanent Impairment			
		Ultimate Claim Count	Ultimate Losses in \$000s	Frequency %	Severity	Ultimate Claim Count	Ultimate Losses in \$000s	Frequency %	Severity
2000	825,382	5,950	31,404	0.72	5,278	1,011	15,264	0.12	15,095
2001	823,289	5,629	32,199	0.68	5,720	960	15,450	0.12	16,088
2002	835,661	5,741	32,079	0.69	5,588	943	13,772	0.11	14,601
2003	850,996	5,995	35,864	0.70	5,982	997	16,725	0.12	16,774
2004	862,853	5,934	32,958	0.69	5,554	1,000	14,170	0.12	14,174
2005	878,909	5,423	31,869	0.62	5,876	823	12,843	0.09	15,606
2006	895,266	5,298	33,915	0.59	6,401	900	13,864	0.10	15,405
2007	931,156	5,379	37,125	0.58	6,901	889	14,777	0.10	16,619
2008	980,431	5,636	39,986	0.57	7,094	1,220	20,399	0.12	16,723
2009	1,007,608	5,735	43,560	0.57	7,596	1,254	21,594	0.12	17,225
2010	1,035,537	5,835	47,454	0.56	8,133	1,288	22,858	0.12	17,741

Loss Year	Earned Exposures incl Trailers	Appeal				Economic Loss			
		Ultimate Claim Count	Ultimate Losses in \$000s	Frequency %	Severity	Ultimate Claim Count	Ultimate Losses in \$000s	Frequency %	Severity
2000	825,382	118	314	0.01	2,665	15	937	0.00	62,652
2001	823,289	128	472	0.02	3,701	11	1,170	0.00	104,484
2002	835,661	181	491	0.02	2,719	48	2,105	0.01	43,932
2003	850,996	212	756	0.02	3,564	93	2,473	0.01	26,504
2004	862,853	219	913	0.03	4,161	93	2,840	0.01	30,380
2005	878,909	198	1,169	0.02	5,898	96	5,005	0.01	52,360
2006	895,266	202	1,202	0.02	5,940	101	7,494	0.01	74,480
2007	931,156	130	1,377	0.01	10,616	125	9,214	0.01	73,836
2008	980,431	115	1,503	0.01	13,090	100	8,772	0.01	88,132
2009	1,007,608	118	1,622	0.01	13,744	102	9,456	0.01	92,435
2010	1,035,537	121	1,751	0.01	14,431	105	10,193	0.01	96,954

Loss Year	Earned Exposures incl Trailers	Out of Province				Tort Injury			
		Ultimate Claim Count	Ultimate Losses in \$000s	Frequency %	Severity	Ultimate Claim Count	Ultimate Losses in \$000s	Frequency %	Severity
2000	825,382	374	13,229	0.05	35,372				
2001	823,289	422	16,142	0.05	38,251				
2002	835,661	410	14,253	0.05	34,763				
2003	850,996	341	12,027	0.04	35,269	77	421	0.01	5,465
2004	862,853	339	15,734	0.04	46,359	88	347	0.01	3,946
2005	878,909	260	14,834	0.03	57,102	87	1,239	0.01	14,236
2006	895,266	268	14,154	0.03	52,821	89	499	0.01	5,612
2007	931,156	214	14,107	0.02	65,891	80	864	0.01	10,842
2008	980,431	241	11,642	0.02	48,218	94	816	0.01	8,668
2009	1,007,608	248	11,964	0.02	48,218	97	880	0.01	9,101
2010	1,035,537	255	12,296	0.02	48,218	99	950	0.01	9,556

Loss Year	Earned Exposures incl Trailers	Tort Liability			
		Ultimate Claim Count	Ultimate Losses in \$000s	Frequency %	Severity
2000	825,382				
2001	823,289				
2002	835,661				
2003	850,996	48	1,075	0.01	22,388
2004	862,853	56	1,261	0.01	22,512
2005	878,909	42	1,067	0.00	25,397
2006	895,266	82	1,468	0.01	17,898
2007	931,156	79	1,895	0.01	23,864
2008	980,431	81	3,348	0.01	41,162
2009	1,007,608	84	3,613	0.01	43,220
2010	1,035,537	86	3,899	0.01	45,381

**2005**

	Claim Counts			Claims Incurred Amount (\$000s)			Claim Severity		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
Pre-1995 No Fault	-	-	-	2,397	1,400	997	-	-	-
Damage	80,500	86,172	(5,672)	289,462	307,244	(17,782)	3,596	3,565	30
No Fault	5,924	6,788	(864)	184,262	202,031	(17,769)	31,104	29,763	1,341
Tort	146	194	(48)	146	2,913	(2,767)	1,000	15,015	(14,015)
<b>Total</b>	<b>86,570</b>	<b>93,154</b>	<b>(6,584)</b>	<b>476,267</b>	<b>513,589</b>	<b>(37,322)</b>	<b>35,700</b>	<b>48,344</b>	<b>(12,644)</b>

Redundancy on prior year claims of \$19,306,000 - we don't budget for prior year (redundancies)/deficiencies; and lower than anticipated claim counts in both damage and injury.

**2006**

	Claim Counts			Claims Incurred Amount (\$000s)			Claim Severity		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
Pre-1995 No Fault	-	-	-	(2,070)	2,503	(4,573)	-	-	-
Damage	80,571	84,814	(4,243)	307,283	306,020	1,263	3,814	3,608	206
No Fault	5,784	6,739	(955)	142,318	200,375	(58,056)	24,606	29,734	(5,128)
Tort	140	151	(11)	1,540	2,878	(1,338)	10,999	19,060	(8,061)
<b>Total</b>	<b>86,495</b>	<b>91,704</b>	<b>(5,209)</b>	<b>449,072</b>	<b>511,776</b>	<b>(62,704)</b>	<b>39,418</b>	<b>52,402</b>	<b>(12,984)</b>

Redundancy on prior year claims of \$45,109,000 - we don't budget for prior year (redundancies)/deficiencies; and lower than anticipated claim counts in both damage and injury.

**2007**

	Claim Counts			Claims Incurred Amount (\$000s)			Claim Severity		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
Pre-1995 No Fault	-	-	-	(735)	-	(735)	-	-	-
Damage	90,804	82,271	8,533	349,829	311,186	38,643	3,853	3,782	70
No Fault	5,692	5,930	(238)	178,161	192,991	(14,830)	31,300	32,545	(1,245)
Tort	160	277	(117)	4,962	2,453	2,509	31,010	8,855	22,155
<b>Total</b>	<b>96,656</b>	<b>88,478</b>	<b>8,178</b>	<b>532,217</b>	<b>506,629</b>	<b>25,588</b>	<b>66,163</b>	<b>45,182</b>	<b>20,980</b>

Volume of damage claims quite high, largely due to much higher than normal summer hail storms and poor winter driving conditions in 2007.

**2008**

	Claim Counts			Claims Incurred Amount (\$000s)			Claim Severity		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
Pre-1995 No Fault	-	-	-	1,506	-	1,506	-	-	-
Damage	91,913	83,887	8,026	358,707	342,836	15,870	3,903	4,087	(184)
No Fault	5,992	6,072	(80)	202,174	195,199	6,974	33,741	32,147	1,593
Tort	177	162	15	1,579	2,487	(908)	8,922	15,353	(6,431)
<b>Total</b>	<b>98,082</b>	<b>90,121</b>	<b>7,961</b>	<b>563,966</b>	<b>540,523</b>	<b>23,443</b>	<b>46,565</b>	<b>51,588</b>	<b>(5,022)</b>

Higher than expected number of insured vehicles on the road and inflationary pressure on income benefits and repair parts and labour.

**14. Please discuss how the level of annual indexing of benefits is determined, and provide the portion of claims incurred attributable to indexation for 2005 to 2008, and forecast for 2009.**

The level of annual indexing of benefits is from the increase in the “all-items” Consumer Price Index for Saskatchewan as published monthly by Statistics Canada.

The portion of claims incurred attributable to the one-year indexation of benefits over the previous level of benefits for accident years 2005 to 2008, and forecast for 2009 is as follows:

<b>Accident Year</b>	<b>Paid \$</b>	<b>Case Reserve</b>	<b>Incurred</b>
2005	959,050	435,530	1,394,580
2006	991,982	(29,704)	962,279
2007	1,174,172	95,780	1,269,952
2008	1,072,973	641,190	1,714,163
*2009	1,529,330	454,675	1,984,005

\*Forecasted

**15. Please explain the rationale for forecasting growth in 2009 (over 2008) injury claims loss costs of 14.6% (from Section 1.2.1 of the filing supplement provided on May 22, 2009), given the recent accident year history shown in Appendix B of the actuarial support documents provided with the application.**

The forecasted injury claims costs for 2009 and future loss years in the budget come from the rate indication based on data at the end of 2007. A five-year weighted-average loss cost is trended to each of the future calendar years. The projected loss cost is multiplied by the projected exposures for the calendar year to derive the total incurred loss. The 2008 loss year estimate as it appears in the budget comes from the May 2008 valuation of losses, which estimates the 2008 loss year losses using data to the end of May 2008. Thus, there are two estimates for the 2008 loss year, one based on December 2007 data and another based on May 2008 data. The rate indication and the valuation use the same loss development factors based on the May 2008 valuation. The ultimate loss years prior to 2008 will match between the rating and the valuation. However, the rating data did not include 2008 losses so there is no matching of the 2008 loss year between the rating and the valuation. The additional data, for the first five months of 2008, accounts for the differences between the two exhibits. Appendix B of the actuarial support documents provided an updated rate indication based on December 2008 data that has a third estimate of the 2008 loss year, which uses updated loss development factors.

**16. Please describe the evolution of SAF’s reinsurance ceded program, and provide actual/forecast ceded amounts of earned premiums and claims incurred (by type of reinsurance) from 2000 to 2013.**

The Auto Fund maintains two catastrophe excess of loss programs designed to mitigate adverse effects to the Rate Stabilization Reserve as a result of catastrophic losses caused by either a weather event or an automobile collision resulting in multiple serious injuries. Those two programs are the Auto Physical Damage Catastrophe Reinsurance Program and the Personal Auto Injury Insurance Excess of Loss Reinsurance Program.

Auto Physical Damage Catastrophe Reinsurance Program

This program runs for a 12-month term with an inception date of May 1. The protection provided is for Auto Fund licensed vehicles and covers auto physical damage (excluding collision, upset, theft, fire, lightning, explosion and road hazard glass) primarily for weather-related perils, such as hail. The amount of coverage provided is \$55 million dollars with a \$5 million dollar retention and an additional \$5 million annual aggregate deductible.



Until recently, there has been very little change to the structure of this program. During the 2005/2006 term, due to the previous two terms' loss experience, it was decided to increase the Auto Fund's retention by including an annual aggregate deductible. This assisted in preventing further rate increases as a result of claims in the previous two years. The last structure change was an increase to the amount of protection from \$35 million to the current level of \$55 million. This increase is reflected in the amount of premium charged by reinsurers.

The premium paid for this program is based on a flat premium. It is difficult to anticipate what future cost would be for such a program as there are various factors that influence the rates set by reinsurers. Such influences are the Auto Fund's experience, vehicle growth in the province, and world catastrophic events (like - Hurricane Katrina). The following chart illustrates the premiums paid and claim recoveries made by the Auto Fund since 2000.

<b>Treaty Term</b>	<b>Premium Paid</b>	<b>Claim Recovery Made</b>
2000 – 2001	\$1,401,250	-
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	-

#### Personal Auto Injury Insurance Excess of Loss Cover Reinsurance Program

This program is an Excess of Loss Reinsurance Catastrophe cover providing protection of \$30 million dollars, in excess of a \$20 million dollar retention (similar to a deductible). The program structure in 2000 and 2001 provided protection \$30 million, in excess of a \$5 million retention. After the events of Sept. 11, 2001, our renewal quote increased dramatically resulting in the decision to no longer purchase the cover.

The program is purchased to protect against a catastrophic crash (i.e. a bus load of young children suffer catastrophic injuries). This cover was revisited and purchased on Oct. 15, 2005 for a 17.5-month term based on the current structure. We continue to maintain this coverage with an inception date of April 1 for a 12-month term. There have been no claims made to this program since its inception. The premiums paid, on a flat basis, since 2000 are:

<b>Treaty Term</b>	<b>Premium Paid</b>
July 1, 2000 to June 30, 2001	\$100,000
July 1, 2001 to June 30, 2002	100,000
Oct. 15, 2005 to March 31, 2007	984,375 <sup>1</sup>
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

Once again, it is difficult to predict what reinsurers will charge for this program in the future, as there are several global factors that influence pricing. Should this cover remain claims free we would expect that any increase in pricing would be primarily inflationary in nature.

<sup>1</sup> This rate is for 17.5 months. The amount charged for 12 months would translate to \$675,000.

**17. Regarding appeal processes:**

- a) Please provide the number of appeals and the associated costs for each of Highway Traffic Board (HTB) appeals and auto injury appeals for 2000 to 2008.

Costs for HTB appeals are charged to Traffic Safety Services

Number of Appeals:

Appeal	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Vehicle Impound	507	556	558	648	582	600	541	656	734	5,382
Restricted Licence	321	230	195	166	186	205	237	243	253	2,036
Medical	157	118	158	127	156	158	87	46	62	1,069
Driver Improvement	198	250	299	263	195	182	122	140	152	1,801
GDL	29	37	166	191	139	76	25	85	181	929
Roadside				15	17					32
Roadside (Oral)						18	31	24	27	100
Roadside (Written)						27	31	19	23	100
ID Misuse						50	27	49	43	169
Ignition Interlock								1	3	4

11,622

Cost for a vehicle impoundment hearing (Telephone hearing) \$36

Cost of an appeal hearing (In person – three members) \$335

Automobile Injury Appeal Commission Costs from Inception to December 31, 2008	Total Appeal Costs	Total Number of Injury Appeals
2000	Nil	Nil
2001	Nil	Nil
2002	\$83,540	Nil
2003	239,469	155
2004	494,584	181
2005	696,373	159
2006	736,950	149
2007	856,737	162
2008	866,464	139
<b>TOTAL</b>	<b>\$3,974,117</b>	<b>945</b>

The Automobile Injury Appeal Commission (AIAC) was in place for Jan. 1, 2003. The 2002 amounts were for start up costs.

Total appeal costs include:

- The cost of the AIAC
- Court of Queen's Bench appeal costs
- Cost of mediations

- Cost of external counsel for appeals
- Costs awarded by the AIAC

**b) Please confirm that HTB appeal costs are charged to administrative expenses and that auto injury appeal costs are charged to claims incurred.**

Yes, HTB costs are charged to administrative expenses.

Yes, all costs for appeals/mediations are charged to claims incurred. These costs are accumulated on specific claim files except for the AIAC costs, which are accumulated in a separate file.

