

Saskatchewan Auto Fund Proposal for Rate Adjustment – May 2009

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

[Throughout these information requests, historical budgetary amounts if requested should be taken from the last budget forecast prepared just prior to the start of each year in question.]

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.
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).
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 November 1st, 2009 subject to a further uniform 1% loading for RSR replenishment.
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.
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.
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.
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”.
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.

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.
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.
 - 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.
 - 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.
 - d) Please discuss how frequently the benchmark portfolio weights are reviewed and possibly subject to change.
 - 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 22nd, 2009.
 - 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.
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.
 - b) Please discuss whether SAF has any concerns related to liability arising from the use of recycled or aftermarket parts.
 - 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.
 - 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.
 - 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.
 - f) Please describe how, and how frequently, labour rates are determined.
 - g) Please provide a schedule showing salvage revenue from written-off vehicles since 2005.
 - h) Please discuss the controls SAF has in place to ensure that written-off and unsafe vehicles are not re-registered.

- i) Please confirm that SGI follows rates determined by Health Saskatchewan for medical services.
 - j) Please provide a schedule of medical services rates since 2005.
12. In general terms, discuss the attribution rules followed by SAF in assigning claims costs by class of vehicle.
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.
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.
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 22nd, 2009), given the recent accident year history shown in Appendix B of the actuarial support documents provided with the application.
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.
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.
 - b) Please confirm that HTB appeal costs are charged to administrative expenses and that auto injury appeal costs are charged to claims incurred.
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.
 - 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.
 - c) Please provide a schedule showing annual out-of-scope and union personnel full time equivalents (FTE) from 2005 to 2008.
 - 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.
 - e) Please describe the process followed by SAF in retaining external consultants and other external services.

- 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.

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.
- 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.
- 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

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.

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

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

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.

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.

- b) Please confirm that 100% of SGI's traffic safety costs are absorbed by SAF.
- c) Please describe the monitoring and benchmarking processes carried out by SAF to gauge the effectiveness of traffic safety programs.
- 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.

25. Regarding SAF Redevelopment program:

- a) Please confirm that this program is still on budget, at \$35 million, and on schedule.
- b) Please discuss the rationale for the approach taken to the funding of this program (\$35 million appropriated from the RSR).
- c) Please provide a schedule showing annual program expenditures by major cost component, including annual carrying costs, and the annual appropriation to the RSR.
- 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.
- e) Please discuss whether a business case or cost/benefit analysis was developed prior to program initiation, providing any available supporting documentation.

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

27. Regarding the RSR:

- a) Please provide SAF's declared purpose for the RSR.
- 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.
- c) Please provide supporting details for the calculation of the numerator and denominator of SAF's MCT ratio as at year end 2008.
- d) Please provide details of SAF's current plans for addressing the needed replenishment of the RSR in the near to mid-term.

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.
 - 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.
 - 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.
29. Please discuss SAF’s view of what constitutes rate shock, both with respect to increases and decreases in policyholder premiums.
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.
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.
 - 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.
 - 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?
 - d) Please provide a table summarizing the current, indicated and proposed rate group relativities for all classes of CLEAR rated vehicles.
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.
33. Please document the basis of calculation of credibility measures in the analysis of relativities for CLEAR rated and conventionally rated vehicles.
34. Please discuss the consideration given to credibility in the analysis of rate level need for conventionally rated 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.

- 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.
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.
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.
 - b) Please discuss the evidence of any need for a rating distinction between these two 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.
 - 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.).
 - c) Please discuss the known weaknesses of the adjustment process which diminish the quality of the inter-jurisdictional comparison.