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Albert Johnston
Chair
Saskatchewan Rate Review Panel
chair@saskratereview.ca

RE: <u>SGI AUTO FUND 2026 & 2027 RATE APPLICATION</u>

Dear Mr. Johnston,

On behalf of the Insurance Brokers Association of Saskatchewan ("IBAS"), thank you for the opportunity to provide input into the Saskatchewan Rate Review Panel's ("SRRP") recommendations regarding the SGI Auto Fund ("Auto Fund") 2026 & 2027 Rate Application (the "Application").

IBAS's membership is comprised of 99% of all property and casualty insurance brokerages across the province — the vast majority of which serve concurrently as Auto Fund motor licence issuers ("Issuers"). These — primarily *small* — businesses operate retail branch offices in roughly 240 different Saskatchewan communities and are a critical link in the auto insurance value chain.

In considering the Application, the SRRP must weigh several internal and external factors, often striking a delicate balance between competing interests. As the main customer interface for Auto Fund products and services, our members have a unique understanding of these pressures and are steadfastly committed to doing their part to ensure Saskatchewan's auto insurance system is the most affordable, accessible, and stable in Canada.

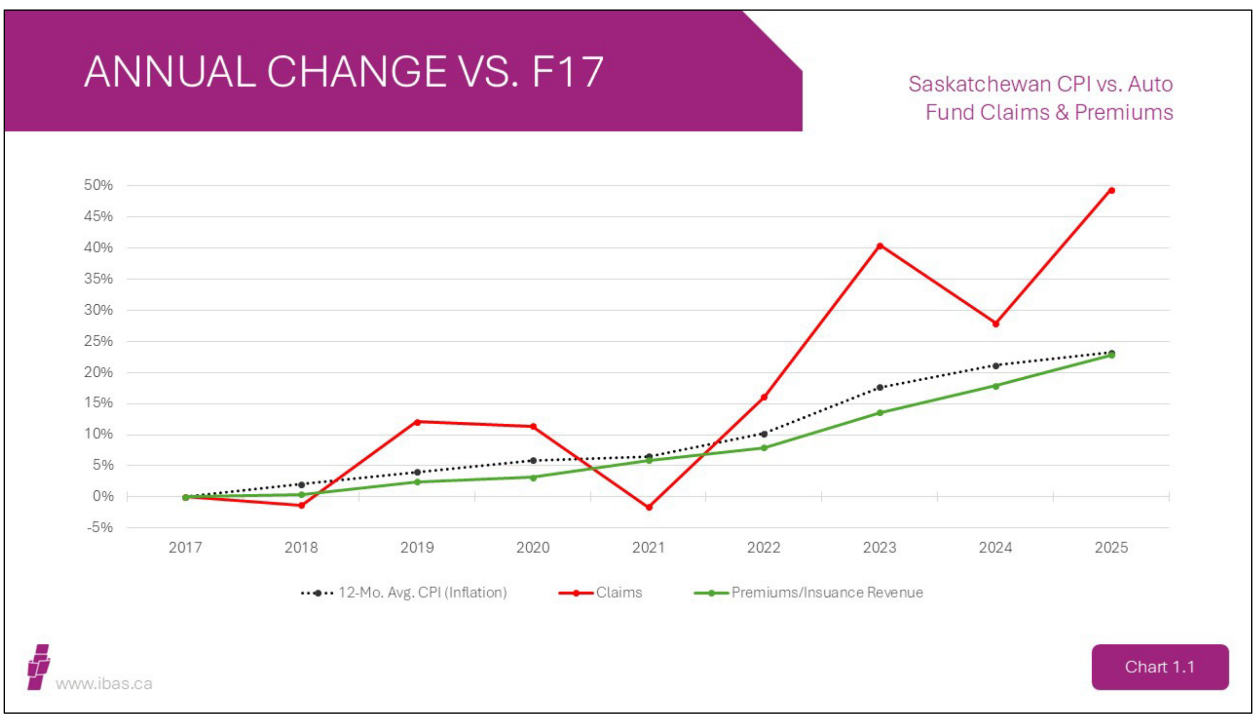
Consequently, IBAS's intention in this process is to provide helpful context to the SRRP's deliberations through the lens of the *IBAS/SGI Auto Fund Strategic Accord* and respecting the core principle of *customer centricity*, where both short- and long-term consumer impacts are put at the heart of all decision-making.