**18. Regarding expenses:**

**a) Please provide the amount of annual expenditures for wages, salaries, benefits and pension expense, and total administrative expenses, also indicating the percentage of total administrative expenses represented by each category from 2005 to 2008.**

	2005		2006		2007		2008	
	\$	%	\$	%	\$	%	\$	%
Salaries & Wages	48,104,073	61.1%	51,202,095	61.6%	58,430,145	60.5%	61,668,585	58.9%
Benefits	6,008,564	7.6%	7,244,799	8.7%	8,892,488	9.2%	11,037,585	10.5%
Pension	1,911,000	2.4%	2,057,000	2.5%	3,045,000	3.2%	2,430,000	2.3%
Other expenses	22,716,037	28.8%	22,681,417	27.3%	26,194,898	27.1%	29,521,070	28.2%
<b>Total Allocated expenses</b>	<b>78,739,673</b>	<b>100%</b>	<b>83,185,311</b>	<b>100%</b>	<b>96,562,532</b>	<b>100%</b>	<b>104,657,240</b>	<b>100%</b>

**b) Please provide a further breakdown of administrative expenses showing costs for external services, materials and supplies, travel, vehicle costs, insurance (as applicable), tools & equipment, building rehabilitation, and other costs from 2005 to 2008.**

	2005	2006	2007	2008
	\$	\$	\$	\$
External Services	3,820,896	1,963,239	2,719,266	2,583,082
Materials and Supplies	598,911	501,451	642,952	769,166
Travel (including vehicle costs)	1,624,981	1,703,697	1,793,725	1,829,185
Insurance	251,202	258,281	227,779	347,633
Tools and Equipment	129,741	132,333	116,067	167,498
Building Rehabilitation	1,637,650	1,205,155	1,073,793	1,733,112
Salaries & Benefits (including pension)	56,023,636	60,503,894	70,367,633	75,136,170
Other Expenses	14,652,657	16,917,261	19,621,316	22,091,394
<b>Total Expenses</b>	<b>78,739,673</b>	<b>83,185,311</b>	<b>96,562,532</b>	<b>104,657,240</b>

**c) Please provide a schedule showing annual out-of-scope and union personnel full-time equivalents (FTE) from 2005 to 2008.**

	2005	2006	2007	2008
In-scope	1174	1187	1238	1282
Management	192	201	220	228
<b>Total</b>	<b>1366</b>	<b>1388</b>	<b>1458</b>	<b>1510</b>

**d) Please discuss the budgeting process followed by SAF for establishing administrative expenses and provide key assumptions used in the preparation of the 2009 administrative expense budget.**

Each May, departmental managers are provided with corporate budget guidelines. In June, senior management reviews the administrative expense budget and makes adjustments as deemed necessary. In late August the administrative expense budget is updated based on any new information that necessitates a revision to the draft budget completed in May. Senior management reviews the budget again in September followed by a review by the Audit and Finance Committee of the Board and then Board approval in late October. New projects/initiatives that are proposed by a manager are budgeted and reviewed separately.

Key assumptions used in the 2009 administrative expense budget were:

- Any requested increase to staffing levels must be accompanied by a detailed explanation of why the position is required.
- Non-staffing administrative expenses (excluding projects) are not to exceed the 2008 projected expenses plus Consumer Price Index (2.6%).

**e) Please describe the process followed by SAF in retaining external consultants and other external services.**

SGI uses a competitive tender or request for proposal (RFP) process to determine which vendor will provide the required services. The following is the process used in selecting the vendor:

- The department requesting the service along with the purchasing department jointly prepare a list of bidders who are invited to participate in the competition.
- The purchasing department issues the tender or RFP to the vendors.
- Once the tender period has closed the documents are opened in a public forum. RFPs are opened privately, as more complex evaluation is required than accepting the lowest bid.
- The requisitioning department takes the bids and evaluates based on the requirements of the tender or RFP.
- If the service is tendered the vendor who is the lowest bidder and has met the technical requirements is awarded the tender.
- If an RFP was issued, proposals are evaluated based on the evaluation criteria that was issued. Unlike tenders, RFPs may include negotiations to determine and finalize the best option available.
- Decision requests are prepared and signed off by the appropriate management staff and the contract is awarded.

**f) Please describe SAF's accounting treatment for Capital Projects, and provide a schedule showing Capital Projects undertaken by SAF from 2005 to 2008, and forecast for 2009, showing details of construction costs and other related costs.**

The Auto Fund capitalizes certain costs associated with buildings, office and computer equipment, salvage equipment and vehicles. Over the 2005 through 2008 period, the only capital projects over \$500,000 were the purchase of the Regina Operations Center (ROC) on Rochdale Boulevard, and the Auto Fund Redevelopment Project.

SGI's capitalization policy is that the original acquisition/construction cost and any associated costs required to place a facility in use are capitalized. Building and property betterments that meet the threshold of \$100,000 are capitalized. Equipment having a useful life greater than one year, which costs more than \$5,000 and can be physically tagged and identified, is capitalized. The capital cost of systems

development projects is the aggregate of the cost of hardware used in the project, the cost of related software packages used in the project, and the cost of external resources used to assist in the implementation of corporate systems.

Details related to the cost of the Auto Fund Redevelopment Project have already been provided to the Panel. The ROC was purchased in late 2007 for \$2,150,000. During 2008, renovation costs totaling \$3,094,000 were capitalized, resulting in a total capital cost for the ROC of \$5,244,000.

Excluding the Auto Fund Redevelopment Project, there are three capital projects associated with SGI's Building Renewal Strategy forecasted for 2009 that exceed \$500,000 as follows:

- Swift Current - \$1,300,000 for interior and garage upgrades
- Lloydminster - \$775,000 for building renewal and addition
- North Battleford - \$600,000 for roof and cooling tower replacement

#### 19. Regarding cost allocation:

- a) **Please confirm that the current cost allocation methodology is that adopted in 2007, and provide a high level summary of how this methodology differs from its predecessor.**

A review of the cost allocation methodology in 2006 resulted in management approving the new cost allocation methodology in 2007. It was adopted effective Jan. 1, 2008. The principal goals of the review were to ensure costs were being charged to the appropriate company and the costs were properly categorized as loss adjustment expense, direct administrative expense, indirect administrative expense or traffic safety program costs.

During the review, a detailed assessment of the cost drivers of each department was completed to determine if they were appropriate. As a result of the review, the following changes were made to SGI's cost allocation methodology:

- the adoption of the step-down method to more accurately allocate costs between the companies;
- reclassification of some support costs from loss adjustment expense to administrative expense in all companies; and,
- the allocation of some support costs to traffic safety programs.

- b) **Please describe the processes used by SGI to ensure that all its component entities are self-sustaining, and discuss what, if any, redistribution actions may be taken if any of the entities suffer an operating loss, or enjoy an operating profit.**

The self-sustainability of an entity has no impact on the cost allocation process. The process provided to the Panel remains the same whether or not an entity is profitable.

- c) **Please provide a summary of the results of SGI's cost allocation methodology for 2007 and 2008, and forecast for 2009, showing the following information for SGI, SAF, SGI Canada, SCISL, Coachman and ICPEI, as applicable (in \$ and % terms):**

- **Total administrative direct costs incurred**
- **Total administrative indirect costs incurred**
- **Total loss adjustment costs incurred**
- **Total costs assigned directly**
- **Total costs allocated**

Please see the following attached table.

**19c) Cost Allocation**

<b>SAF</b>	<b>2007</b>		<b>2008</b>		<b>Forecast 2009</b>	
	\$	%	\$	%	\$	%
Total administrative direct costs incurred	12,961,692	8.6%	16,160,932	10.1%	23,300,020	12.9%
Total administrative indirect costs incurred	23,218,603	15.4%	26,171,479	16.3%	27,269,026	15.1%
Total loss adjustment costs incurred	46,708,236	31.1%	45,980,421	28.7%	50,297,950	27.9%
Traffic safety programs	13,674,001	9.1%	16,344,408	10.2%	17,798,252	9.9%
<b>Total costs allocated</b>	<b>96,562,532</b>		<b>104,657,240</b>		<b>118,665,248</b>	
Total costs assigned directly*	-		-		-	
<b>SGI CANADA</b>	<b>2007</b>		<b>2008</b>		<b>Forecast 2009</b>	
	\$	%	\$	%	\$	%
Total administrative direct costs incurred	17,017,158	11.3%	18,669,710	11.6%	19,886,812	11.0%
Total administrative indirect costs incurred	17,314,393	11.5%	17,002,899	10.6%	18,002,228	10.0%
Total loss adjustment costs incurred	9,523,351	6.3%	7,546,503	4.7%	8,695,032	4.8%
<b>Total costs allocated</b>	<b>43,854,902</b>		<b>43,219,112</b>		<b>46,584,072</b>	
Total costs assigned directly*	-		-		-	
<b>SCISL</b>	<b>2007</b>		<b>2008</b>		<b>Forecast 2009</b>	
	\$	%	\$	%	\$	%
Total administrative direct costs incurred	2,585,509	1.7%	3,129,849	2.0%	4,406,416	2.4%
Total administrative indirect costs incurred	787,376	0.5%	1,258,982	0.8%	1,184,509	0.7%
Total loss adjustment costs incurred	475,007	0.3%	627,905	0.4%	733,146	0.4%
<b>Total costs allocated</b>	<b>3,847,892</b>		<b>5,016,736</b>		<b>6,324,071</b>	
Total costs assigned directly*	1,639,632		2,288,843		3,648,585	
<b>Coachman</b>	<b>2007</b>		<b>2008</b>		<b>Forecast 2009</b>	
	\$	%	\$	%	\$	%
Total administrative direct costs incurred	2,293,949	1.5%	2,510,341	1.6%	3,084,998	1.7%
Total administrative indirect costs incurred	338,706	0.2%	539,180	0.3%	504,610	0.3%
Total loss adjustment costs incurred	1,572,343	1.0%	1,588,838	1.0%	1,756,177	1.0%
<b>Total costs allocated</b>	<b>4,204,998</b>		<b>4,638,359</b>		<b>5,345,785</b>	
Total costs assigned directly*	1,521,985		1,783,650		2,739,421	
<b>ICPEI</b>	<b>2007</b>		<b>2008</b>		<b>Forecast 2009</b>	
	\$	%	\$	%	\$	%
Total administrative direct costs incurred	795,969	0.5%	1,102,163	0.7%	1,537,111	0.9%
Total administrative indirect costs incurred	702,142	0.5%	1,160,057	0.7%	1,015,870	0.6%
Total loss adjustment costs incurred **	387,497	0.3%	521,631	0.3%	645,297	0.4%
<b>Total costs allocated</b>	<b>1,885,608</b>		<b>2,783,851</b>		<b>3,198,278</b>	
Total costs assigned directly*	1,280,219		1,604,189		1,610,172	
<b>Total</b>	<b>2007</b>		<b>2008</b>		<b>Forecast 2009</b>	
Total administrative direct costs incurred	35,654,277		41,572,995		52,215,357	
Total administrative indirect costs incurred	42,361,220		46,132,597		47,976,243	
Total loss adjustment costs incurred **	58,666,434		56,265,298		62,127,602	
Traffic safety programs	13,674,001		16,344,408		17,798,252	
<b>Total costs allocated</b>	<b>150,355,932</b>	<b>100%</b>	<b>160,315,298</b>	<b>100%</b>	<b>180,117,454</b>	<b>100%</b>
Total costs assigned directly*	4,441,836	3.0%	5,676,682	3.5%	7,998,178	4.4%

\* Total costs assigned directly include costs incurred by the subsidiary companies and exclude any transfer for services from SGI CANADA.

\*\* ICPEI pays a company for loss adjustment services

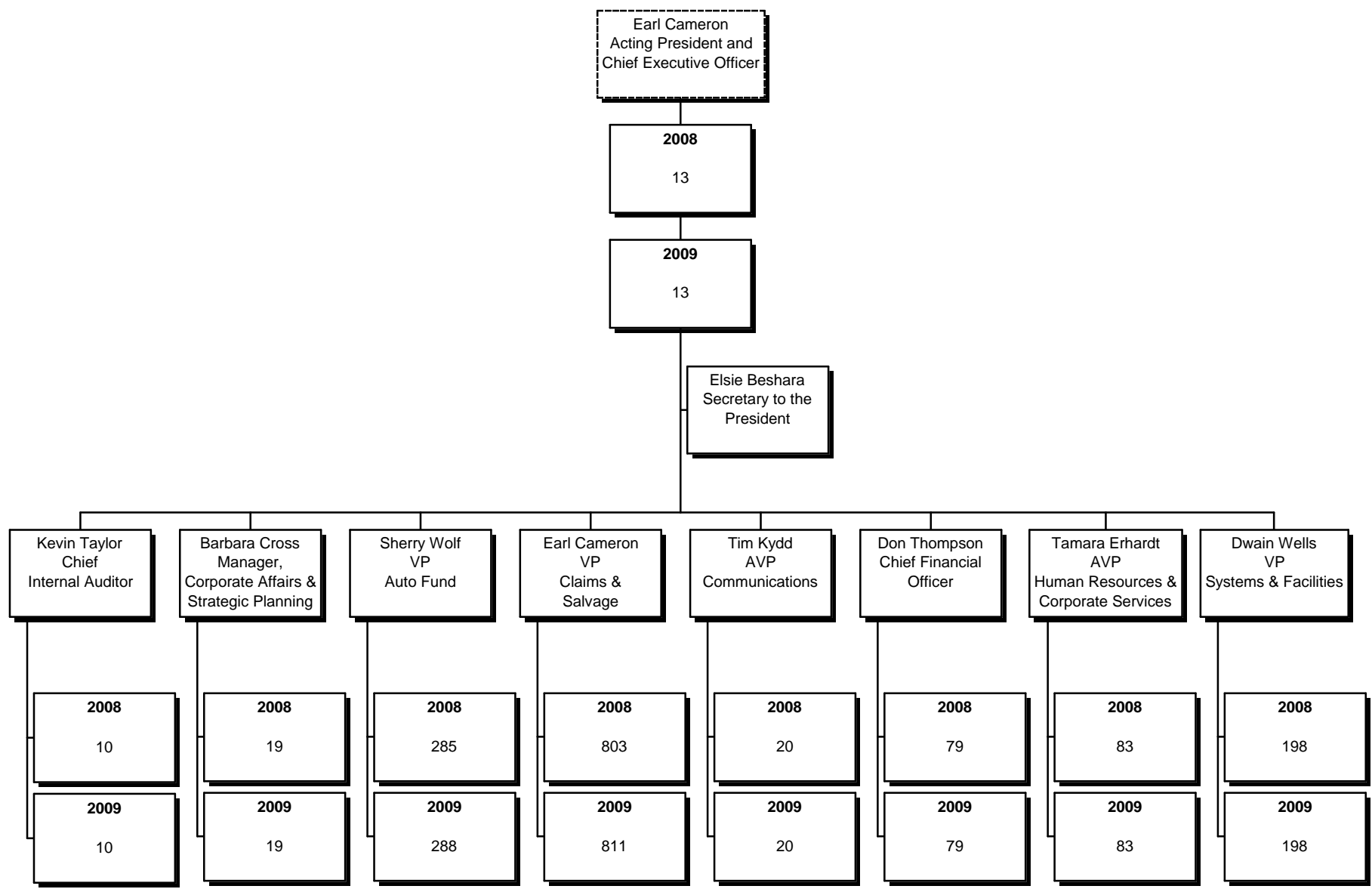
**20. Please provide a detailed Corporate Organization Chart for SGI and SAF showing all operating and support functions, including current and 2009 forecast staffing levels for each department and/or division, using FTE to quantify the position staff counts.**

Please see the following chart.

