Saskatchewan Auto Fund
Proposal for Rate Adjustment – May 2009

Second Round Information Requests
Prepared on Behalf of the Saskatchewan Rate Review Panel
By Kostelnyk Holdings Corp. and Eckler Ltd.

1. Reference: First Round IR #1

   a) Please describe the "Green Vehicle Initiative", and indicate the eligibility criteria, amount of rebates, and the extent, if any, of offsetting revenue received by SAF from government or other agencies.

   b) With respect to the SDR Program, please explain why forecast Bonus amounts move approximately in step with Net Premiums Written, whereas forecast Malus amounts remain constant.

   c) Please explain the expectation for relatively stable forecast loss ratios over 2011 to 2013, including reference to the analysis of pure premium trends in the actuarial support documents provided with the application.

   d) Please prepare a table showing the details of the calculation of the actual and forecast MCT ratios from the updated response to this First Round IR, similar in layout to the response to First Round IR #27c), but expanded to also show actual and forecast net unpaid claims amounts and balance sheet assets amounts and the respective Capital Available and Capital Required factors applied.

   e) With respect to the forecast MCT ratios from the updated response to this First Round IR, please discuss the underlying assumptions with respect to changes in the amount of unrealized capital gains or losses.

2. Reference: First Round IR #3

   a) Please confirm which of the two forecasts (original vs. updated) from the response to First Round IR #1 was modified for this response.

   b) Please explain why the 2009 amount of Net Premiums Written Before Discounts shown in this response ($731,346,000) is lower than the corresponding amount shown in the response to First Round IR #1 ($731,678,000).

   c) Please expand this response to separate the amount of the RSR loading from the amount of Net Premiums Written Before Discounts.

3. Reference: First Round IR #4

   a) Please expand this response to separate out the SDR Malus amounts.

   b) Please discuss the variances in Issuer Fees, representing almost a 10% underestimate in both 2007 and 2008, including reference to the corresponding variances in Net Premiums Written of about 10% and 20%, respectively, in these years.

c) With respect to footnote #7 regarding 2008 Administrative Expenses, please provide a breakdown of the "significant developments" not anticipated in the initial forecast, including the impacts of the "step down" cost allocation method, increases related to collective bargaining agreements, and the Auto Fund Redevelopment Project, and any other such developments resulting in increased Administrative Expenses in excess of $250,000.

4. Reference: First Round IR #5

a) Please explain the differences in what is presented in this response as "Change in Written Exposures" and "Drift" versus the year-over-year ratios shown for "Written Exposures" and "Average On-Level Written Premium", respectively, in Appendix B.1, Exhibit 2, Page 1 of the actuarial support documents provided with the application.

b) Please explain the selection of 1.69% as the assumed rate of growth in written exposures over the forecast period given the context of recent actual growth above this level in each year over the period from 2004 to 2008.

c) Please confirm that each 1% of assumed growth in written exposures is worth about $8 to $9 million of net written premium in each year of the forecast period.

5. Reference: First Round IR #7

a) For the record, please confirm that SAF experience is available that would support an analysis of actuarially indicated SDR discounts / penalties and BR discounts.

b) Please discuss the public policy issues that may limit the extent of the possible response to any such analysis of actuarial indications.

6. Reference: First Round IR #8

Please provide the gross salvage revenue, the direct and allocated expenses, and salvage net profit (included in Other Income) related to Salvage Operations from 2005 to 2008 and forecast for 2009 to 2013.

7. Reference: First Round IR #9

Please provide an estimate of the proportion of the 4% Auto-Pay Finance Fee which currently provides for foregone investment income, and given this context and the changing cost of credit over time, comment on why this fee has not changed since 1996.

8. Reference: First Round IR #10

a) Please provide a further update to the updated response provided to First Round IR #1, reflecting the revised investment income projections as provided for 2009 and 2010 in part a) of this response, and beyond, as appropriate.

b) Please expand the tables in parts b) and part c) of this response to show forecasts for 2010.

9. Reference: First Round IR #11

   a) Please provide the policy or criteria used by SAF to determine that a body shop is classified as accredited, and discuss how frequently the accreditations are reviewed, as well as the process, if any, that is in place to enable a non-accredited shop to become accredited.

   b) If available, please provide the number of accredited and non-accredited shops used by Saskatchewan vehicle owners for 2005 to 2008.

   c) Please discuss the rationale for changing to a blended hourly rate in 2009 for all car and light truck auto repairers, and provide SAF's estimate of the incremental effect on direct body shop costs resulting from this change in each of 2009 and 2010.

   d) Please describe and provide estimated internal incremental costs, or savings, resulting from this change for each of 2009 and 2010.

   e) Please describe the process followed, if any, related to re-registration of repaired total loss motorcycles and snowmobiles.

