Saskatchewan Rate Review Panel

Report to the Minister Responsible for Crown Investments Corporation of Saskatchewan

Regarding the Saskatchewan Auto Fund 2026 and 2027 Rate Application
Effective dates June 1, 2026 and June 1, 2027

Report submitted July 31, 2026

SASKATCHEWAN RATE REVIEW PANEL

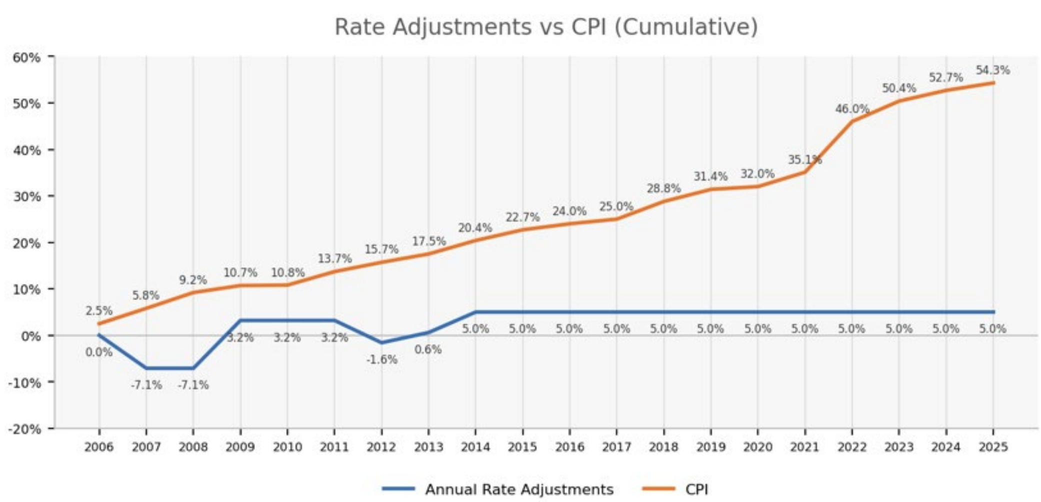
SGI

Executive Summary

This application comes before the Panel at a significant point in the recent history of the Saskatchewan Auto Fund (SAF). This is only the third full rate application considered by the Panel in the last 12 years. The Panel issued a report in 2014 that resulted in a system-wide increase of 4.4 per cent. By contrast, the 2021 application resulted in an overall decrease of approximately 1.3 per cent. These most recent applications demonstrate that basic auto insurance rates in Saskatchewan have only seen modest overall changes over more than a decade.

The period since the last application has been marked by unusual financial conditions. During the COVID-19 pandemic, reduced traffic volumes contributed to fewer claims, while investment performance also strengthened the financial position of SAF. These conditions caused a significant buildup in the Rate Stabilization Reserve (RSR), which led to the Government of Saskatchewan announcing a rebate of $100 for each eligible vehicle or motorcycle registered as of March 9, 2022.[1] Saskatchewan was not alone in taking this approach among public insurers. In 2022, the Insurance Corporation of British Columbia (ICBC) announced a $110 relief rebate for eligible personal insurance customers[2] while Manitoba Public Insurance rebated $328 for the average private passenger policy.[3]

These rebate decisions took place during a period of significant affordability pressures for Canadian households. Statistics Canada reported that the annual average Consumer Price Index (CPI) increased by 3.4 per cent in 2021, 6.8 per cent in 2022, and 3.9 per cent in 2023.[4]



Since 2006, the CPI in Saskatchewan has increased by approximately 55 per cent while SAF's cumulative rate adjustments have totaled only 5%. This long-term divergence between cost growth and rate adjustments has contributed to the current financial pressure on SAF.[5]