# SGI

## ORGANIZATIONAL SUMMARY

### EXECUTIVE AND DIRECT REPORTS TO PRESIDENT





**21. Regarding key indicators:**

**a) Please provide the following actual/forecast metrics for SAF for each year from 2000 to 2013:**

- **Claims adjusting expenses per claim;**
- **Claims adjusting expenses per claims staff (FTE);**
- **Administrative expenses per policy;**
- **Number of policies per administrative staff (FTE);**
- **Number of claims; and**
- **Number of policies.**

	Earned Exposures (1)	Number of Claims (2)	Admin. Per exposure (3)	Loss adjusting cost/claim
2000	722,976	104,074	36	328
2001	719,121	100,858	35	360
2002	727,333	95,359	39	389
2003	737,754	90,919	38	418
2004	745,634	88,613	35	417
2005	755,399	87,355	37	453
2006	765,989	88,686	39	479
2007	791,165	97,337	46	480
2008	824,805	97,153	51	473
2009	842,675	101,422	60	515
2010	860,933	105,891	58	512

(1) Earned exposures excludes trailers.

(2) Number of claims is financial damage and injury claims total by accident year.

Prior to 2002 damage claims were counted differently and therefore a comparison for those years is not valid.

(3) Admin costs in 2009 include \$2.5 million for the Enhanced Driver Licence program, \$6.3 million for the Auto Fund redevelopment program (not included in price of product) and \$2.4 million for credit cards.

Without these costs, the administrative cost per policy in 2009 would be \$47.

(4) The Auto Fund does not have available person years broken down by company and therefore a comparison of the costs per employee are not available.

(5) For 2011 to 2013 forecasts of earned exposures and number of claims is not available.

**b) Please comment on any comparison undertaken of any such SAF key indicators to those of other Canadian public insurers for basic coverage.**

In the past, the Auto Fund has prepared these type of comparisons, however due to the differences between how the entities allocate costs between basic and extension insurance, the Auto Fund does not think the comparisons are relevant.

**22. Please describe how SAF establishes Issuer Fees, and provide a schedule of current charges for all services provided by Issuers.**

In September 2005, SGI and the Insurance Broker’s Association of Saskatchewan (IBAS), signed the Issuer Accord, which among other things, set out that IBAS officially represents all issuers, issuer onlies and non-IBAS broker/issuers. This Accord also set out that issuer compensation would be negotiated.

In March 2006, SGI and IBAS reached agreement on a new compensation model. Effective January 2010, issuers would be paid 4.75 per cent commission on vehicle transactions instead of by flat fee.

Offsetting this, driver transaction fees would be reduced. At the time, this compensation model was very similar to that of issuers in Manitoba.

Until early 2010, issuers will be paid on a flat-fee basis. The issuer contract between SGI and individual issuers says that issuers will be compensated as set out in the Issuer Manual. The current fee structure (attached) is included in the manual. The issuer contract also says that issuers can not charge anything more than what is set out in the fee structure.

# REMUNERATION SCHEDULE

## Remuneration Rates Effective Jan. 1, 2009

**Regular remuneration** is the remuneration rate applicable when completing an issuer report.

**Reduced Remuneration Rate** -- a reduced remuneration rate is applicable for issuers that have been advised by SGI to use the reduced remuneration rate due to high error rates or those who have not followed the Issuer Manual or SGI policy. The reduced remuneration rate is deducted when completing an issuer report.

Transaction Type	Regular Remuneration Rate	Reduced Remuneration Rate
<b><u>Driver Transactions</u></b>		
Add driver and NEW Photo	\$6.00	\$3.00
Change driver* and NEW Photo	\$3.00	\$1.50
Change driver* with Reprint <u>Existing</u> Photo	\$3.00	\$1.50
Change driver* (no photo)	\$1.00	\$0.50
Renew driver with Photo	\$4.90	\$2.45
Renew driver (no photo)	\$1.00	\$0.50
* includes Certificate Replacement		
<b><u>Digitized Photo ID</u></b>		
Add New Photo only	\$2.00	\$1.00
Reprint Existing Photo (Change)	\$2.00	\$1.00
Non-driver Photo ID (Add)	\$2.00	\$1.00
Reprint Non-driver Information Card (NDC)	\$0	\$0
Special Demand Print	\$2.55	\$1.28
Reprint Photocard ONLY ("photo process" not completed)	\$2.00	\$1.00

<b>Transaction Type</b>	<b>Regular Remuneration Rate</b>	<b>Reduced Remuneration Rate</b>
<b><u>Vehicle Transactions</u></b>		
Add	\$20.15	\$10.08
Change*	\$15.83	\$7.92
Renewal	\$14.71	\$7.36
Delete (Cancellation)	\$4.85	\$2.43
* includes Certificate Replacement		
<b><u>AutoPay Transactions</u></b>		
APC Add	\$6.44	\$3.22
APC Change	\$6.44	\$3.22
APC Delete (Cancellation)	\$0	\$0
Payment Schedule Reprint	\$0	\$0
Receipt - PAC Arrears	\$2.99	\$1.50
PAC – Withdrawal Day Change	\$2.99	\$1.50
<b><u>PIC Applications</u></b>		
Add Customer, Individual, Company, Group Customer (PIC Application ADD)	\$6.71	\$3.36
Change Individual, Company, Group Customer (Change Personal Information)	\$2.55	\$1.28
<b><u>Miscellaneous Declarations</u></b>		
Co-owner Declaration – Completed	\$2.55	\$1.28
Co-owner Declaration – Change/Withdraw Consent	\$2.55	\$1.28
Tort Coverage Election (Form A)	\$2.55	\$1.28
Tort Coverage Withdrawal (Form B)	\$2.55	\$1.28
Injury Coverage Reprint	\$0	\$0
<b><u>Permits</u></b>		
Unregistered Vehicle Permit (24-Hour)	\$4.39	\$2.20
In-transit Permit (Out-of-Province)	\$4.39	\$2.20
Temporary Permit (4-part Pulp Haul)	\$11.70	\$5.85
Temporary Insurance Card	\$4.39	\$2.20

<b>Transaction Type</b>	<b>Regular Remuneration Rate</b>	<b>Reduced Remuneration Rate</b>
	<b><u>Receipts</u></b>	
Road Test & Exams	\$1.00	\$0.50
General Receipt	\$0	\$0
Driver Record Request (includes VIN Search Requests)	\$1.00	\$0.50
Vehicle Impoundment Hearing Receipt	\$2.55	\$1.28
Vehicle Impoundment Release Receipt	\$2.99	\$1.50
DWI Receipt	\$2.55	\$1.28
Restricted licence Hearing Receipt	\$2.55	\$1.28
Roadside Suspension Appeal Receipt	\$2.55	\$1.28
Accident Safety Rating Appeal	\$2.55	\$1.28
Business Recognition Appeal	\$2.99	\$1.50
Certificate of Safety Fitness (NEW)	\$6.44	\$3.22
Certificate of Safety Fitness (replacement)	\$2.99	\$1.50

**Invoices (Receipt - Receivable Payment)**

Invoice	\$2.55	\$1.28
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**Provincial Sales Tax**

Deduct commission of 7% on the first \$300.00 of tax collected and 1% on the balance for each casual return.

Example:

Tax Collected:	\$400.00
Commission of 7% on \$300.00:	\$21.00
Commission of 1% on \$100.00:	<u>\$1.00</u>
<b>Total Commission:</b>	<b>\$22.00</b>

### **Debit Card (Interac) / Credit Card Transaction Fee Reimbursement**

<b>Card Type</b>	<b>Reimbursement Rate</b>
Debit card	\$0.09 per transaction.
VISA credit card	1.86% of purchase amount.
MasterCard credit card	2.05% of purchase amount.
Other credit cards	2.05% of purchase amount.

**23. Please describe the basis of calculation of the premium tax amounts shown in the response to Question 1 above, and specify the year in which the premium tax rate last changed.**

Premium taxes are based on gross premiums earned times the five per cent premium tax rate. Calculated as follows:

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<b>\$000s</b>	<b>\$000s</b>	<b>\$000s</b>	<b>\$000s</b>	<b>\$000s</b>
Gross Premiums Earned	634,577	683,639	736,736	778,317	822,106
Premiums Ceded	2,251	2,276	2,300	2,300	2,300
Net premiums Earned per Appendix B	<u>632,326</u>	<u>681,363</u>	<u>734,436</u>	<u>776,017</u>	<u>819,806</u>
Premium Taxes (5% of gross premiums earned)	31,729	<u>34,182</u>	<u>36,837</u>	<u>38,916</u>	<u>41,105</u>
Impact of Monthly Calculation (for 2009 only)	<u>179</u>				
Premium Taxes per updated Appendix B	<u>31,908</u>				

The premium tax rate is comprised of four per cent levied under The Insurance Premiums Tax Act (increased from three per cent effective April 1, 2000) and one per cent levied under The Motor Vehicle Insurance Premiums Tax Act which has been in place since 1979.

**24. Regarding traffic safety costs:**

- a) **Please provide traffic safety expenditures, by specific program type, from 2005 to 2008 and forecast for 2009, in terms of staff costs, external costs, other major cost categories and total expenditures.**

The requested information follows:

## MAJOR SAFETY INITIATIVES

Year	2005	2006	2007	2008	2009
<b>TRAFFIC SAFETY PROMOTION</b>					
(education, public awareness, community involvement, partnership building, enforcement programs, infrastructure improvements)					
In School Road Safety Resources	\$14,005	\$4,815	\$1,785	\$1,004	\$4,000
Szarka (speaker) Presentations	\$23,851				
Rollover Simulator		\$6,860	\$2,042		
Child Passenger Safety Training Program:	\$2,118	\$977	\$3,292	\$1,304	\$6,000
MADD Sponsorship:	\$31,250				
Ride's On Us	\$4,900	\$73,947	\$55,000	\$77,430	\$55,000
SADD	\$88,100	\$88,100	\$88,100	\$102,064	\$102,069
Saskatchewan Safety Council	\$191,036	\$192,905	\$199,913	\$201,810	\$155,989
Saskatchewan Wildlife Federation	\$20,000	\$20,000	\$20,000	\$21,700	\$20,000
Server Intervention	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000
Community Grants	\$77,883	\$60,808	\$164,053	\$86,932	\$50,000
First Nation School Contest			\$7,464		
First Nation Community Programming		\$11,735			
Enforcement Overdrive	\$102,757	\$233,165	\$156,307	\$288,086	\$381,000
No Regrets Program		\$103,350	\$74,650	\$16,500	\$16,500
Police Partnership – Training		\$22,218	\$4,071		\$10,000
Police Partnership – Vehicles	\$20,800	\$17,600	\$18,669	\$16,800	\$19,200
Safe Saskatchewan		\$50,000	\$50,000	\$50,000	\$50,000
Road Safety Youth Conference			\$2,652		
Enhanced Enforcement	\$48,220	\$129,175	\$199,250	\$198,120	\$329,785
Winter Road Maintenance			\$48,330	\$217,384	\$25,000
55 Alive		\$30,000		\$30,000	\$60,000
First Nation Role Model Tour				\$30,223	\$40,000
Infrastructure Improvements	\$201,200	\$85,585	\$459,127	\$222,000	\$238,500
Traffic Safety Scholarship				\$25,000	\$25,000
Seat Belt Challenge				\$66,306	\$165,000
Pedestrian Safety Project					\$5,000
Child Traffic Safety Position					\$54,000
<b>TOTAL</b>	<b>\$831,120</b>	<b>\$1,136,240</b>	<b>\$1,559,705</b>	<b>\$1,657,663</b>	<b>\$1,817,043</b>
<b>TRAFFIC SAFETY PROGRAM EVALUATION</b>					
(program evaluation, program development, research)					
Motorcycle Safety	\$44,000				\$225,000
<b>DRIVER PROGRAMS</b>					
(impaired driving, driver improvement)					
Medical Payments	\$196,951	\$171,017	\$176,631	\$284,380	\$350,000
District Health Funding	\$1,637,519	\$1,625,227	\$1,442,478	\$1,185,599	\$1,425,497
Rehabilitation Assessment	\$237,790	\$262,000	\$600,000	\$600,000	\$600,000
<b>TOTAL</b>	<b>\$2,072,260</b>	<b>\$2,058,244</b>	<b>\$2,219,109</b>	<b>\$2,069,979</b>	<b>\$2,375,497</b>

## MAJOR SAFETY INITIATIVES

Year	2005	2006	2007	2008	2009
<b>DRIVER DEVELOPMENT</b>					
(driver education)					
Aboriginal Driver Education		\$56,384	\$104,644	\$112,638	\$125,000
Immigrant Driver Education					\$100,000
<b>TOTAL</b>		<b>\$56,384</b>	<b>\$104,644</b>	<b>\$112,638</b>	<b>\$225,000</b>
<b>CARRIER SAFETY SERVICES</b>					
(carrier safety audits, services)					
Safety Seminars				\$7,000	\$21,000
<b>TRAFFIC SAFETY ADVERTISING</b>					
Bike Helmet	\$126,383	\$57,231	\$167,000		
Booster Seats	\$490,879	\$80,593	\$167,000	\$167,000	\$167,000
Child Restraint	\$120,736	\$83,860	\$86,380	\$86,380	\$86,380
Designated Driver	\$4,000				
Drinking & Driving	\$933,516	\$694,823	\$715,000	\$715,000	\$790,000
Driver Distraction	\$161,619	\$180,598	\$276,537	\$276,537	\$276,537
Road Safety – Y.L.	\$453,812	\$589,909	\$544,000	\$544,000	\$544,000
Rural Seatbelts	\$171,331	\$2,458	\$163,000	\$163,000	\$263,000
Aboriginal Media			\$100,000	\$100,000	\$100,000
Aging Driver				\$60,000	\$60,000
Drive Right				\$250,000	\$250,000
Speed Issues					\$50,000
Miscellaneous				\$50,000	\$50,000
Slow to 60		\$127,234			
SADD Advertising			\$275,000	\$125,000	
<b>TOTAL</b>	<b>\$2,462,276</b>	<b>\$1,816,706</b>	<b>\$2,493,917</b>	<b>\$2,536,917</b>	<b>\$2,636,917</b>



## PROGRAM ADMINISTRATION

Year	2005	2006	2007	2008	2009
<b>REVENUE SOURCES</b>					
Driver Development	\$1,207,972	\$1,174,106	\$1,213,501	\$1,340	\$1,443,849
Driving Without Impairment	\$428,550	\$404,550	\$444,600	\$474,000	\$428,700
Carrier Audit		\$235,933	\$141,560	\$72,580	\$141,880
Driver Programs	\$162,996	\$163,732	\$170,628	\$220,050	\$170,627
Vehicle Standards and Inspection	\$472,721	\$493,815	\$536,011	\$563,876	\$520,000
Highway Traffic Board	\$61,280	\$111,928	\$69,405	\$2,716	
<b>TOTAL</b>	<b>\$1,125,547</b>	<b>\$2,584,064</b>	<b>\$2,575,705</b>	<b>\$1,334,562</b>	<b>\$2,705,056</b>
<b>SUPPORT SALARIES AND BENEFITS</b>					
Driver Programs	\$1,073,013	\$999,093	\$1,333,067	\$1,382,800	\$1,447,801
Driver Development Safety Services	\$2,247,695	\$2,400,108	\$2,718,896	\$3,104,006	\$3,014,072
Driving Without Impairment	\$42,144	\$43,116	\$47,145	\$48,931	\$51
Carrier Audit	\$225,295	\$260,909	\$330,836	\$375,506	\$419,257
AVP Driver and Vehicle Safety Services	\$994,952	\$1,029,817	\$1,173,731	\$1,518,753	\$1,129,507
Traffic Safety Program Evaluation	\$447,206	\$488,054	\$769,167	\$709,146	\$778,441
Traffic Safety Promotion	\$188,726	\$227,422	\$311,539	\$363,050	\$420,900
Vehicle Standards and Inspection	\$205,101	\$175,411	\$177,272	\$197,275	\$219,270
Highway Traffic Board (HTB)	\$346,690	\$337,787	\$351,628	\$375,218	\$504,805
<b>TOTAL</b>	<b>\$5,770,822</b>	<b>\$5,961,717</b>	<b>\$7,213,281</b>	<b>\$8,074,685</b>	<b>\$7,934,104</b>
<b>PROGRAM ADMINISTRATION &amp; SUPPORT</b>					
(travel, auto expense, telephone, meals, lodging, supplies, etc)					
Driver Programs	\$41,168	\$71,970	\$110,559	\$82,125	\$153,737
Driver Development	\$412,992	\$368,632	\$508,373	\$531,355	\$598,897
Driving Without Impairment	\$338,939	\$337,875	\$361,119	\$369,770	
Carrier Audit	\$50,820	\$50,471	\$47,218	\$57,491	\$90,807
AVP Driver and Vehicle Safety Services	\$24,521	\$29,844	\$26,922	\$39,162	\$30,582
Traffic Safety Program Evaluation	\$52,130	\$23,918	\$86,614	\$27,563	\$43,360
Traffic Safety Promotion	\$108,494	\$51,469	\$60,098	\$127,398	\$155,358
Vehicle Standards and Inspection	\$205,101	\$175,411	\$177,272	\$197,275	\$219,270
Highway Traffic Board	\$346,690	\$337,787	\$351,628	\$375,218	\$504,805
<b>TOTAL</b>	<b>\$1,580,855</b>	<b>\$1,447,377</b>	<b>\$1,729,803</b>	<b>\$1,807,357</b>	<b>\$1,796,816</b>