10. Reference: First Round IR #12

    a) Please provide the definition of "at-fault vehicle" used in damage claim attribution, including reference to single vehicle incidents, and multiple vehicle incidents with each vehicle assigned equal responsibility.

    b) Please discuss any differences in the injury claim attribution rules for the Tort Coverage versus the No-Fault Coverage options.

11. Reference: First Round IR #16

    Please confirm that SAF's reinsurance ceded programs are reviewed on an annual basis, and describe how the participating reinsurers are selected.

12. Reference: First Round IR #17

    a) Please confirm that all Highway Traffic Board appeal costs are charged 100% to SAF Traffic Safety Programs, and none are allocated to any affiliated companies.

    b) Please describe how Automobile Injury Appeal Commission costs are allocated to SAF.

13. Reference: First Round IR #18

    a) From part a) of this response, for the period from 2005 to 2008, please discuss the 28% increase in Salaries & Wages expense, the 84% increase in Benefits expense, and the 27% increase in Pension expense, including reference to the 11% increase in personnel full-time equivalents over the same period from part c) of this response.

    b) Please expand the tables in parts a) and b) of this response to include projections for 2009 and 2010. In preparing the expanded table from part b) of this response, please also provide further breakdown of Other Expenses, and include commentary on any expense categories with significant variability or overall change.

c) Please clarify for which corporate entity is the history of personnel full-time equivalents provided in part c) of this response, and discuss the reasons for, and the type(s) of positions involved in, the staff additions in 2007 and 2008.

d) Please provide details of the treatment of the anticipated expenditures for the three capital projects for 2009 cited in part f) of this response, indicating where these expenditures are shown in the Statement of Operations for 2009 (Swift Current, Lloydminster and North Battleford).

e) From part f) of this response, please discuss the origins of SAF's asset capitalization practices, and summarize the amortization schedule for each such class of asset.

14. Reference: First Round IR #19

a) The SGI Cost Allocation summary provided with the application states that the second priority of cost allocation "*is to properly charge the expenses within the company to its products*". Please clarify if this second priority is relevant to SAF, and if so, provide an example of this allocation.

b) From part c) of this response, please reconcile the Loss Adjustment Expenses allocated to SAF in this response with the Statement of Operations for the corresponding years shown in the response to First Round IR #1. To the extent the differences are attributable to direct Loss Adjustment Expenses incurred, please describe the nature of these expenses and how they differ from those being allocated.

15. Reference: First Round IR #20

Please discuss the reasons for, and the type(s) of positions involved in, the planned staff additions in the Auto Fund and Claims & Salvage Divisions in 2009.

16. Reference: First Round IR #21

From footnote #3 in part a) of this response, please describe the nature and purpose of the Administrative Expenses regarding the Enhanced Driver License program and credit cards, and provide similar information, including amounts for these and other such exceptional expenses over the period from 2005 to 2013.

17. Reference: First Round IR #22

a) Please discuss SGI's current policy respecting Issuer Fees being compensated at either regular or reduced rates of remuneration, and describe the procedures or programs that would allow an issuer to move from a reduced to a regular remuneration designation.

b) Please discuss the rationale for the delayed change (negotiated in 2006, and implemented in 2010) from flat Issuer Fees for vehicle transactions to a 4.75% commission basis, and provide an estimate of the financial impact on SAF due to this change in each year from 2010 to 2013.

c) Please discuss whether, and how, "reduced remuneration" will be recognized under the new 4.75% commission-based vehicle transaction fees.

d) Please identify which categories of transactions from the Remuneration Schedule provided in this response are to be affected by the change to the 4.75% commission-based vehicle transaction fee, and describe how issuers will be compensated for other types of transactions after this change is implemented.

18. Reference: First Round IR #24

    a) From part a) of this response, please describe the Indirect Costs allocated to Traffic Safety in 2008 and 2009, summarize the basis of this allocation, and provide a table showing allocated Indirect Costs and the total of the SGI pool of costs that are allocated to SAF Traffic Safety for each year from 2008 to 2013.

    b) From part a) of this response, please clarify the meaning of the acronym “AVP”.

19. Reference: First Round IR #25

    From part c) of this response, please confirm that the RDR balance is expected to be $0 at the end of 2014, by which time the RSR will have been fully replenished by $35 million.

20. Reference: First Round IR #26

    a) From part b) of this response, please clarify if only increases in the cost base of Property, Plant and Equipment to fair value can be elected (i.e., no decreases).

    b) From part b) of this response, please comment on the implications for volatility in RSR balances over time should the Property, Plant and Equipment fair value election be made.

21. Reference: First Round IR #28

    From part a) of this response, please provide the effective date of the cited change in accounting guidelines, and the reference within those guidelines whereby “*insurance companies were allowed to continue discounting only certain long-tail lines of business or discount all lines of business*”.