---

[1] Government of Saskatchewan, "SGI Customers To Receive $100 Rebate Per Vehicle," Media Release, March 10, 2022.
[2] Insurance Corporation of British Columbia, "Relief rebates coming to B.C. drivers this spring," Media Release, July 13, 2022.
[3] Manitoba Public Insurance, "First batch of COVID-19 rebate cheques in the mail," Media Release, December 30, 2021.
[4] Statistics Canada, *Consumer Price Index, Annual Reviews, 2021-24.*
[5] Review of Saskatchewan Government Insurance Saskatchewan Auto Fund 2026 Proposal for Rate Adjustment 2026, Effective June 30, 2026, Cathcart Advisors/Risk Consulting Service Inc., p. vi

During this period, the operating environment for SAF has materially changed. The Panel noted in its 2021 report that increasing damage claim costs were already being driven by rising repair costs associated with the growing complexity of newer vehicles, including more advanced technology, procedures, and materials.[6] The current application indicates that these pressures have continued and intensified. SGI's recent reporting states that claim costs have risen sharply due to inflation, higher vehicle repair costs, and the increasing complexity of repairs for newer vehicles.[7]

SAF has also faced greater exposure to severe weather-related losses. SGI's 2024-25 annual report identifies extreme weather events, including a catastrophic hailstorm in southeast Saskatchewan, as a significant contributor to increased claims costs. The report further states that claims outpaced revenue in 2024-25, resulting in an operating loss and $198.0 million decline in the RSR.[8]

In the Panel's view, these developments are central to understanding the current application. The RSR is intended to act as a buffer in periods of volatility, allowing SAF to absorb unusually high claims costs or weaker investment results without subjecting customers to abrupt and significant rate increases. However, the financial conditions which previously supported rebates and stable rates have now reversed. Rising claims severity, higher repair costs, and weather-related losses have materially weakened the RSR.[9]

The current application indicates that premium levels are no longer sufficient to fully cover SAF's projected claims costs and expenses over time. SGI has advised that the proposed 7.6 per cent increase over two years is significantly less than the full required rate change and is being moderated in order to lessen the impact on customers.[10]

The tables below are drawn from Appendix A of SGI's 2026 application and summarize the 2026 indicated rate change and SGI's proposed rate change by class. For comparison, the tables also include the indicated and proposed rate changes from the 2021 SAF application, as reported on page 6 of the Panel's 2021 report. This comparison is important because it shows how materially the rate indications have changed since the last application. In 2021, many vehicle classes had relatively modest indicated increases, or in some cases indicated decreases. In the current application, the indicated rate changes are significantly higher for many classes, reflecting the cumulative effect of rising claims costs, inflation, repair cost escalation, changes in vehicle use and other cost pressures since the last full review. The comparison also illustrates the growing gap between indicated rates and proposed capped rates. While capping helps limit immediate customer impacts, it also means that many classes would continue to pay rates below the level required to cover their anticipated costs, increasing the risk of continued cross-subsidization and larger future rate corrections.

---

[6] Saskatchewan Rate Review Panel, *Report to the Minister Responsible for Crown Investments Corporation of Saskatchewan Regarding the Saskatchewan Auto Fund 2021 Rate Application* (October 20, 2021), Introduction, p. 10.
[7] Saskatchewan Auto Fund, *2024-25 Annual Report*, Minister's Message, p. 2; President and Board Chair's Message, p. 3; Management's Discussion and Analysis, pp. 7, 14-17.
[8] Ibid., Minister's Message, p. 2; President and Board Chair's Message, p. 3.
[9] Saskatchewan Auto Fund, *2024-25 Annual Report*, Management's Discussion and Analysis, pp. 6-9, 14.
[10] Saskatchewan Government Insurance, *Saskatchewan Auto Fund Rate Change Proposal: Minimum Filing Requirements* (2026 rate application), "Fairness in rating" and "Adequate capital," p. 132

CLEAR-rated vehicles

Vehicle class	2021 Application Indicated Rate Change	Proposed Change	2026 Application Indicated Rate Change	Proposed Change
CLEAR-rated vehicles, overall	-0.7%	0.8%	33.2%	3.6%
A — Commercial Light Trucks		17.1%	—	3.5%
F — Farm Light Truck - 1994–2003		-19.2%	—	3.8%
F — Farm Light Truck - 2004 & Newer		2.3%	—	3.5%
LV — Private Passenger Vehicles (PPV)		-1.0%	—	3.6%
LV — PPV - Farm Cars, SUVs and Vans		5.3%	—	3.6%
LV — Police Cars		12.2%	—	3.5%
LV — Police Trucks, Vans & SUVs		20.5%	—	3.5%
LV — Udrives	3.9%		—	3.5%
PT — Taxis (Rural)	-0.7%		—	3.5%