**Traffic Safety Costs  
2005 through 2009 Budget**

	<u>2009 Budget</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Driver Programs	3,806,408	3,294,270	3,479,303	2,957,916	3,017,127
Driver Development Safety Services	2,413,905	2,407,584	2,118,412	1,651,019	1,452,716
Driving Without Impairment	32,510	(55,299)	(36,256)	(23,559)	(47,167)
Carrier Safety Programs	389,184	360,418	236,493	75,447	276,115
AVP - Driver & Veh Safety Services	1,160,089	1,557,915	1,200,653	1,059,660	1,019,473
Vehicle Standards & Inspection	434,959	305,466	347,640	251,716	284,214
Highway Traffic Board	945,431	795,636	693,493	594,730	610,813
Traffic Safety Prog Evaluation	1,046,801	736,709	2,653,020	713,745	779,536
Traffic Safety Promotions - A/F	2,580,817	2,051,061	-	-	-
AVP - Traffic Safety Services	-	659,241	-	-	-
Traffic Safety Serv -Campaigns	3,002,610	2,519,743	2,961,910	3,487,388	3,737,219
Regina Driver Testing - Bldg	23,875	25,269	19,333	21,672	14,366
	<u>15,836,589</u>	<u>14,658,013</u>	<u>13,674,001</u>	<u>10,789,734</u>	<u>11,144,410</u>
Indirect costs as allocated	<u>1,961,663</u>	<u>1,686,395</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u><b>17,798,252</b></u>	<u><b>16,344,408</b></u>	<u><b>13,674,001</b></u>	<u><b>10,789,734</b></u>	<u><b>11,144,410</b></u>

**b) Please confirm that 100% of SGI's traffic safety costs are absorbed by SAF.**

Yes, 100 per cent of SGI's traffic safety costs are absorbed by the Auto Fund.

**c) Please describe the monitoring and benchmarking processes carried out by SAF to gauge the effectiveness of traffic safety programs.**

The Auto Fund has a Traffic Safety Program Evaluation (TSPE) group. This area is responsible for evaluating the loss reduction and cost-effectiveness of current and prospective traffic safety programs, and for identifying and participating in the development of new or modified programs and policies to maximize loss reduction in return for SGI's traffic safety investment. Other primary responsibilities include managing Saskatchewan's traffic information database and providing leadership and supervision in the delivery of these information services while working in partnership with our customers. The TSPE group develops safety evaluation frameworks and timetables for the Auto Fund's safety initiatives to ensure that the progress of these programs are monitored and evaluated to provide opportunities for program improvements and fine tuning where necessary.

**d) Please provide the estimated cost/benefit over the period from 2005 to 2008 of each component of the long-term Traffic Safety Strategy outlined on Page 10 of the 2008 Annual Report, namely, occupant protection, human factors, impaired driving, intersection safety, speed management, and design and operation of road systems.**

Many of the initiatives identified under the long-term safety strategy are new and in the process of being developed and implemented in partnership with a number of external agencies, e.g., police, FSIN, municipal government engineers, Ministry of Highways. As indicated above, an invaluable component of the safety strategy is the monitoring and evaluation of the programs that are implemented by SGI. This enables us to be data driven in program development, discontinue programs that are ineffective and explore creative opportunities for enhancing cost effective programs.

Some of the current safety programs were assessed in 2008 and are described below.

Intersection Safety Improvements

Between 1996 and 1998, SGI launched a collaborative program with the cities of Prince Albert, Regina and Saskatoon to improve safety at eight high-risk intersections. These intersection improvement projects were designed to enhance traffic safety by reducing the frequency and severity of crashes at these intersections.

Analysis of the safety improvements two years following the improvement showed statistically significant reductions of about 8.5 to 13 percent in crashes that would have occurred if the improvements had not been made--Regina (8.5 percent), Saskatoon (10.2 percent), and PA (12.6 percent).

Overall, the project saved over \$1 million in collision claims and administrative costs. The cost savings represent returns of \$1.80 - \$11.80 for each dollar invested in the projects at all the urban centers. The positive returns from the projects have been demonstrated to be sustainable five years following the improvements

### Graduated Driver's Licensing Program

The Graduated Driver's Licensing (GDL) program, which was introduced in 2005, has been successful in reducing overall crash rates among new drivers, with the Learner stage contributing the most to the safety value of the program. However, the safety value of the program decreased as participants progressed from the Learner stage to the Novice stages.

Overall, there was a 15 to 21 per cent reduction in crashes involving drivers who participated in the GDL program compared with the pre-GDL drivers. Relative to the pre-GDL Learners, post-GDL Learners experienced a 48 percent reduction in their crash rate. The Novice 1 stage, a period of six months following the learner stage, experienced the least safety benefits of the three stages in the program. Apart from crash rates sharply increasing at this stage it demonstrated the lowest reduction in crash rates- a three per cent reduction, compared with the 48 and 11 per cent for the Learner and Novice 2 stages respectively.

### Vehicle Impoundment Program

The vehicle impoundment program (VIP) was implemented in 1996. Under this program drivers who are caught driving while disqualified could have their vehicles impounded for 30 or 60 days. The evaluation of the vehicle impoundment program indicates that the program has been highly effective in reducing subsequent driving while disqualified, unsafe driving behavior and involvement in at-fault collisions. Drivers whose vehicles were impounded once (within the two-year evaluation period) had a 25 per cent lower risk of subsequent driving while disqualified, and a 17 per cent lower risk of committing traffic violations relative to similar drivers whose vehicles were not impounded.

The program also appears to have positive results in terms of involvement in at-fault collisions. Our evaluation found that first-time offenders in the VIP experienced a reduction in collision risk that was greater than for offenders whose vehicles were not impounded.

### Ignition Interlock Device

Under the ignition interlock program, certain drinking and driving offenders who are convicted under the Criminal Code are required to install ignition interlock devices (IID) in their vehicles as a precondition for early reinstatement of their driver's licence. These devices prevent a driver who has consumed any alcohol from being able to start his/her vehicle. SGI evaluated the effects of the installation of an IID on recidivism and alcohol-related collisions.

The results indicated that offenders who installed an interlock device experienced a reduction in alcohol-related convictions during the period between conviction and IID removal that was 81 per cent lower than offenders who did not install a device. When examining alcohol-related collisions, our study found that

those with an IID installed showed greater reductions in crashes—84 per cent reduction in alcohol-related collisions compared with 74 per cent for those who did not install the device.

During the three-year period following removal of the device, the IID group continued to perform better than those who did not install ignition interlock.

Deer Fence

In 2007, to manage the claim costs associated with animal-vehicle collisions, SGI, in partnership with the Ministry of Highways and Infrastructure, erected a 5 km long fence on both sides of Highway 7 in the game preserve just west of the town of Harris for a cost to the Auto Fund of \$300,000. Preliminary results on annual claim costs associated with animal-vehicle collisions in this area before and after the erection of the fence are shown below:

Year	Claim costs
2004	\$148,353
2005	\$166,953
2006	\$170,744
2008	\$76,524

**25. Regarding SAF Redevelopment program:**

**a) Please confirm that this program is still on budget, at \$35 million, and on schedule.**

The project remains on schedule for completion in June 2010 and remains on budget at \$35 million.

**b) Please discuss the rationale for the approach taken to the funding of this program (\$35 million appropriated from the RSR).**

The factors considered in making this decision were:

- It was considered more transparent for keeping the public aware when reading the financial statements that the Auto Fund had already made this significant commitment.
- By setting the money aside through an appropriation no future rate increases would need to take the cost of this long-term project into account.

**c) Please provide a schedule showing annual program expenditures by major cost component, including annual carrying costs, and the annual appropriation to the RSR.**

**SGI**  
**Auto Fund Redevelopment Project**  
**Total Costs to the end of March, 2009**

	2005 Actuals \$	2006 Actuals \$	2007 Actuals \$	2008 Actuals \$	2009 Jan to March Actual & Committed \$	Total 2005 to March 31, 2009 \$
External Contract Resources	418,074	4,405,096	5,357,447	5,948,394	1,474,546	17,603,557
Infrastructure (Hardware and Software)	3,092	532,242	21,048	44,857	126,101	727,340
SGI Internal Staff	80,664	1,296,390	1,588,977	2,503,471	459,887	5,929,389
Total Project Cost to the end of March, 2009	<u>501,830</u>	<u>6,233,728</u>	<u>6,967,472</u>	<u>8,496,722</u>	<u>2,060,534</u>	<u>24,260,286</u>
Appropriation to the RSR	<u>0</u>	<u>1,296,000</u>	<u>2,679,000</u>	<u>4,251,000</u>	<u>1,193,000</u>	

- d) Please provide further details on estimated staff and cost reductions flowing from this program. Please also indicate if additional staff, or redeployed existing staff, will be required to support this program going forward.**

Although redevelopment impacts on every area of the Auto Fund, it will not, for the most part, change current policy and legislation. Procedures have and will be streamlined, eliminating unnecessary steps. However, the number of driver examinations, vehicle inspections, branch transactions etc. will not be impacted.

When complete, redevelopment will save about \$750,000 - \$1 million per year in staffing costs depending on the Internet take-up and other factors. In addition, there will be an estimated reduction in ongoing software maintenance costs of \$200,000 to \$300,000 per year.

- e) Please discuss whether a business case or cost/benefit analysis was developed prior to program initiation, providing any available supporting documentation.**

Please see the following Decision Item.

## **DECISION ITEM**

**DATE:** September 12, 2005

**SUBJECT:** Saskatchewan Auto Fund System Redevelopment Project

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### **BACKGROUND:**

The existing Auto Fund system is reaching the end of its useful life. Parts of the “back end” system were developed in the 1960’s and while the “front end” of the system, SAM (SGI Auto Mate) was implemented in 1995, it is time to replace the entire system.

The redevelopment of the Auto Fund system will address the following major issues:

1. The current system is very old and it is becoming more and more difficult to make changes to it. Sooner, rather than later, the programming language and current technology used by the Auto Fund system will simply become obsolete. While it is possible to add some new functionality to the system, including some Internet applications, it is inordinately complicated, expensive, and very time consuming to do so. Replacing the old system with one common system with new technology, will allow the Auto Fund to respond to customer and other business demands much more quickly.
2. The integrity and accuracy of information captured in the system is at risk with the current system. Because of the complexity of the system, having both “back end” and “front end” systems, each time changes are made, there are increased risks to the integrity of the data. SGI, its customers and enforcement rely on accurate and complete information from the Auto Fund. The increased emphasis on privacy of information, combined with customers requests for better and more access to their personal information add stress to the antiquated system.
3. The current computer system does not position the Auto Fund for the future. Specifically, it does not allow the Auto Fund to take advantage of opportunities with the Internet, such as interactions with partners and customers. If the Auto Fund is to provide the products and services that customers want to have and to be the best automobile insurance plan in the country, it must redevelop the existing computer system.

In 2004, the SGI Board of Directors approved an analysis phase of redevelopment, and the subsequent selection of Paradigm Consulting Group to assist SGI with this part of the project.

Since February 2005, redevelopment teams made up of Auto Fund, Systems, Finance, Rating and Actuarial Services, and Paradigm staff have analyzed and documented five hundred and nine current business processes, then conceptually identified how each should work in the future. The approach to this phase is not to simply replace what the Auto Fund system does today, but to determine how the process can be eliminated or service improved before redeveloping them into the new system.

The next phases of the project, if approved, will include the detailed design, development and implementation of the new Auto Fund system over the next five years.

## **BENEFITS:**

### **Make Changes Faster**

Auto Fund redevelopment will allow SGI to make changes to its computer system much more quickly than it can now, resulting in more timely responses to customer and business needs. For example, because of the complexity of having a system with a “back end” and a “front end”, both of which are old, changes require extensive programming, often in many different programs, and even more extensive testing to ensure accuracy. In the future, with one common system, with a more user or business-friendly program language, changes will be much easier to make and will often be able to be done in the business unit. The Class LV and Perpetual Trailer projects required about 18 months to fully implement. With the redeveloped system it is expected that a change to add a class or coverage option will take 6 – 8 weeks. This is achieved by eliminating most of the programming changes required by Systems staff and reducing overall testing time and effort because of the new architecture.

### **More Choices for Customers**

The new system will allow the Auto Fund to provide customers with more choices of products and services. For example, currently, most formal communication with customers is through the mail, i.e., driver and vehicle renewals. In the future, customers will have their choice of how they receive information or communication from SGI. For example, they would be able to choose to receive their driver or vehicle renewal notice by phone, email or regular mail.

SGI can also offer expanded product choices. For example, currently the Auto Fund offers Auto Pay (three months down and monthly payments of an annual insurance contract), Short Term Registration (89 days to 365 days), or annual insurance contracts for most vehicles. In the future, SGI could offer fixed terms (1 day to 365 days) or indefinite insurance (monthly payments).

### **Better and More Accessible Information**

The new Auto Fund system will provide more accurate and timely information to customers, issuers and other agencies, such as enforcement. Currently, driver information is available; vehicle information is also available, but to get a complete picture of the customer takes

numerous inquiries into the system. Nowhere is there a complete, integrated picture of a customer's activity with SGI.

With redevelopment, SGI, issuers and customers will have access to complete customer profiles, much like what is available with on-line banking today. Customers could be able to access this information on-line, 24 hours a day, 7 days a week. In other words, customers will be able to see all of their Auto Fund business with SGI; when renewals are coming up; monthly payment amounts; Safe Driver Recognition status; and even their driving record.

In addition, the new system will provide more and improved management information, which is very important for research, product development and safety programming. The new system will also streamline the exchange of information with SGI's many partners by using new and improved electronic communications methods.