Premiums & Claims

Between the 2016-17 ("F17") and 2024-25 ("F25") Auto Fund fiscal years, the annualized rate of inflation in Saskatchewan increased by 23.2%. By comparison, Auto Fund premiums grew by only 22.8%, while claims costs spiked by 49.3%.

The result of these trendlines has been that total claims costs alone have exceeded premium/insurance revenue in two of the past three years, and the claims ratio has surpassed 90% in six of the last seven years. That is not a sustainable trajectory in any facet of insurance.

Auto Fund Fiscal Year	Total Claims Incurred ($CAD x 1,000)	Claims as a % of Premium (to F23) / Insurance Revenue (F24 & F25)
F17	798,005	85.48%
F18	787,866	84.06%
F19	894,882	93.56%
F20	889,301	92.38%
F21	785,454	79.44%
F22	926,250	91.95%
F23	1,120,638	105.74%
F24	1,020,905	92.78%
F25	1,191,217	103.94%



The question then becomes whether there is misalignment to rates, claims, product composition, or a combination thereof. And while the answer is nuanced and technical, any evaluation of the data demonstrates that prolonged premium inadequacy has — at very least — applied elevated pressure to the current 'basic' suite of auto insurance and to the broader motor licence issuing ("Issuing") system at large.

For example: the Auto Fund has not had an incremental rate programme in more than a decade. In the same span, the Saskatchewan Consumer Price Index ("CPI") for passenger vehicle parts, maintenance, and repairs has jumped by 31.2%, including by more than 6.8% between December 2024 and December 2025. Without gradual rate adjustments, these compounding dynamics have no alternative but to eventually subject consumers to outsized swings in premiums.

Product Stagnation

Saskatchewan's mandatory auto insurance product has not undergone a significant change since 1998. At the time, the Auto Fund took the then-bold step of raising the basic coverage deductible from $500 to $700. Although that revised benchmark still hovers within the standard range for physical damage deductibles in Canada today, it fails to consider key differences in coverage, regulation, cost structures, and secondary influences, such as Saskatchewan customers' ability to finance the payment of deductibles interest-free directly through SGI.

Consumer behaviour, meanwhile, has dramatically evolved, too. The mainstream embrace of ridesharing is just one shift that, prior to the Application, has not been priced into the cost of coverage. Additional unanswered questions worthy of serious reflection include:

- Are certain high-claims coverages like road hazard glass and rodent damage appropriately priced within the current product? Regardless, do they belong in mandatory coverage?

- As consumers hold onto vehicles longer than ever before, and given the *mixed-use* nature of many vehicles in Saskatchewan (i.e. a higher propensity than other regions for farm use), should physical damage remain a component of mandatory coverage, or should it be shifted to the optional, extension product, similar to the model in British Columbia?

Distribution Network

Many consumers and peripheral observers to the industry draw close comparisons between the various 'public auto' markets in Canada — Saskatchewan, Manitoba, British Columbia, and, to a lesser extent, Quebec. But the reality is that Saskatchewan truly stands apart and has profound differences from every other domestic jurisdiction. For instance:

- Saskatchewan is the only Canadian province or territory where consumers can purchase auto insurance through an unlicensed individual and/or business;