Conventionally rated vehicles

Vehicle class	2021 Application Indicated Rate Change	Proposed Change	2026 Application Indicated Rate Change	Proposed Change
Ambulances	18.3%	18.2%	68.6%	3.5%
A — Commercial Vehicles: Heavy Trucks & Vans IRP	8.3%	5.4%	32.3%	4.0%
A — Commercial Vehicles: Heavy Trucks & Vans IRP $15K Ded.	8.9%	7.0%	64.3%	5.4%
A — Commercial Vehicles: Heavy Trucks and Vans Non-IRP	12.0%	8.5%	60.6%	3.5%
A — Commercial Vehicles: Power Units IRP	36.6%	13.1%	76.5%	3.5%
A — Commercial Vehicles: Power Units IRP $15K Ded.	73.3%	13.1%	147.2%	3.5%
A — Commercial Vehicles: Power Units Non-IRP	10.6%	7.1%	77.1%	3.5%
C & D — Commercial Vehicles: Heavy Trucks and Vans	-6.6%	-8.0%	34.3%	4.3%
C & D — Commercial Vehicles: Power Units	-8.2%	-9.7%	22.3%	3.5%
F — Farm Vehicles: Heavy Trucks and Vans	-5.1%	-2.0%	29.8%	7.4%
F — Farm Vehicles: Light Trucks - 1993 & Older	-14.5%	-15.9%	57.0%	9.8%
F — Farm Vehicles: Power Units	14.3%	10.3%	22.4%	4.6%
Hearses	6.0%	4.3%	58.2%	5.3%
L — Dealer Plates	5.9%	4.1%	70.0%	3.9%
L — Snowmobile Dealers	0.0%	-1.6%	46.6%	18.3%
LV — Antiques	11.2%	9.4%	48.7%	12.0%

Vehicle class	2021 Application Indicated Rate Change	Proposed Change	2026 Application Indicated Rate Change	Proposed Change
LV — Buses	2.8%	1.1%	26.7%	5.1%
LV — Buses (Restricted)	12.2%	10.3%	72.4%	5.7%
LV — Motorcycles	34.2%	10.1%	72.4%	0.0%
LV — Motorhomes	34.2%	10.1%	287.7%	4.3%
MT — Snowmobiles	-6.0%	-8.9%	23.7%	15.3%
PB — Passenger Inter-city Buses	16.2%	9.3%	84.2%	3.5%
PC — Passenger City Buses	21.2%	3.0%	79.4%	3.5%
PS — Passenger School Buses	18.3%	11.4%	43.3%	4.1%
PT — Taxis	37.9%	15.1%	86.6%	0.0%
Rideshares			5.3%	5.3%

Trailers

Vehicle class	2021 Application Indicated Rate Change	Proposed Change	2026 Application Indicated Rate Change	Proposed Change
F — Trailers	15.9%	18.4%	58.8%	16.8%
LT — Trailer Dealers/Movers	-2.6%	-0.5%	111.7%	0.1%
T — Personal Trailers	76.8%	27.5%	105.0%	6.9%
T — Utility	-7.5%	-10.0%	68.4%	13.9%
TS — Commercial Trailers	2.1%	-0.2%	14.6%	5.4%