### **Better Positioned for the Future**

The new system will provide the Auto Fund with an architecture that can meet its needs now and well into the future. Each of the five releases or implementation dates will deliver new or enhanced functionality and capabilities for the Auto Fund. It will also provide the foundation to more easily deliver new business initiatives, such as a multi-year driver's licenses, commission structure for remuneration, or ability to provide more transactions on the Internet. Depending on when these business decisions are made, they can be incorporated into the various releases or later.

### **Long Term Maintenance and Support**

With the expected retirements over the next five to seven years, SGI will lose some of its key business and systems staff along with the business knowledge related to how the current Auto Fund system operates. Redevelopment will ensure SGI has new staff who understand and are trained in the new Auto Fund system. This will result in a smooth transition of knowledge from those retiring staff to those who will be responsible for the new system in the future.

### **Cost Reduction**

Although redevelopment will impact on virtually all areas of the Auto Fund, it will not change policy or legislation. Procedures will be streamlined, eliminating unnecessary steps, however, it will not impact on the number of driver exams, vehicle inspections, or branch issuing services provided by Auto Fund staff.

Auto Fund redevelopment, when completed, will result in an estimated reduction of 15 to 20 Auto Fund staff out of 70, who currently provide administrative support for the division. The number of staff reductions will depend on Internet take up, the approach taken to imaging and participation of partners in electronic exchange of data. The reductions will result in an approximate saving of \$750,000 - \$1,000,000 per year, however, this may be somewhat offset by the need for some specialized business analysts who will support and make changes to the Auto Fund system in the business units.



With the increasing dependency on technology, redevelopment will allow the Systems division to divert staff resources from supporting the complexities of the existing Auto Fund systems, to adding new business functions to the Auto Fund and other areas of the corporation which will need system development to meet new business needs.

In addition to the above, there will be an estimated reduction in ongoing software maintenance costs of \$100,000 per year.

**APPROACH:**

The approach being recommended for delivering the system will be similar to the one used for the General Insurance System (GIS). The system will be delivered in five releases to be completed by mid 2010. This allows for the delivery of some system functionality and benefits as soon as possible. A staged approach also ensures a higher degree of confidence for successful implementation by managing the risk associated with a project of this magnitude.

SGI does not have enough application development staff to build the new Auto Fund system, nor will SGI require this level of resourcing once the project is complete. As a result, SGI will be contracting for additional skilled resources from a number of companies within Regina for this project. These contract resources will help augment the SGI staff to deliver this project. The intent is to have SGI staff involved throughout the project to ensure the knowledge of the new system is transferred to existing SGI staff when the project is complete. This will ensure that SGI staff understand, are able to support and enhance the system without requiring ongoing contracted resources.

**FINANCIAL IMPLICATIONS:**

A request for proposal (RFP) was issued in June 2005 requesting companies to assist SGI with managing the delivery of the design, development and implementation of the overall project for the next five years.

Based on the RFP response, technology costs and SGI staffing costs, the total project cost is estimated at \$35 million.

	<u>(\$ millions)</u>
Total External Redevelopment	\$23.4
Backfill contractors for Systems staff	2.6
Technology (hardware)	2.3
Technology (software)	.9
Contingency	1.8
<b>Total capitalized costs</b>	<b>31.0</b>
Internal Seconded Business staff	4.0
<b>Total Project</b>	<b><u>\$35.0</u></b>

The technology hardware costs of \$2.3 million will be amortized over a three year period and the remaining \$28.7 million of the total capitalized costs will be amortized over a five year period, consistent with SGI's capitalization policy. The internal seconded business staff costs of \$4 million are not capitalized. The new system is expected to have a minimum useful life of 15 years which would represent a cost of \$2.68 per insured vehicle per year over that period.

## **ALTERNATIVES:**

### **A. Purchase a Package**

Earlier this year, other North American jurisdictions were researched to determine if there are existing software "packages" which would simplify and reduce the cost of a new Auto Fund system. There are three findings of note:

1. None of the U.S. jurisdictions that responded to a survey have used packages for their motor vehicle related systems. All have built systems customized for their jurisdictions because of unique requirements. In Canada, only Alberta indicated that they had purchased a package for their pro-rate vehicle system of inter-provincial registrations. The Auto Fund currently uses this package as well.
2. Although a few states are looking at redeveloping their systems, none are complete. Many are examining, or have made changes to components of their systems, such as the photo driver's license, or automated driver testing.
3. SAM, implemented ten years ago, provides substantially better service for customers than what is available in other jurisdictions. Nonetheless, Saskatchewan residents are asking for enhanced services, which are not possible through the current system.

The research indicates that looking to other jurisdictions or software solution companies will not provide practical or economical alternatives for the redevelopment of the Auto Fund system.

While SGI has not found a package that will satisfy the Auto Fund business requirements, many of SGI's existing applications (i.e., Peoplesoft for Financials, TimeTrade for Driver Testing Scheduling, etc.) will be utilized whenever possible to reduce cost and delivery time. More importantly, SGI will leverage the knowledge of its other systems, specifically GIS for product management and issuer management. This will reduce the design and development costs of these components of the system.

## **B. Continue Existing System**

The Auto Fund could continue with its current system, adding and making changes to an existing application and technology base that, in some cases, is over 40 years old. Due to the old applications and architecture, it will continually become more difficult to add the functionality required by the Auto Fund and government in acceptable timeframes. Cost and length of time to implement changes will increase, and continue to increase, until the system is eventually changed.

Because of the many different technologies in the Auto Fund system, changes will be required in order to keep an aging environment current and supported by the vendors. It is anticipated that over the next five to ten years, to make the necessary business changes and keep the technology current and supported, it will cost the Auto Fund a minimum \$5 - \$10 million dollars.

SGI could redevelop some portions of the existing applications, or create new applications to meet business requirements. For example, if the Auto Fund needs to deliver some programs via the Internet, SGI could develop new applications for this, attempt to integrate the applications and data, then support and maintain three sets of applications - - the “front end”, the “back end” and the Internet application.

Under this alternative, SGI is not solving the issue of integration between the issuing “front end” system (SAM) and the processes performed in the “back end” office. The Auto Fund will continue to have errors, and will continue to take more time and resources to fix these errors, and will continue to result in data inconsistencies and customer errors.

Although it is possible to support the Auto Fund with the present system, it is not practical or financially prudent in the long run.

### **CONCLUSION:**

Auto Fund Redevelopment is critical to SGI’s success. In particular, redevelopment is necessary to provide customer-driven products and services, and to be the best insurance plan in Canada.

**Submitted by:** Dwain Wells  
Sherry Wolf

**26. Regarding IFRS:****a) Please provide any available update to the narrative on Pages 33 and 34 of the 2008 Annual Report with respect to IFRS implementation.**

In February 2008 and March 2009, the Canadian Institute of Chartered Accountants (CICA) Accounting Standards Board confirmed that publicly accountable enterprises, including the Corporation and its subsidiaries, will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian Generally Accepted Accounting Principles (GAAP) for interim and annual reporting in fiscal years beginning on or after Jan. 1, 2011, including comparative figures.

SGI, as administrator of the Auto Fund, has commenced an IFRS conversion project including the development of a high-level IFRS implementation plan which includes stakeholder identification, milestones and deadlines, planned scope and approach, risks and mitigations, project governance and accountability responsibilities, and resource requirements. A Steering Committee is in place that includes senior-level management. The Steering Committee has the responsibility to ensure the project is adequately planned in sufficient detail, appropriate resources are available, necessary milestones are established and project progress is properly monitored. An external advisor has been engaged to assist with the conversion project. Regular reporting is provided by the project team to senior management, the Steering Committee and the Audit and Finance Committee of the Board of Directors.

The IFRS conversion project consists of four phases: project initiation and initial assessment, detailed assessment, design and execution. We have completed the project initiation and initial assessment stage, which involved a high-level preliminary assessment of the differences between Canadian GAAP and IFRS and the potential effects of IFRS to accounting and reporting processes, approval of the project charter and a high-level project plan, and the development of an IFRS training plan.

The initial assessment, completed in the first quarter of 2009, has provided insight as to the most significant differences applicable to the Auto Fund. These include IFRS 1 – First time adoption, financial instruments, property, plant and equipment, employee future benefits, insurance contract classification and measurement, joint ventures, provisions and leases, as well as the more extensive presentation and disclosure requirements under IFRS.

SGI is currently progressing through the detailed assessment phase which involves preparing an in-depth analysis of the IFRS accounting policies, selecting IFRS accounting policies and IFRS 1 elections, preparing a communication plan and identification of any IT system requirements. This phase of the project is to be completed by Dec. 31, 2009. Accounting policy analysis will be presented to the Audit and Finance Committee of SGI's Board of Directors beginning in August 2009.

At this stage of the project, the impact of IFRS on the Auto Fund's processes, systems, internal controls over financial reporting and disclosures, future financial position and results of operations are not reasonably determinable. Draft impacts on future financial position and results of operations, processes, systems and controls, as well as draft IFRS financial statement presentation formats, are anticipated in the later half of 2009.

**b) Have any aspects of IFRS implementation been identified that may be expected to have a significant impact on the RSR?**

SGI is currently assessing the impact of various accounting alternatives available under IFRS. At this time, there have been no accounting decisions finalized, and the financial impact is unclear. The most significant areas associated with the implementation are as follows:

### Redesignation of Financial Instruments

Under IFRS, SGI has the opportunity to change the designation of its investments, currently classified as available for sale, and account for them as Fair Value through Profit and Loss. The impact would be that unrealized gains and losses on investments would be accounted for through operations (the RSR), rather than through accumulated other comprehensive income (AOCI). As at Dec. 31, 2008 the impact is estimated to be a reduction of the RSR by \$21,122,000 and an offsetting increase to AOCI. Total equity would not change and there would be no impact on the MCT. If the Auto Fund were to redesignate, it is likely that it would also begin accounting for its provision for unpaid claims using full discounting. The impact of using full discounting is an increase to the RSR of approximately \$40,528,000 as at Dec. 31, 2008. Please note that the MCT calculation already takes investment market value and claims discounting into consideration and as such there would be no impact on the MCT.

SGI is currently assessing the alternative treatments available regarding the designation of financial instruments and has made no conclusions at this time.

### Property, Plant and Equipment – Deemed Cost

Upon adoption of IFRS, SGI can elect to increase the cost base of its property plant and equipment to its fair value as at Jan. 1, 2010. This election can be applied to individual assets on a case by case basis. Any change in the cost base of property plant and equipment would be offset by a change in the RSR. If this election were utilized it is anticipated that the cost base of certain buildings could be increased, however, the financial impact is currently unknown. SGI is assessing the alternative treatments available under this election and has made no conclusions at this time.

### Employee Future Benefits

SGI incurs retirement benefit costs associated with its defined benefit pension plan, defined contribution plan and its defined benefit service recognition plans. SGI allocates a portion of these costs to the Auto Fund for those employees who provide service to it.

There are accounting differences between IFRS and Canadian GAAP related to unamortized actuarial gains and losses and past service costs. SGI is assessing the alternative treatments available and a financial impact assessment is not complete at this time.

## **27. Regarding the RSR:**

### **a) Please provide SAF's declared purpose for the RSR.**

One of the operating principles for the Auto Fund is ensuring consistency and stability in rates so that customers are not subject to ongoing price fluctuations or large rate increases. In order to provide this stability, an adequate balance in the Rate Stabilization Reserve (RSR) is required to provide a financial resource to draw on when adverse financial events occur, such as higher than expected claim costs or a decline in investment income. This reserve protects customers from sudden large rate increases.

### **b) Please outline SAF policy with respect to actions to be taken in the event the MCT ratio rises above or falls below the established target range for the RSR.**

The Auto Fund currently does not have a formal policy for addressing when the MCT falls outside its target range. However, when the Auto Fund had excess capital as measured by its MCT target at the end of 2006 and 2007, it refunded the money to its customers with rebates of \$44 million and \$100 million respectively. The Auto Fund will be developing a formal policy on what actions should be taken when the MCT is outside its target range. It is anticipated this new policy will be available for the Auto Fund's next rate program.

- c) Please provide supporting details for the calculation of the numerator and denominator of SAF’s MCT ratio as at year end 2008.

**SAF**  
**MCT Calculation - Dec. 31, 2008**

**Capital Available**

Rate Stabilization Reserve	102,535	
Discounting of non-discounted lines of business	40,527	
Accumulated Other Comprehensive Loss	(21,122)	
Assets with a capital requirement of 100%	<u>(10,422)</u>	
Total capital available		111,518

**Capital Required**

Unpaid claims/unearned premiums	105,380	
On-balance sheet asset requirements	77,583	
Other exposures (structured settlements)	<u>57</u>	
Total capital required		<u>183,020</u>

MCT equals capital available divided by capital required		<u><u>61%</u></u>
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- d) Please provide details of SAF’s current plans for addressing the needed replenishment of the RSR in the near to mid-term.

The Auto Fund’s request of an average 4.2 per cent increase in revenue through a rate increase is to break-even only, and is not requesting to recapture additional revenue to bring the RSR back to within its target range. The decline in the Auto Fund’s MCT below its target range was a result of the worldwide decline in capital markets. There were several factors considered in determining whether the Auto Fund should request a higher rate increase to address the MCT shortfall:

- The size of the overall rate increase (4.2%) combined with the amount being requested for some rate groups was already large and anything further to address the RSR shortfall could be considered rate shock.
- The decline in the MCT was due to a very rapid and significant decline in the value of the Auto Fund’s investment portfolio. While this decline may be long-term, the Auto Fund wanted more time to assess this downturn before addressing the issue.

With the Auto Fund’s next rate program it will address the MCT shortfall should it still exist.

**28. On Page 9 of her SAF “Report of the Actuary on the Valuation of Property and Casualty Business Based on Experience as at May 31, 2008”, Ms. Low states that lines of business other than the three lines of business subject to indexation of benefits “have not been discounted for their investment earnings, nor do they include a provision for adverse deviations”. Consistent with this, in her opinion appearing on Page 40 of the SAF 2008 Annual Report, Ms. Low states “Management required that the valuation of some policy liabilities not reflect the time value of money ...”.**

- a) Please discuss the rationale for the management decision to not discount certain lines of business for valuation and financial reporting purposes.

When the accounting guidelines changed in Canada in regards to discounting claim liabilities, insurance companies were allowed to continue discounting only certain long-tail lines of business or to discount all

lines of business. At that time, the Auto Fund continued with its practice of only discounting long-tail lines of insurance business as it is a more conservative standard.

For purposes of setting rates, the Auto Fund takes into account the investment earnings impact of the premiums collected during the rating period, which are invested and then paid out over the life of the claims and expenses. As well, the MCT calculation for the Auto Fund takes into account full discounting of all claims liabilities as it does for all property and casualty insurance companies in Canada. As a result, the decision to not discount the claim liabilities in its financial statements does not impact the price charged to Auto Fund customers.

**b) Given the mix of discounted and undiscounted amounts within the financial statement provision for unpaid claims, and the presentation of most investment assets on a market value basis, please discuss this financial statement presentation in the context of compliance with Canadian generally accepted accounting principles.**

The approach the Auto Fund takes is consistent with Canadian generally accepted accounting principles. While invested assets are presented on a market value basis on the Statement of Financial Position, they are not on the Statement of Operations as gains on investments are only brought into income as they are realized.