22. Reference: First Round IR #30

    Please summarize the rationale for the change in the treatment of Traffic Safety Program costs from fixed expenses to variable expenses.

23. Reference: First Round IR #33

    a) Please provide further rationale for the selection of a maximum Auto Fund credibility of 50% in the determination of CLEAR rated vehicle damage rate group relativities, considering how high this standard is (40,484 claims) compared to that employed for conventionally rated vehicles (1,084 claims).

    b) Please comment on the full credibility standard adopted for conventionally rated vehicles considering how low this standard is compared to that employed for CLEAR rated vehicles.

    c) Please discuss the consideration given to smoothing of unusually large individual losses in the analysis of relativities for CLEAR rated and conventionally rated vehicles.

24. Reference: First Round IR #34

    a) For each of those classes of vehicles for which no formal rate indication was derived, and for which the rate change recommendation from SGI management was based on a review of ultimate loss ratios for loss years 2000 to 2008, please provide the referenced history of ultimate loss ratios accompanied by the recommended rate change.

b) Please discuss the consideration given to smoothing of unusually large individual losses in the derivation of rate indications for conventionally rated vehicles.

25. Reference: First Round IR #35

From part b) of this response, please summarize the rationale for choosing to assume drift assumptions that are the same for all classes of vehicles, including reference to part a) of this response, wherein special circumstances in this regard for CLEAR rated vehicles are outlined.

26. Reference: First Round IR #36

With respect to the change in No Fault Injury – Income Replacement trend assumptions from Appendix A (2007) to Appendix B (2008) in the actuarial support documents provided with the application, please provide further rationale for choosing a lower annual trend of 3.16% in Appendix B :(down from 4.78% in Appendix A) given that "*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*" and that "*The December 2008 year-over-year seasonally adjusted wage increase for Saskatchewan employees was 4.4 per cent*".

27. Reference: First Round IR #37

From part b) of this response, please explain the conclusion that "*there does not appear to be any need for a rating distinction between tort and no fault coverage options*", including reference to part a) of this response, wherein six year total loss ratios of 25.07% and 20.65% for the no fault and tort injury coverage options, respectively, were summarized.

28. Reference: First Round IR #38

a) From part b) of this response, please clarify how the "standard package of coverage" adjusts for jurisdictional differences in first party medical / disability / death etc. benefit levels.

b) From part c) of this response, please clarify what adjustments are made for geographical differences (e.g., weather and road conditions, population and vehicle density) between jurisdictions.

29. Reference: Application Appendix A, Pages 56-57

Drawing from the above-referenced Appendix A, please provide a table showing, for each class of vehicle:

- current estimated on-level annual written premium;
- indicated change in average rate level, if available;
- credibility measure for the indication, if available (based on the 1,084 count standard); and
- proposed change in average rate level,

with premium-weighted all vehicles combined averages calculated for the two types of average rate level changes shown.

30. Reference: Actuarial Support Documents, Appendix A

a) For Appendix A.1, Exhibit 1, Page 2, please provide supporting documentation for the derivation of the provisions for Fixed Expenses (excluding Loss Adjustment Expenses) by coverage, for

Loss Adjustment Expenses by coverage, and for Variable Expenses, including reference back to the original source budgetary expense information, and showing the assignment of categories of expense between fixed and variable.

b) For Appendix A.2, Exhibit 1, Page 2, please provide illustrative supporting documentation for the derivation of the provisions for Loss Adjustment Expenses by coverage for a class of vehicle analysis.

c) Please explain why a provision for Loss Adjustment Expenses is not included in the rate indications for certain classes of vehicles (Appendices A.7, A.12, A.17, A.18, A.19, A.20).

d) For Appendix A.1, Exhibit 3, Page 1, please document your rationale for the selection of distinct past and future annual trend assumptions (All Vehicles Excluding Trailers, Damage Excluding Catastrophe and Liability).

e) For Appendix A.8, Exhibit 3, Page 1, please document your rationale for the selection of equal past and future annual trend assumptions (PT Taxi, Damage Excluding Catastrophe and Liability).

f) For Appendix A.20, Exhibit 3, Page 1, please document your rationale for the selection of distinct past and future annual trend assumptions (TS Commercial Trailer, Damage Excluding Catastrophe and Liability), including reference to the strength of the underlying regression models.

g) Please discuss the rationale for the application of trend assumptions to project historical accident years of experience that sometimes pre-date the accident years on which those trend assumptions are based (e.g., basing a trend assumption on a fit to accident years 2005 to 2007, and then applying those assumptions to accident years going back to 2003).

31. Reference: Actuarial Support Documents, Appendix B.1

Please prepare an amended version of the above-referenced Appendix B.1, incorporating amended damage coverage trend analyses which isolate the estimated impact of the March 2009 increase in repair industry hourly labour rates from the underlying trends.