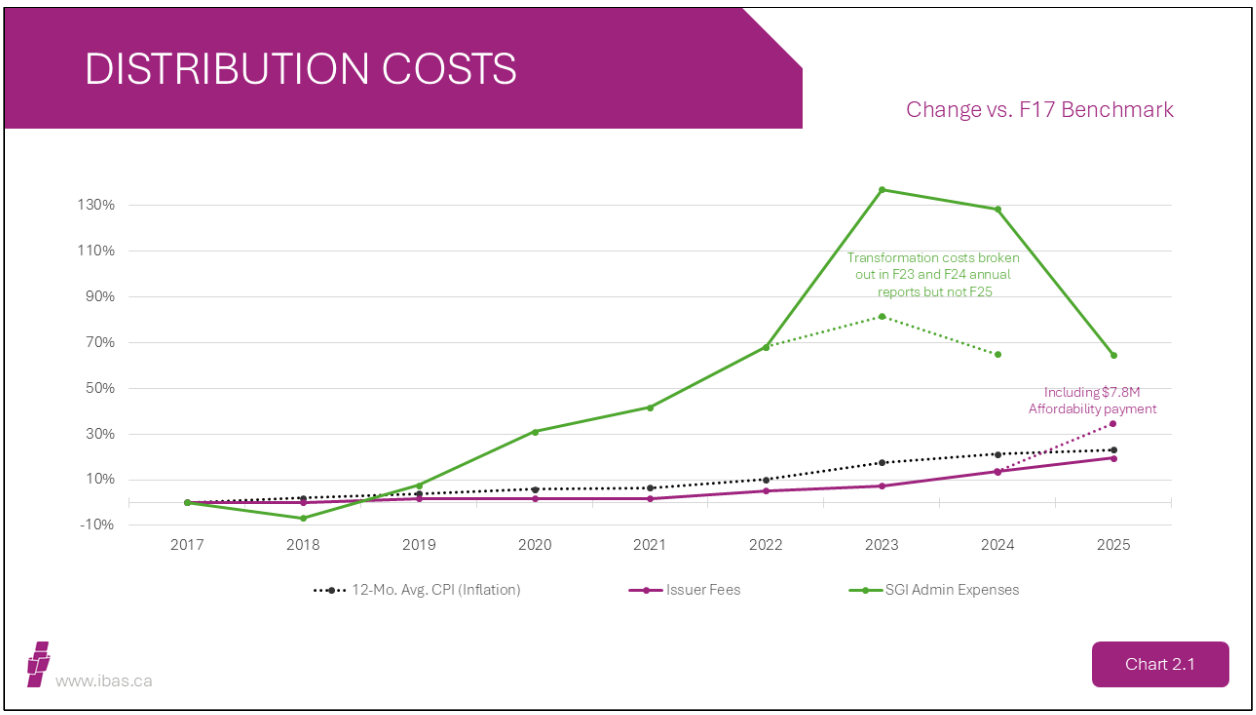
- Saskatchewan Issuers provide consumers in-person access to Auto Fund products and services in *double* the number of communities compared to the Manitoba equivalent, with 15% more service locations;

- Saskatchewan Issuers deliver the lowest-cost distribution of any public or private sector auto insurance model in Canada, at less than 5% of Auto Fund revenue;

- Saskatchewan leads all Canadian public auto markets in the digital delivery of auto insurance products and services, fully backed by the customer support and marketing investment of private sector Issuers;

- As licensed brokerages, IBAS member Issuers also offer expert, regulated insurance advice to Saskatchewan drivers and vehicle owners; and

- Saskatchewan maintains a competitive landscape and consumer choice for extension automobile insurance. As of 2023, there were 13 non-SGI insurers writing personal and/or commercial extension auto coverage with more than $1 million in annual premiums.



The compensatory framework for Issuers, however, was last revisited on a full scale in F17. Due to its variable correlation with premiums, the absence of rate — paired with inflation, changes to transaction modality, and other rising business costs — has translated into chronic underfunding of the customer-facing Issuer channel.

- The permanent rates of compensation in place as of January 1, 2026, represent only a 6.7% increase in the average Issuer fee per Auto Fund transaction for F25 compared to F17 — nearly 3.5 times lower than the Consumer Price Index — as well as total cash remuneration more than 3.7 percentage points below inflation.

- Seven out of 10 IBAS member Issuers say their operating costs relative to inflation have worsened since F17.

- Referencing *low-end* wages paid by the Auto Fund to internal employees for the same job function, private sector Issuers provide staffing capacity worth up to $104 million compared to just $63 million in Issuer fees collected in F25 — before factoring in any operational overhead.

- Since the last agreement on Issuer remuneration, 91.5% of Issuers say the complexity of Issuing transactions and the average time to complete in-person transactions have worsened (three-quarters say these have 'significantly worsened').

IBAS has signalled to the Auto Fund that, in the absence of meaningful improvements, the viability of service levels and the overall customer experience could rapidly deteriorate — leading to office and business closures (especially in lower-volume, rural centres), reduced hours of operation, and cuts to staffing. In fact, 61% of Issuers say that Issuing is not a profitable activity.