**c) Please discuss the rationale for not including, or the steps taken to confirm no need for, a provision for adverse deviations on the lines of business not subject to discounting for valuation and financial reporting purposes.**

The rationale is that explicit provisions for adverse deviation do not need to be added to the undiscounted lines since there are implicit provisions included for both investment and claims development risks. The implicit interest rate PFAD is based on the fact that these lines are not discounted. The conservatism built into the valuation assumptions would be the implicit claims development PFAD. If the conservatism were to be reduced, the possibility of an explicit provision would need to be explored. The actuarial liabilities are calculated and compared on an overall basis to the claims liabilities. The higher of the two numbers is used for valuation and financial reporting purposes. This comparison would confirm whether the implicit provisions are sufficient or not. Since the claim liabilities exceed the actuarial liabilities by a material amount, it was confirmed that the implicit assumptions are sufficient.

**29. Please discuss SAF's view of what constitutes rate shock, both with respect to increases and decreases in policyholder premiums.**

There are several factors the Auto Fund considers when determining what constitutes rate shock for its customers, which include the following:

- the overall revenue requirement in order to breakeven
- the level of the MCT
- the overall requirement of the particular rate group in relation to the overall revenue requirement
- the need to avoid cross-subsidization of rate groups

The following is an example of how these factors were considered in the light vehicle private passenger class for this rate program.

The overall indicated rate requirement for this group was 4.8 per cent. The overall capping guideline the Auto Fund was considering with this rate program was a maximum increase of 10 per cent. However, in order to maintain the 10 per cent cap for this class, vehicles that require a rate decrease would need to increase to generate the required additional 4.8 per cent of total revenue from this class. As a result, the cap was increased to 12.5 per cent so that vehicle owners requiring a decrease would receive no rate change. This is an example of how the requirements above are considered when determining rate

shock. While the Auto Fund considered anything greater than 10 per cent to be rate shock, increasing cross-subsidization was also considered as or more important in this example.

**30. Please summarize any significant methodological changes made in the actuarial analysis of rate level and rate relativity indications in the current application versus that of the 2007 application.**

There have been a couple of changes made in the actuarial analysis of rate level in the current application versus that of the 2007 application. In the 2007 application, traffic safety program costs were included in the total fixed expense by coverage. In the current application, traffic safety program costs are included in the variable expense amount. Also new with this application is the separation of loss adjustment expenses from the total fixed expense by coverage amount.

The largest change from the 2007 application to the current application is the separation of farm light vehicles into the groupings of 1993 and older model years, and 1994 and newer model years. In the 2007 application, the analysis was done on all model years grouped together with a relativity analysis based on model year and vehicle body type. This year, a separate indication was done for each model year grouping (1993 and older, 1994 and newer). A relativity analysis was completed for model years 1993 and older using model year and vehicle body type (same as in the 2007 application). For model years 1994 and newer, it has been recommended that their rating methodology change from being based on a model year and body type table to being based on light vehicle CLEAR rating. This will bring them more in-line with farm light vehicles that are currently included in the light vehicle class.

As a result of resource constraints due to redevelopment, no major changes were made to the rate methodologies for the classes. Once redevelopment is complete, it is probable that future applications will include changes to the rate methodologies for various classes of vehicles.

**31. Regarding CLEAR:**

**a) Please describe how CLEAR rate group tables and rate group differentials as promulgated by VICC are adapted for use by SAF.**

CLEAR rate group tables are adapted by the Auto Fund directly. A vehicle will have its VICC code mapped to a SGI make/model code, and the rate group assignments for that SGI make/model code are used in rate setting.

CLEAR rate group differentials are adapted by SAF beginning with a loss cost analysis for each rate group, separate for damage and accident benefits. These loss costs are then used to determine Auto Fund rate group differentials. The most populated rate group, excluding 0 or 1, is set as the base SGI rate group and the relativity for that rate group is set to equal the VICC. These Auto Fund differentials are then credibility weighted with the VICC suggested differentials.

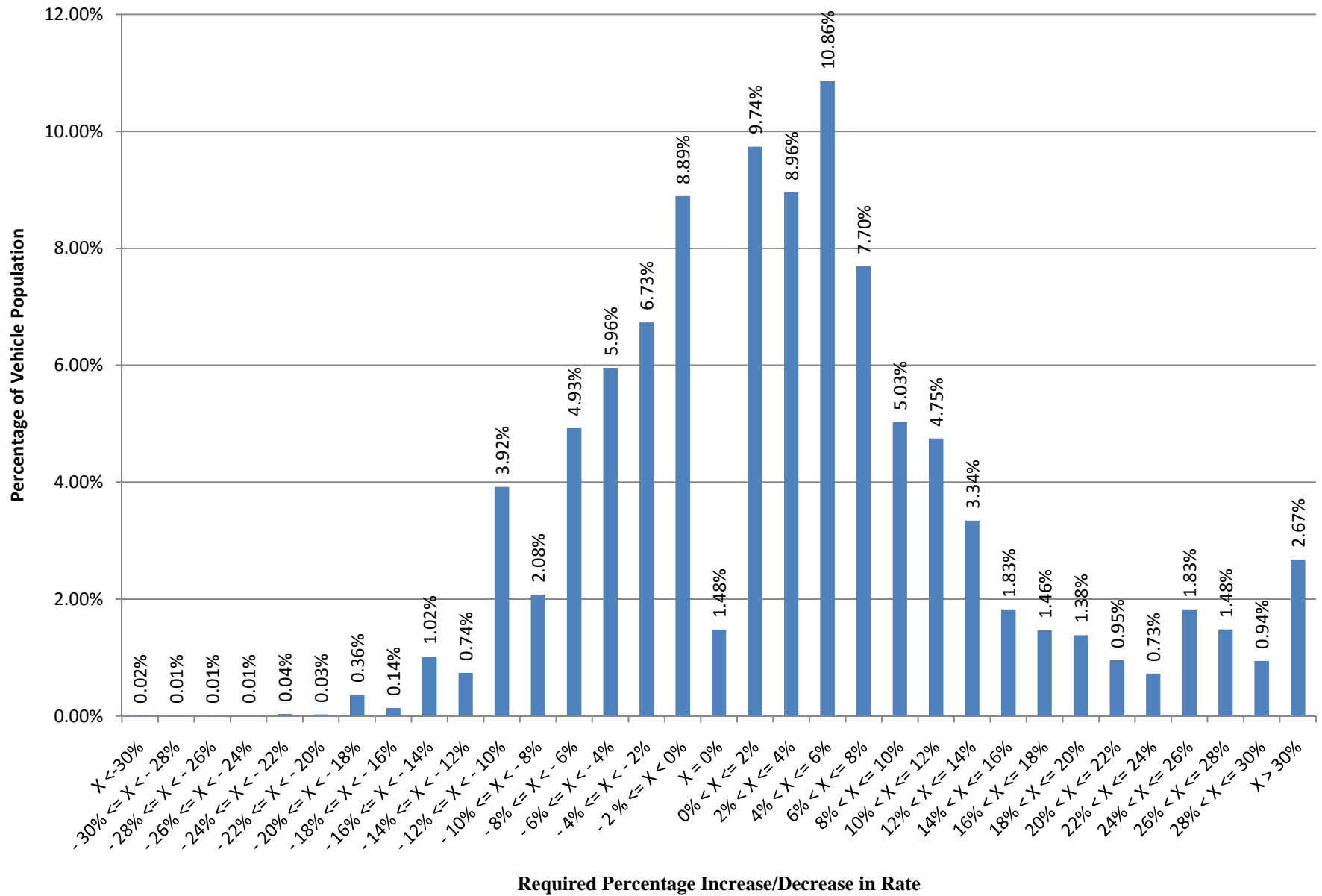
This year a damage rate group 0 has been added to the analysis. The rate group 0 for damage has been implemented to account for vehicles that are older than 15 years of age and that were rated as rate group 1 last year. CLEAR only assigns rate groups to vehicles 15 years of age or newer, stating that vehicles older than this should have their rate group decreased by one for each year older than that listed to a minimum rate group of 1. Since the vehicle population in Saskatchewan contains numerous older vehicles, under the CLEAR system they were all being rated as rate group 1, which was causing the rate group 1 results to become skewed. Essentially, the current rate group 1 has been split into two rate groups: rate group 1 for vehicles that are actually assigned to this group, and rate group 0 for vehicles that were rate group 1 previously but have aged past this point. An analysis was performed to validate the decision to split rate group 1. It was found that rate group 0's losses were half of rate group 1's.



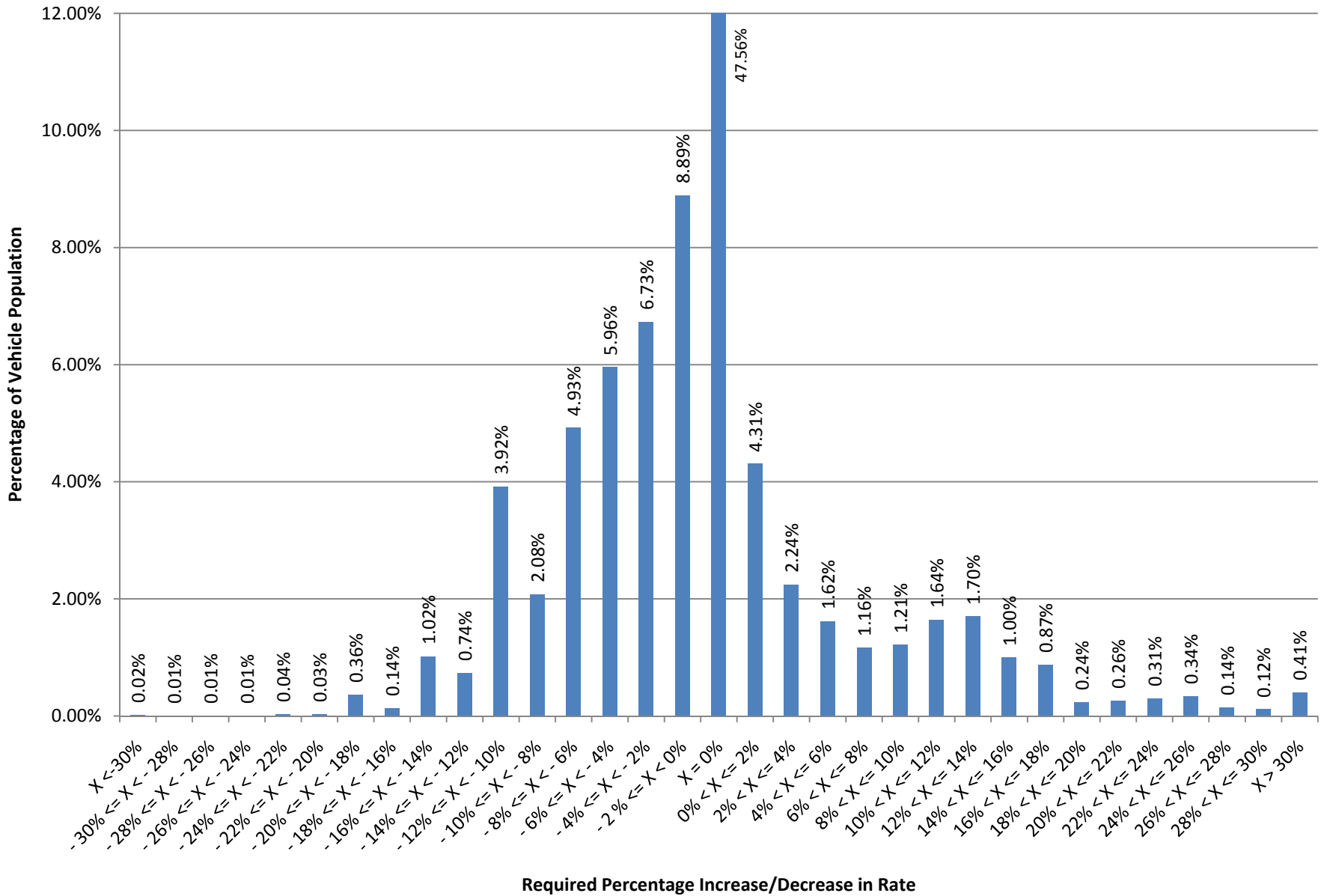
- b) Please provide charts (and the underlying data on an incremental and cumulative basis) comparable to those appearing on Pages 19 and 20 of the 2007 main application document.**

Please see the following graphs and table.

# Light Passenger Vehicles Pricing Adjustments Before Rate Program



# Light Passenger Vehicles Pricing Adjustments After Rate Program



Response to Question #31 (b)

Underlying data for Light Passenger Vehicles required rate changes before and after rate program

Percent Interval Dislocation From CLEAR Suggested Premiums	Before Rate Program		After Rate Program	
	Incremental	Cumulative	Incremental	Cumulative
<b>X &lt; -30%</b>	0.02%	0.02%	0.02%	0.02%
<b>- 30% &lt;= X &lt; - 28%</b>	0.01%	0.02%	0.01%	0.02%
<b>- 28% &lt;= X &lt; - 26%</b>	0.01%	0.03%	0.01%	0.03%
<b>- 26% &lt;= X &lt; - 24%</b>	0.01%	0.04%	0.01%	0.04%
<b>- 24% &lt;= X &lt; - 22%</b>	0.04%	0.08%	0.04%	0.08%
<b>- 22% &lt;= X &lt; - 20%</b>	0.03%	0.11%	0.03%	0.11%
<b>- 20% &lt;= X &lt; - 18%</b>	0.36%	0.47%	0.36%	0.47%
<b>- 18% &lt;= X &lt; - 16%</b>	0.14%	0.61%	0.14%	0.61%
<b>- 16% &lt;= X &lt; - 14%</b>	1.02%	1.63%	1.02%	1.63%
<b>- 14% &lt;= X &lt; - 12%</b>	0.74%	2.37%	0.74%	2.37%
<b>- 12% &lt;= X &lt; - 10%</b>	3.92%	6.29%	3.92%	6.29%
<b>- 10% &lt;= X &lt; - 8%</b>	2.08%	8.36%	2.08%	8.36%
<b>- 8% &lt;= X &lt; - 6%</b>	4.93%	13.29%	4.93%	13.29%
<b>- 6% &lt;= X &lt; - 4%</b>	5.96%	19.25%	5.96%	19.25%
<b>- 4% &lt;= X &lt; - 2%</b>	6.73%	25.98%	6.73%	25.98%
<b>- 2 % &lt;= X &lt; 0%</b>	8.89%	34.87%	8.89%	34.87%
<b>X = 0%</b>	1.48%	36.35%	47.56%	82.43%
<b>0% &lt; X &lt;= 2%</b>	9.74%	46.09%	4.31%	86.74%
<b>2% &lt; X &lt;= 4%</b>	8.96%	55.04%	2.24%	88.98%
<b>4% &lt; X &lt;= 6%</b>	10.86%	65.90%	1.62%	90.60%
<b>6% &lt; X &lt;= 8%</b>	7.70%	73.60%	1.16%	91.76%
<b>8% &lt; X &lt;= 10%</b>	5.03%	78.62%	1.21%	92.97%
<b>10% &lt; X &lt;= 12%</b>	4.75%	83.37%	1.64%	94.61%
<b>12% &lt; X &lt;= 14%</b>	3.34%	86.72%	1.70%	96.31%
<b>14% &lt; X &lt;= 16%</b>	1.83%	88.54%	1.00%	97.31%
<b>16% &lt; X &lt;= 18%</b>	1.46%	90.01%	0.87%	98.18%
<b>18% &lt; X &lt;= 20%</b>	1.38%	91.39%	0.24%	98.42%
<b>20% &lt; X &lt;= 22%</b>	0.95%	92.35%	0.26%	98.68%
<b>22% &lt; X &lt;= 24%</b>	0.73%	93.07%	0.31%	98.99%
<b>24% &lt; X &lt;= 26%</b>	1.83%	94.90%	0.34%	99.33%
<b>26% &lt; X &lt;= 28%</b>	1.48%	96.38%	0.14%	99.48%
<b>28% &lt; X &lt;= 30%</b>	0.94%	97.33%	0.12%	99.59%
<b>X &gt; 30%</b>	2.67%	100.00%	0.41%	100.00%
<b>Total</b>	<b>100%</b>		<b>100%</b>	