Miscellaneous and permits

Vehicle class	2021 Application Indicated Rate Change	Proposed Change	2026 Application Indicated Rate Change	Proposed Change
A — Excess Value	-6.2%	0.0%	9.8%	0.0%
C & D — Non-Resident	0.0%	-2.6%	125.8%	14.7%
C & D — Excess Value	-17.3%	0.0%	-10.9%	0.0%
Industrial Tracked Vehicles	0.0%	-1.4%	37.3%	8.4%
LV — Motorized Bicycle	0.0%	-1.6%	56.8%	18.0%
PV — Converted Vehicles	-1.4%	-3.0%	18.2%	4.2%
PV — Heavy Trucks and Vans	-7.9%	0.0%	17.4%	4.1%
PV — Power Units	-5.0%	-6.1%	21.6%	3.7%
TS — Excess Value	-12.0%	0.0%	-36.2%	0.0%
24-Hour Permit	123.7%	120.0%	49.4%	45.5%
8-Day Permit	180.0%	104.2%	105.8%	10.2%
In-transit Permit	76.6%	76.5%	84.7%	16.7%
Temporary Insurance Card	145.7%	145.5%	41.5%	17.9%

The Panel is mindful that this application has generated considerable public concern regarding affordability. Those concerns are understandable. Saskatchewan residents have experienced several years of elevated cost pressures, and many ratepayers have emphasized the difficulty of absorbing further increases. However, the Panel's task is to assess the fairness and reasonableness of the application while balancing the interests of the ratepayer, stakeholders, the Auto Fund, and the public.

In doing so, the Panel must consider not only present affordability concerns, but also the longer-term financial stability of SAF. As the record shows, Saskatchewan motorists have benefited from a prolonged period of relative rate stability, a rate decrease in the last application cycle, and rebate payments made when reserve levels were unusually strong. While those outcomes were favourable to ratepayers, they also coincided with a weakening in SAF's financial cushion at a time when claims costs and operating pressures were increasing. The challenge in this application is to determine an approach that is fair to customers in the short term, while also protecting the long-term sustainability of SAF.

The Panel received updated financial information on SAF when SGI presented its 2025-26 annual report. This information showed that SAF's 2025-26 results were better than the forecasts that had been presented in the application. The decrease to the RSR was approximately $93.3 million, compared with the projected decrease of approximately $173.6 million, an improvement of approximately $80.4 million.

SGI has indicted that this improvement was driven by several factors. The investment result was approximately $12.8 million better than projected, reflecting an increase in returns during the final quarter. Other expenses were approximately $13.4 million lower than projected, including reductions in traffic safety and non-insurance support expenses. The insurance service result was also approximately $51.8 million better than projected. SGI identified several components for this improvement, including a one-time interest rate effect on the risk adjustment balance, prior-year reserve redundancy, a smaller-than-projected increase in the loss component, and claims and expenses coming in lower than expected.

Although the updated 2025-26 results are favourable, the Panel does not consider them to change the overall financial outlook for SAF. SGI advised the Panel that many of the favourable differences appear to be one-time in nature and may not translate into permanent improvements. SGI also indicated that the projected decreases to the RSR in 2026-27 and beyond do not change significantly, and that the projections provided during the review remain relevant for assessing SAF's financial situation for both 2026 and 2027. The Panel also noted that the 2026-27 year has already begun with significant weather-related claims pressure.

During the course of this review, the Panel's consultants have identified insolvency risk as an increasing concern for SAF. The Panel does not interpret the evidence as indicating that SAF is immediately insolvent, but the evidence shows that SAF's financial cushion is being depleted at a rate that creates a serious risk if corrective action is delayed.

The RSR is central to this issue. The RSR stood at approximately $1.090 billion in 2020-21 and has declined to approximately $727 million by March 31, 2025. Under the proposed rate path, the consultants forecast the RSR to decline to approximately $328 million by the end of 2026-27 and to approximately $171 million by the end of 2027-28. This represents a significant weakening of the reserve available to absorb future adverse events.

The Minimum Capital Test (MCT) shows the same negative trend. The MCT is the measure SAF uses to assess whether it has sufficient capital to meet its obligations and absorb unexpected financial shocks. SAF's MCT was 112 per cent as of March 31, 2025, already below its 125 per cent policy target. It is forecast to decline to approximately 83 per cent by the end of 2025-26, 49 per cent by the end of 2026-27, and 24 per cent by the end of 2027-28. At those levels, SAF would be well below both its policy target and its 90 per cent internal minimum. The consultants noted that at 49 per cent, SAF would hold less than half the capital required. The Panel views this as a serious warning signal.