While Issuers do not need or expect disproportionate compensation, there must be a *modest* margin realized for any business to be able to reinvest in its people, processes, and operations.

Other Consumer Considerations

As reflected in the Application, actuarial pricing is a scientific practice that encompasses a long list of potential levers. From a customer perspective, there are distinct implications to pulling any of these levers.

What can the market bear?

A key assumption that is made when exploring rate or product changes is to anticipate likely consumer behaviour outcomes. Although the core Auto Fund product — vehicle registration — is compulsory in nature, it sits adjacent to two specific customer decisions:

- *"Will I ultimately licence this vehicle?"*

  This is difficult to quantify, yet IBAS members are routinely sought out by customers to provide counsel on ways to reduce insurance costs while limiting risk exposure. Periodically, customers choose to outright cancel much-needed protection on homes, businesses, and — yes — automobiles.

On a mandatory product, the element of optionality does not exist, meaning that some consumers face a difficult choice between paying a bill they can't afford, letting a vehicle sit unlicensed, or driving that vehicle uninsured and illegally.

- *"Will I purchase extension auto coverage in addition to registering this vehicle — and how much coverage?"*

  The best predictor of future results is often past behaviour. For that, one must look no further than optional overland water protection on home insurance coverage.

  When SGI CANADA rolled out its overland water product, it was written into existing policies, resulting in Saskatchewan carrying the highest level of provincial adoption across Canada. Over the past few years, though, as insurance premiums increased and the rising cost of living surged past household earnings, that uptake has fallen below the national average — leaving many consumers underinsured and government-backed support programs on the hook to provide a vital safety net.

  IBAS remains deeply concerned that a similar scenario is possible — if not *probable* — as vehicle registration rates go up without a notable change to the product. That is doubly true if deductibles are not sufficiently increased to compel a change in behaviour due to the risk-versus-return trade-off of extension policies and dwindling consumer discretionary income.

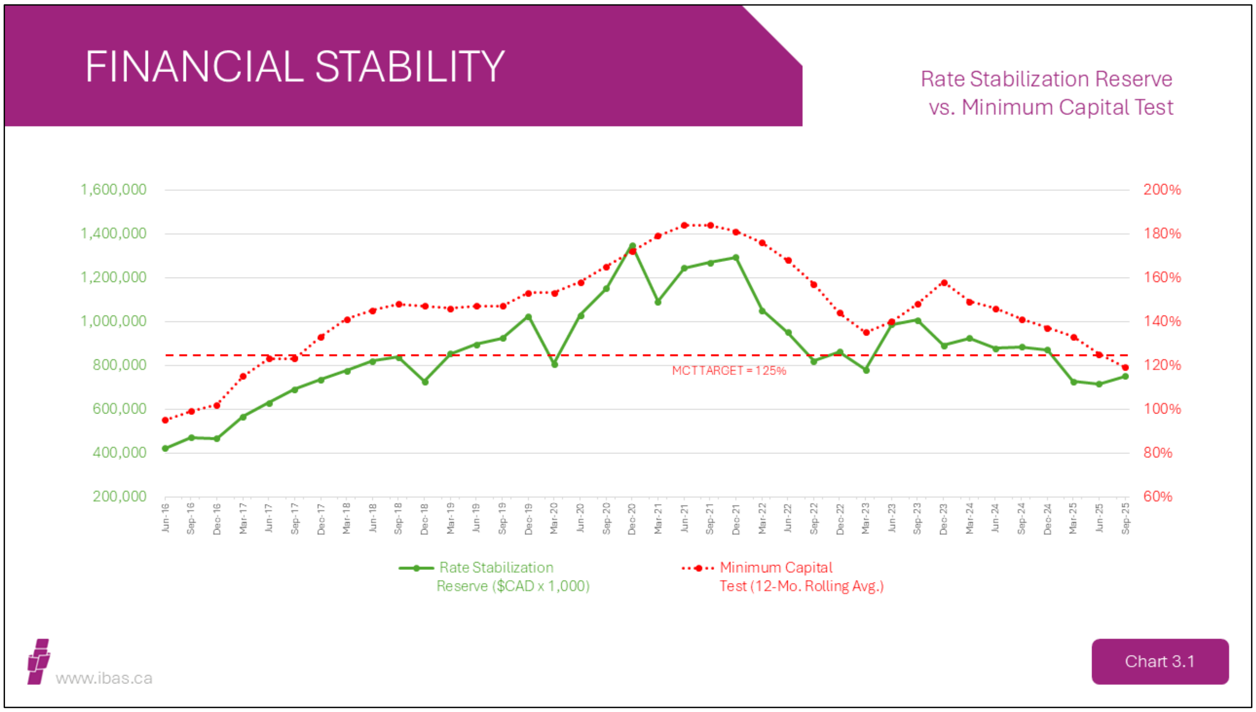
  As it stands, the purchase of specific extension auto coverages is already trailing far behind other provinces. Third-party liability coverage beyond the requisite $200,000 limit is among the most glaring deficiencies. Any further erosion of that uptake represents a material and incremental risk to Saskatchewan drivers.