Response to Question #31 (b)

Underlying data for Light Passenger Vehicles required rate changes before and after rate program

Percent Interval Dislocation From CLEAR Suggested Premiums	Before Rate Program		After Rate Program	
	Incremental	Cumulative	Incremental	Cumulative
<b>X &lt; -30%</b>	113	113	113	113
<b>- 30% &lt;= X &lt; - 28%</b>	45	158	45	158
<b>- 28% &lt;= X &lt; - 26%</b>	76	233	76	233
<b>- 26% &lt;= X &lt; - 24%</b>	64	298	64	298
<b>- 24% &lt;= X &lt; - 22%</b>	250	548	250	548
<b>- 22% &lt;= X &lt; - 20%</b>	191	739	191	739
<b>- 20% &lt;= X &lt; - 18%</b>	2,480	3,220	2,480	3,220
<b>- 18% &lt;= X &lt; - 16%</b>	940	4,159	940	4,159
<b>- 16% &lt;= X &lt; - 14%</b>	6,900	11,059	6,900	11,059
<b>- 14% &lt;= X &lt; - 12%</b>	5,033	16,092	5,033	16,092
<b>- 12% &lt;= X &lt; - 10%</b>	26,640	42,732	26,640	42,732
<b>- 10% &lt;= X &lt; - 8%</b>	14,116	56,849	14,116	56,849
<b>- 8% &lt;= X &lt; - 6%</b>	33,475	90,324	33,475	90,324
<b>- 6% &lt;= X &lt; - 4%</b>	40,476	130,800	40,476	130,800
<b>- 4% &lt;= X &lt; - 2%</b>	45,759	176,559	45,759	176,559
<b>- 2 % &lt;= X &lt; 0%</b>	60,428	236,987	60,428	236,987
<b>X = 0%</b>	10,032	247,020	323,245	560,233
<b>0% &lt; X &lt;= 2%</b>	66,194	313,214	29,270	589,503
<b>2% &lt; X &lt;= 4%</b>	60,873	374,087	15,222	604,725
<b>4% &lt; X &lt;= 6%</b>	73,781	447,868	10,986	615,711
<b>6% &lt; X &lt;= 8%</b>	52,311	500,179	7,893	623,604
<b>8% &lt; X &lt;= 10%</b>	34,153	534,332	8,235	631,839
<b>10% &lt; X &lt;= 12%</b>	32,280	566,612	11,161	643,001
<b>12% &lt; X &lt;= 14%</b>	22,723	589,334	11,546	654,546
<b>14% &lt; X &lt;= 16%</b>	12,415	601,749	6,796	661,342
<b>16% &lt; X &lt;= 18%</b>	9,951	611,700	5,939	667,281
<b>18% &lt; X &lt;= 20%</b>	9,409	621,108	1,604	668,885
<b>20% &lt; X &lt;= 22%</b>	6,489	627,597	1,782	670,666
<b>22% &lt; X &lt;= 24%</b>	4,947	632,544	2,076	672,742
<b>24% &lt; X &lt;= 26%</b>	12,413	644,957	2,337	675,079
<b>26% &lt; X &lt;= 28%</b>	10,075	655,032	973	676,052
<b>28% &lt; X &lt;= 30%</b>	6,408	661,440	799	676,851
<b>X &gt; 30%</b>	18,178	679,618	2,767	679,618
<b>Total</b>	<b>679,618</b>		<b>679,618</b>	

- c) VICC is currently in the process of finalizing new CLEAR tables which significantly expand the CLEAR treatment for first party injury benefits. Does SAF intend to reflect (in due course) these changes in its adaptation of CLEAR, and what policyholder dislocation issues might this be expected to have?**

Until this year, VICC CLEAR tables had five rate groups (1-5) for accident benefits, which correspond to rate group differentials of 0.8, 0.9, 1.0, 1.1, and 1.2. This year, VICC has implemented accident benefit rate groups from one to 50 with rate group differentials from 0.2 to 2.184, of which they are currently only assigning vehicles to rate groups 27 to 40, whose differentials go from 0.711 to 1.341. VICC has also given companies the option of using transitional rate groups of zero to six with differentials from 0.7 to 1.35. Later this year, Actuarial Services will be conducting an impact analysis for both options. The analysis will be presented to senior management, who will decide which option will be used in the 2010 rate program.

- d) Please provide a table summarizing the current, indicated and proposed rate group relativities for all classes of CLEAR rated vehicles.**

Due to the process of capping premiums in the Auto Fund, the final published rates don't usually reflect a typical (Base Rate)\*(Differential) model. Because of this, current and proposed rate group differentials do not exist. The final differentials selected based on the indicated differentials can only be considered "selected".

Please see the attached rate group differential table.

Accident Benefits				Physical Damage				Physical Damage			
RG	VICC	SIG	SIG	RG	VICC	SIG	SIG	RG	Differential	SIG	SIG
	Differential	Indicated	Selected		Differential	Indicated	Selected		Differential	Indicated	Selected
1	0.800	0.965	0.800	0		0.165	0.165	50	7.345	7.345	7.345
2	0.900	1.080	0.900	1	0.300	0.330	0.330	51	7.545	7.545	7.545
3	1.000	1.000	1.000	2	0.395	0.525	0.525	52	7.745	7.745	7.745
4	1.100	1.150	1.100	3	0.495	0.717	0.717	53	7.945	7.945	7.945
5	1.200	1.306	1.200	4	0.595	0.897	0.897	54	8.145	8.145	8.145
				5	0.695	0.903	0.985	55	8.345	8.345	8.345
				6	0.795	1.072	1.072	56	8.545	8.545	8.545
				7	0.895	1.095	1.095	57	8.745	8.745	8.745
				8	0.995	1.279	1.279	58	8.945	8.945	8.945
				9	1.095	1.305	1.305	59	9.145	9.145	9.145
				10	1.195	1.402	1.402	60	9.345	9.345	9.345
				11	1.295	1.493	1.493	61	9.545	9.545	9.545
				12	1.395	1.569	1.569	62	9.745	9.745	9.745
				13	1.495	1.603	1.603	63	9.945	9.945	9.945
				14	1.595	1.734	1.734	64	10.140	10.140	10.140
				15	1.695	1.795	1.795	65	10.340	10.340	10.340
				16	1.795	1.818	1.818	66	10.540	10.540	10.540
				17	1.895	1.944	1.944	67	10.740	10.740	10.740
				18	1.995	2.037	2.037	68	10.940	10.940	10.940
				19	2.095	2.032	2.116	69	11.140	11.140	11.140
				20	2.195	2.196	2.196	70	11.340	11.340	11.340
				21	2.295	2.259	2.259	71	11.540	11.540	11.540
				22	2.395	2.494	2.494	72	11.740	11.740	11.740
				23	2.495	2.483	2.532	73	11.940	11.940	11.940
				24	2.595	2.571	2.571	74	12.140	12.140	12.140
				25	2.695	2.660	2.660	75	12.340	12.340	12.340
				26	2.795	2.798	2.798	76	12.540	12.540	12.540
				27	2.895	2.808	2.922	77	12.740	12.740	12.740
				28	2.995	3.046	3.046	78	12.940	12.940	12.940
				29	3.145	3.145	3.145	79	13.140	13.140	13.140
				30	3.345	3.519	3.519	80	13.340	13.340	13.340
				31	3.545	3.433	3.646	81	13.540	13.540	13.540
				32	3.745	3.773	3.773	82	13.740	13.740	13.740
				33	3.945	3.862	3.862	83	13.940	13.940	13.940
				34	4.145	4.037	4.037	84	14.140	14.140	14.140
				35	4.345	4.322	4.322	85	14.340	14.340	14.340
				36	4.545	4.497	4.497	86	14.540	14.540	14.540
				37	4.745	4.646	4.646	87	14.740	14.740	14.740
				38	4.945	4.924	4.924	88	14.940	14.940	14.940
				39	5.145	5.145	5.145	89	15.140	15.140	15.140
				40	5.345	5.345	5.345	90	15.340	15.340	15.340
				41	5.545	5.545	5.545	91	15.540	15.540	15.540
				42	5.745	5.745	5.745	92	15.740	15.740	15.740
				43	5.945	5.945	5.945	93	15.940	15.940	15.940
				44	6.145	6.145	6.145	94	16.140	16.140	16.140
				45	6.345	6.345	6.345	95	16.340	16.340	16.340
				46	6.545	6.545	6.545	96	16.540	16.540	16.540
				47	6.745	6.745	6.745	97	16.740	16.740	16.740
				48	6.945	6.945	6.945	98	16.940	16.940	16.940
				49	7.145	7.145	7.145	99	17.140	17.140	17.1400

**32. Please discuss the rationale for the selected relativities in response to the analysis of credibility-weighted relativities for each applicable class of conventionally rated vehicles.**

Class LV – Motorhomes

The proposed selected relativities for Motorhomes were set equal to the current relativities due to a lack of credibility in the high end of the table leading to inconsistencies in the relativities.

Class LV – Motorcycles

The rationale for selecting the motorcycle model type, model year, and engine capacity proposed relativities was as follows:

If the credibility-weighted relativity was greater than or less than 10 per cent different from the current relativity, then the proposed selected relativity was capped at plus or minus 10 per cent. If the credibility-weighted relativity was within plus or minus 10 per cent of the current relativity, then the proposed selected relativity was set equal to the credibility-weighted relativity.

Class PT – Taxis

The rationale for selecting the taxi location relativities was as follows:

Location C – Regina and Saskatoon, is the base relativity, so it remained at one. Location B's relativity was set equal to the credibility-weighted indicated relativity. Location A's relativity was set equal to the current relativity to cap the premium change to 10 per cent. The proposed base rate for this class of vehicle is 10 per cent higher than the current base rate. In order for the Location A rates to remain within the 10 per cent cap for this class of vehicle, the proposed selected location relativity had to be set equal to the current relativity.

Class F – Farm Light – Model Years 1993 and Older

The same rationale that was used for Class LV – Motorcycles has been used for Farm Light Vehicles – Model Years 1993 and Older.

Class F – Farm Heavy Trucks

The rationale used for Farm Vehicle Heavy Trucks is the same as that used for Class LV – Motorcycles with the exception of model years 1983 and 2004. For model year 1983, the proposed selected relativity was set equal to the current relativity to cap the premium change for this model year at –10 per cent. The model year 2004 proposed selected relativity was calculated by using the average of the proposed selected relativities for model years 2003 and 2005. The proposed selected relativities for model years 2003 and 2005 are both increasing, which would have resulted in the proposed selected relativity for model year 2004 based on the credibility-weighted relativity being lower than both. The proposed selected relativity averaging of model years 2003 and 2005 was done to smooth the model year 2004 relativity.

Class F – Power Units

The rationale used for Farm Vehicle Power Units is the same as that used for Class LV – Motorcycles with the exception of model years 2007, 2008 and 2009. Due to the thinness of the data for model years 2007 to 2009, the proposed selected relativities have been based on the proposed selected relativity for model year 2006. The proposed selected relativity for model year 2006 was set equal to the credibility-weighted relativity. Model year 2007 proposed selected relativity has been set to 0.032 higher than the



2006 model year relativity. Model year 2008 and 2009 follow the same pattern. There are only a small number of exposures currently in these model years.

#### Class F – Trailers

The relativity changes for Farm Trailers have been capped at three per cent. This was done to limit the increase in premium due to the change in base rate of five per cent and the relativity change for Utility trailers to 10 per cent. To be consistent between the trailer types, transport trailers had their relativity changes capped at three per cent also.

#### Class PB – Passenger Inter-City Buses

A relativity analysis was completed for this class, but due to unexpected results, the proposed selected relativities were set equal to the current. The eight-year pure premium relativity analysis produced results that did not progress smoothly. Because of this, the question has been raised as to whether or not there actually is a correlation between model years and number of seats when rating buses. No proposed changes to the rate methodology for buses are being proposed in this rate application. However, in the future, once the redevelopment project has been completed, the plan is to take a close look at the rating used for buses and to address any changes to the rate methodology at that time.

#### Class PC – Passenger City Buses

Please see the response to Class PB – Passenger Inter-City Buses.

#### Class PS – Passenger School Busses

Please see the response to Class PB – Passenger Inter-City Buses.

#### Class L – Dealer Plates

The same rationale that was used for Class LV – Motorcycles has been used for Dealer Plates.

#### Class LT – Trailer Dealers and Movers

The same rationale that was used for Class LV – Motorcycles has been used for Trailer Dealers and Movers with the exception of Tent Trailer and Metal Cabin Trailer types. The proposed selected relativity for Tent Trailers has been set equal to the current relativity due to lack of data. There was only one earned exposure in 2007 for Tent Trailers, and very little premium earned between 2000 and 2007. The Metal Cabin Trailers proposed selected relativity has been set equal to the current relativity in order to cap the premium change at 10 per cent (9.94 per cent due to rounding).

#### Class T – Private Trailers

The same rationale that was used for Class LV – Motorcycles has been used for Class T – Private Trailers.

#### Class TS – Commercial Trailers

The same rationale that was used for Class LV – Motorcycles has been used for Class TS – Commercial Trailers.

### Class A – Heavy Trucks

The proposed selected relativities by model year and gross vehicle weight have been set equal to the current relativities, with the exception of model years prior to 1976. The proposed selected relativity for this model year grouping has been set equal to the current relativity plus 10 per cent. SGI determined that the current rate methodology of model year 1976 being in a grouping by itself does not make sense. The decision was made to amalgamate model year 1976 and prior years. The migration of model years prior to 1976 relativity to the model year 1976 relativity has been capped at 10 per cent.

Currently Class A vehicles include those that are registered with the International Registration Plan (IRP). These IRP vehicles are ones that not only travel inter-provincially, but internationally as well and as such have a higher exposure to large losses. An analysis was completed that looked at the loss histories of IRP and non-IRP vehicles separately. It showed that non-IRP vehicles have significantly lower loss results than IRP. A recommendation to split IRP vehicles from the remaining vehicles within Class A was proposed. However, due to lack of resources and redevelopment, it was determined that the proposed change would be unable to be implemented until 2010 at the earliest. Because of this it was decided to set the proposed selected rate groups for gross vehicle weight and model year (with the exception of model years prior to 1976) to the current year.

### Class A – Power Units

Please see the response to Class A – Heavy Trucks above.

### Class C and D – Heavy Trucks and Vans

The same rationale that was used for Class LV – Motorcycles has been used for Class C and D – Heavy Trucks and Vans.

### Class C and D – Power Units

The same rationale that was used for Class LV – Motorcycles has been used for Class C and D – Power Units.

### Class LV – Restricted Buses

A relativity analysis was completed for this class, but due to unexpected results, the proposed selected relativities were set equal to the current. Similar to Class PB, PS, and PC, the eight-year pure premium relativity analysis produced results that did not progress smoothly. As a result, the question has been raised as to whether or not it is logical to rate restricted buses based on the number of seats. No proposed changes to the rate methodology for buses are being proposed in this rate application. However, in the future, once the redevelopment project has been completed, the plan is to take a close look at the rating used for buses (Commercial and Personal) and to address any changes to the rate methodology at that time.

### Class LV – Buses

Please see the response to Class LV – Restricted Buses above.

### **33. Please document the basis of calculation of credibility measures in the analysis of relativities for CLEAR rated and conventionally rated vehicles.**

CLEAR Rated Vehicles – Damage Rate Group Credibility

The Auto Fund damage rate group with the largest eight-year written exposure total was set equal to the base rate group (excluding rate group 0 and 1). For the purposes of this indication, the base rate group is rate group 29.

The Auto Fund credibility is calculated using the eight-year ultimate claim count for rate group 29 divided by the percent for maximum credibility, which has been set equal to 50 per cent, squared. The Auto Fund full credibility equation is as follows:

$$\text{Auto Fund Full Credibility} = \frac{\text{Rate group 29 eight-year ultimate claim count}}{50\%^2} = 40,484$$

The maximum credibility for Auto Fund differentials has been set to 50 per cent under the belief that although the Auto Fund data is robust and credible, the VICC data is even more so. Also, by weighting the Auto Fund data at more than 50 per cent credible, the dislocation of premiums by rate group will continue to occur. The plan is to continue to credibility weight Auto Fund data with VICC data in future rate proposals until dislocation has been minimized.

For every other Auto Fund rate group not equal to 29, the credibility is calculated using the Auto Fund full credibility as discussed above. The non-29 rate group credibilities are calculated by taking the square root of the eight-year ultimate claim count for that rate group divided by the Auto Fund full credibility.

$$\text{Credibility for every rate group not equal to 29} = \text{SQRT} \left[ \frac{\text{Eight-year ultimate claim count}}{\text{Auto Fund Full Credibility}} \right]$$

Once the credibilities for the Auto Fund rate groups have been calculated, then the VICC and Auto Fund credibility weighted rate group differentials are determined. If the Auto Fund eight-year ultimate claim count for any individual rate group is less than 50 claims, then the credibility weighted rate group differential is set equal to the VICC rate group differential. Otherwise, the credibility weighted rate group differential is calculated using the following equation:

$$\text{Credibility Weighted RG Diff} = (\text{AF RG Diff} * \text{AF Credibility}) + (\text{VICC RG Diff} * (1 - \text{AF Credibility}))$$

Diff = Differential  
 AF = Auto Fund  
 RG = Rate Group

The next step in the relativity process for CLEAR is the selection of rate group differentials. The selected rate group differentials are set equal to the credibility weighted rate group differentials with the exception of rate groups: 5, 19, 23, 27, and 31. The selected rate group differentials for these rate groups have been set equal to the average of the credibility weighted rate group differential for the preceding and proceeding rate groups. In the case of rate group 19, the average of the credibility weighted rate group differentials for rate groups 18 and 20 were used. This averaging method was used to ensure smooth progression of the selected differentials.

CLEAR Rated Vehicles – Injury Rate Group Credibility

The Auto Fund injury rate group credibility in this rate application has been set equal to zero. Full VICC injury rate group differentials have been used.

Conventionally Rated Vehicles

The basis of calculation of credibility measures in the analysis of conventionally rated vehicles is the standard for full credibility equal to 1,084 claims. Specifically, the square root of the ultimate eight-year claim count divided by 1,084 is used to calculate the company credibility.

$$\text{Credibility} = \text{SQRT} \left[ \frac{\text{Ultimate eight-year claim count}}{1084} \right]$$

The eight-year company relative differential is then calculated using the eight-year pure premiums by relative grouping (ex. model year).

Then the credibility-weighted relative is calculated using the following formula:

$$\text{Credibility Weighted Relative} = (\text{Eight-year relative} * \text{Credibility}) + (\text{Current relative} * (1 - \text{Credibility}))$$

**34. Please discuss the consideration given to credibility in the analysis of rate level need for conventionally rated vehicles.**

None of the rate indications for conventionally rated vehicles use credibility analysis. However, a few classes had such sparse data that no full rate indications were completed. SGI management reviewed the ultimate loss ratios for loss years 2000 to 2008 for these classes in order to determine whether a rate change was necessary. The selection of classes in which full rate indications were completed was subjective based on the amount of data available to that class with no pre-set volume requirements. The classes which used a loss ratio analysis, as opposed to a full rate indication, are: LV – Motorhomes - U-Drive, LV - Hearse, LV - Ambulance, LV - Pedal Bike, PV - Heavy Trucks and Vans, PV - Power Units, MT - Snowmobile – U-Drive and Industrial Tracked Vehicles.

**35. Regarding vehicle mix drift assumptions:**

- a) With reference to Appendix B.1, Exhibit 2, Page 1 of the actuarial support documents provided with the application, please discuss the rationale for the selection of an annual drift assumption of 4.51%, below the level of the longer term history and the recently elevated level of drift from 2007 to 2008.**

The 4.51 per cent drift factor was selected to be more in-line with historical drift selections rather than drastically increasing the factor based on 2008 policy year results. The results for policy year 2008 were significantly higher than what had previously been predicted by the Auto Fund in Appendix A. In fact, if policy year 2008 is removed from Appendix B.1’s calculation, the five-year average on-level written premium trend becomes 4.54 per cent, the four-year trend becomes 4.24 per cent and the three-year trend lowers to 2.91 per cent.

Although the Saskatchewan economy is still experiencing growth, the belief is that the 2008 policy year level of growth will not continue at the same pace. Also, with the implementation of the proposed rebalanced CLEAR premiums, the amount of drift experienced as a result of persons purchasing newer vehicles will be reduced.

- b) Please specify the corresponding assumptions made in (i) Appendix A of the actuarial support documents provided with the application, and (ii) Appendix B on Page 58 of the main application document.**

The same drift selections were used for all classes of vehicles. There is no differentiation made between light vehicles and commercial vehicles for example. The drifts used were:

2008	4.68%
2009	4.50%
2010	4.25%
2011	4.00%

2012	4.00%
2013	4.00%

The above drift selections were used to project the written premium. Then the written premiums for policy years 2009 and 2010 were averaged to get the rating year average written premium.

**36. Please prepare a summary of past and future annual loss cost trends by coverage, comparing the selections made in Appendices A and B of the actuarial support documents provided with the application, with accompanying explanatory narrative for any significant variances.**

All Vehicles Excluding Trailers Coverage	Appendix A (2007)		Appendix B (2008)	
	Past	Future	Past	Future
Damage - Catastrophes & Liability Excluded	4.33%	7.07%	3.08%	4.00%
Damage - Liability	0.00%	0.00%	4.97%	5.00%
Damage - Catastrophes	4.33%	7.07%	3.08%	4.00%
No-Fault Liability - Economic Loss	0.00%	0.00%	0.00%	0.00%
No-Fault Liability - Non-Economic Loss	5.00%	5.00%	5.00%	5.00%
No-Fault Liability - Out Of Province	0.00%	0.00%	0.00%	0.00%
No-Fault Injury - Appeal	3.00%	3.00%	5.00%	5.00%
No-Fault Injury - Care Benefits	0.00%	0.00%	0.00%	0.00%
No-Fault Injury - Income Replacement	4.78%	4.78%	3.16%	3.16%
No-Fault Injury - Death Benefits	2.99%	2.99%	3.66%	3.66%
No-Fault Injury - Medical Funding Excluded	2.00%	2.00%	4.86%	5.00%
No-Fault Injury - Medical Funding	2.00%	2.00%	4.86%	5.00%
No-Fault Injury - Permanent Impairment	0.00%	0.00%	3.00%	3.00%
Tort Injury	5.00%	5.00%	5.00%	5.00%
Tort Liability	5.00%	5.00%	5.00%	5.00%

Changes to the selected Damage trends are a result of improvements to the selection of loss development factors (LDFs). In Appendix A, and historical Auto Fund valuations, the LDFs have been selected for damage excluding catastrophes and damage catastrophes. While working on the updated indication (Appendix B), it was determined that a more accurate analysis of LDFs is to separate Damage Liability from Damage Excluding Catastrophes claims. Damage Liability includes property damage such as houses, fences, etc. As such, its losses develop at a vastly different rate than all other damage claims. Since Damage Liability has much larger LDFs than the rest of Damage, the Damage - Catastrophes and Liability Excluded LDFs have been lowered since the initial analysis (Appendix A). That, in turn, lowered the ultimate loss cost trends and resulted in a lower past trend being selected. The impact on the individual LDFs had the opposite effect on the Damage Liability ultimate loss costs and trend selections.

The future trend for Damage – Catastrophes and Liability Excluded was based on a cost analysis of the 16 per cent increase to labour rates effective March 1, 2009.

Damage Catastrophes use their own loss development factors to produce the ultimate loss costs, but reference the Damage – Catastrophes and Liability Excluded past and future trend factors for the projected rating year loss cost calculation.

The change in the Appeal past and future trends can be attributed to a change in methodology. In both Appendix A and B, the incurred losses for appeal include the portion of costs for appeal commissions. Appeal commissions can be thought of as a body that has been established for handling customer appeals. The costs of operating the appeal commission body (everything from staff, equipment, meals, etc.) are reported to SGI and then paid from a master claim file. The appeal commission costs are not claim specific but the costs are covered by all exposures. In the actuarial valuations, commissions are

shown as a reconciling item. In Appendix A's indication, the implied LDFs from the May 2008 valuation were applied directly to the incurred losses without taking into consideration the differences in accounting for the appeal commissions which caused the ultimate losses to actually be less than the Incurred. Appendix B's indication applies the implied LDFs to the incurred losses excluding commissions paid and then adds the commissions paid to the developed losses to get the ultimate losses. This is why the loss costs changed so dramatically Appendix A to Appendix B (\$0.81 per exposure to \$2.01 per exposure).

Keeping consistent with Appendix A's past and future trend selections for Income Replacement, the largest loss cost trend was selected as the past and future trend. It is a known fact that wages in Saskatchewan have grown at a faster pace than the rest of Canada in 2008 and are predicted to continue growing. The December 2008 year-over-year seasonably adjusted wage increase for Saskatchewan employees was 4.4 per cent. SGI is taking a cautious approach and selecting a loss cost trend, which is only slightly higher than the December 2008 over December 2007 Consumer Price Index of 2.6 per cent but below the 4.4 per cent wage increase.

The three-year exponential trend for Death Benefit loss costs was selected in both Appendix A and B. The change in the trend is due to the addition of the 2008 loss year data.

For Medical Expenses Excluding Funding, in Appendix A, the three year exponential trend was higher than historical, so the four-year future trend of two per cent was selected. However, with the updated 2008 loss year data, it is clear that medical costs are trending upwards. It was decided that the same four-year exponential trend would be selected as the past trend and a five per cent future trend. The future trend was selected based on the knowledge that medical costs are rising and will continue to rise in 2009 a reflection of the increase in wages in the medical field and an economy that is growing at a rate greater than inflation.

Medical Funding trends are set equal to the past and future trends for Medical Expenses Excluding Funding.

When looking at Appendix B, the 2008 loss year data indicated a worse than normal year for Permanent Impairment. It was decided to select a trend factor that was higher than the 2007 indication's factor, but not as high as what was indicated. Although loss costs have been increasing for the past few years, it was felt that a cautious approach to selecting trends would be appropriate for this coverage.

### **37. Regarding tort and no fault options for injury coverage:**

- a) Please provide a table showing, for injury coverage for all vehicles combined, the earned exposures, earned premium, estimated ultimate claims incurred, and earned / incurred loss ratio, under each of the tort and no fault options for accident years 2005 to 2008.**

## No Fault - Injury Losses

Accident Year	Earned Exposures	Earned Premiums	Ultimate Losses	Loss Ratio
2003	847,435	\$ 473,109,999	\$ 136,279,932	28.81%
2004	857,536	\$ 499,492,946	\$ 120,551,237	24.13%
2005	873,112	\$ 507,282,212	\$ 121,428,803	23.94%
2006	889,191	\$ 530,480,920	\$ 125,229,834	23.61%
2007	924,759	\$ 546,670,225	\$ 137,191,724	25.10%
2008	973,697	\$ 575,224,776	\$ 144,700,017	25.16%
<b>Total</b>	<b>5,365,731</b>	<b>\$ 3,132,261,079</b>	<b>\$ 785,381,547</b>	<b>25.07%</b>

## Tort - Injury Losses

Accident Year	Earned Exposures	Earned Premiums	Ultimate Losses	Loss Ratio
2003	3,561	\$ 2,056,125	\$ 420,836	20.47%
2004	5,317	\$ 3,205,845	\$ 347,242	10.83%
2005	5,797	\$ 3,467,020	\$ 1,238,558	35.72%
2006	6,075	\$ 3,687,826	\$ 499,468	13.54%
2007	6,397	\$ 3,829,643	\$ 864,090	22.56%
2008	6,734	\$ 4,027,025	\$ 815,945	20.26%
<b>Total</b>	<b>33,880</b>	<b>\$ 20,273,483</b>	<b>\$ 4,186,139</b>	<b>20.65%</b>

## Total Injury Losses

Accident Year	Earned Exposures	Earned Premiums	Ultimate Losses	Loss Ratio
2003	850,996	\$ 475,166,125	\$ 136,700,768	28.77%
2004	862,853	\$ 502,698,791	\$ 120,898,479	24.05%
2005	878,909	\$ 510,749,232	\$ 122,667,361	24.02%
2006	895,266	\$ 534,168,746	\$ 125,729,302	23.54%
2007	931,156	\$ 550,499,868	\$ 138,055,814	25.08%
2008	980,431	\$ 579,251,801	\$ 145,515,962	25.12%
<b>Total</b>	<b>5,399,611</b>	<b>\$ 3,152,534,562</b>	<b>\$ 789,567,686</b>	<b>25.05%</b>

For the past few years, the per cent of vehicles that are registered under the tort option has been 0.68 per cent of the total earned exposures. The tort earned premium accounts for 0.7 per cent of the total earned premium. The loss ratio for tort injury is 20.65 per cent compared to the no fault injury loss ratio of 25.07 per cent.

**b) Please discuss the evidence of any need for a rating distinction between these two coverage options.**

As it currently stands, there does not appear to be any need for a rating distinction between tort and no fault coverage options.

**38. Regarding the inter-jurisdictional rate comparison:**

**a) Please discuss why the number of vehicles chosen for comparison was 34, as opposed to some other number of vehicles.**

SGI's cross-Canada survey is modeled after a Consumers' Association of Canada review of automobile insurance rates (released Sept. 10, 2003). The Consumers' study defined 34 driver and vehicle profiles.

**b) Please discuss the adjustments made to enhance the quality of the inter-jurisdictional comparison (e.g., adjustments for differences in coverage, driver/vehicle rating practices, population density, etc.).**

SGI's cross-Canada survey prices a standard package of coverage (specifically, a third-party liability limit of \$2 million and collision and comprehensive deductibles of \$500). This way, the survey is not susceptible to variations in customer preference for coverage across Canada.

In place of the 34 vehicles defined in the Consumers' 2003 study, SGI uses registration history for the most recent calendar year to determine the makes, models and years of vehicles most commonly registered in Saskatchewan. Each vehicle is then matched to one of Consumers' 34 driver profiles based on profile attributes (i.e. type of use, driver age, sex, occupation).

**c) Please discuss the known weaknesses of the adjustment process which diminish the quality of the inter-jurisdictional comparison.**

There are no known weaknesses.