<u>How long can this last?</u>

In the private insurance market, the minimum capital test ("MCT") for property and casualty insurers is a harmonized solvency standard set by the Office of the Superintendent of Financial Institutions and provincial regulators, designed to guarantee that carriers hold enough capital to cover risks and policyholder claims. This threshold is often set at 150% or higher.

As noted in the Application, Crown-owned insurance companies are not required as a federal condition to adhere to this standard and typically have MCT targets well below 150%. The Auto Fund carries an internal target of 90% and an operational target of 125%, calculated as a 12-month rolling average.

Unfortunately, for the first time in more than seven years, the Auto Fund MCT dipped below 125% in 2025, with a Rate Stabilization Reserve that has depleted by 42% (as of Q2 F25) — or nearly $543 million — since the high mark set in Q3 of F21. No different than any private insurer, this drift tends to intensify over time as carriers have weakened capital reserves to generate investment returns.



Various forecast models envision a reasonable scenario where the MCT could sink below the Auto Fund internal target as early as Q1 of F27, with a steep acceleration downward to *failure levels* by the end of the decade. The potential impact on Saskatchewan consumers would be profound: skyrocketing rates, eroding coverage and service availability, and even necessary taxpayer intervention.

<u>Am I getting value for money?</u>

Saskatchewan is not alone in grappling with auto insurance affordability and sustainability challenges. British Columbia, Ontario, and Alberta have all recently introduced sweeping regulatory changes aimed at addressing this very objective. Some of those measures — although well-intentioned — have actually had the opposite effect and have destabilized other segments of the general insurance marketplace.

In IBAS's view, the *fundamentals* of Saskatchewan's auto insurance system remain firmly intact — a progressive and well-managed Crown insurance company, robust regulatory controls, some of the lowest insurance rates in Canada (even after the Application is accounted for), a nimble and geographically dispersed distribution network, and a government that shares in the belief that SGI is a catalyst for both economic and social strength.

These are all assets that have served Saskatchewan drivers and taxpayers in every corner of the province extremely well over the past 75-plus years.

Summary of IBAS's Position

The Auto Fund is designed to operate on a breakeven basis — with an accumulated surplus to absorb short-term claims shocks and facilitate investments in long-term stability. It is clear, however, that the Auto Fund is in a position where the 'premiums of the many' are simply insufficient to cover the 'claims of the few.' Accordingly:

1. IBAS is supportive of the Application but is concerned that it falls short of addressing the structural challenges triggered by a rapidly changing operating environment. This is exemplified by recent rating decisions in other Canadian auto insurance markets.

2. IBAS recommends that the Auto Fund consider product changes that may promote long-term sustainability and customer flexibility.

3. IBAS reiterates the fragility of customer insurance decisions amidst a challenging economic climate, and invites both the Auto Fund and the Province to continue to engage in dialogue with IBAS to advance the shared goals of affordability, accessibility, and consumer protection, with an emphasis on exploring ways to:

    a. Address mounting claims costs;

    b. Effectively manage the administrative burden;

    c. Adapt to new insurance and transportation realities; and

    d. Provide Saskatchewan consumers with financial relief amidst rising insurance costs.

4. IBAS encourages the Auto Fund to continue investing to improve the customer experience in parallel with clearly defined service standards.

Thank you again for this opportunity. Please don't hesitate to contact me directly if you would like to discuss further.

Regards,

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