The Panel is also concerned that SAF's request for confidentiality limited the public record available to assess the financial forecast beyond the application two-year rate proposal. SAF provided its longer-term financial forecast to the consultants on a confidential basis, which meant the consultants could review the information, but could not disclose the details in their report. This created a significant limitation for the Panel, ratepayers and the public, particularly with respect to the proposed 2027-28 rate increase. Without public disclosure of this information, the Panel and stakeholders are left to assess the application on partial information.

The Panel also considered SAF's proposed rate capping and rebalancing approach. SAF's application shows that many vehicle classes have indicated rate increases that are substantially higher than the proposed overall increase. For example, the indicated increase for CLEAR-rated vehicles (which is the largest class representing the majority of light vehicles) is approximately 33.2 per cent, while the proposed increase is approximately 3.6 per cent for 2026-27. Other classes, including motorcycles, motorhomes, urban taxis, some commercial vehicles, trailers and permits, show even larger gaps between indicated and proposed rates. SAF's proposed rate capping approach is designed to manage the immediate impact on customers and reduce rate shock. For vehicles with current premiums of $1,000 or higher, the cap is 3.6 per cent. For lower-premium vehicles, fixed dollar caps apply. Under this design, the proposed rate change produces an overall increase of 3.75 per cent, with approximately 98 per cent of vehicles receiving the 3.6 per cent increase.

The Panel recognizes that this approach helps limit immediate customer impacts in a period of affordability pressure, but it also has consequences. When rates are held below the level required to cover a class's anticipated claims costs and expenses, the shortfall is deferred to future applications or addressed through cross-subsidization among vehicle classes. The Panel must therefore balance the need to protect customers from sudden increases while ensuring that each vehicle class pays rates that more closely reflect its costs and risks.

After careful deliberation of all these issues, the Panel makes the following recommendations to the Minister:

1. **That the interim overall rate increase of 3.75% effective June 1, 2026, be confirmed.**

The Panel recommends confirmation of the overall 3.75 per cent rate interim rate increase, which was effective June 1, 2026, as the evidence demonstrates that a rate increase is necessary, warranted and reasonable. The consultants' analysis shows that SAF's higher damage claim costs are being driven by inflation, rising vehicle values, and the technical complexity of modern vehicles. Administration and operating costs have also increased over the past several years. At the same time, premium revenue has not kept pace with these cost pressures and is now below the cost of insurance claims.

The Panel is also concerned that the Rate Stabilization Reserve has materially deteriorated and is forecast to continue declining over the next two years without corrective action. While the proposed 3.75 per cent increase is not sufficient on its own to restore SAF to its target capital level or eliminate the longer-term rate adequacy gap, it has already been implemented on an interim basis. The Panel therefore recommends that the increase be confirmed as a necessary step toward ensuring that premium revenue better reflects projected claims costs and operating expenses.

2. **That interim rate adjustments should only be used in exceptional circumstances, and that such a request must be supported by clear public evidence demonstrating urgency, customer impact, and the reasons why the rate cannot wait for the completion of a review.**

The Panel has concerns about the use of interim rate adjustments implementing rate increases prior to completion of the Panel's review and final report being issued. The long-established governance process is threatened by this practice, which in the view of the public, casts doubt on the effectiveness and usefulness of the Panel's review and reporting to the Minister.

3. **That the further overall rate increase of 3.75% effective June 1, 2027, not be approved at this time as there is insufficient public information to properly assess the reasonableness of 2027-28 rate increase in the context of a forward-looking public financial forecast. The Panel requests that SAF provide an updated application to support its proposed rates for 2027-28 as well as 2028-29, and provide the complete public evidence including a financial forecast, capital adequacy analysis, consultation outcomes, non-rate actions, and a capital restoration plan.**

Although there is evidence that SAF's financial position is deteriorating**,** there is not sufficient public evidence to support approving the second-year 2027–28 increase on the record at this time**.** SAF provided its longer-term financial forecast to the consultants confidentially**,** so the consultants could not disclose the details in their report. That means the Panel, the public, and ratepayers do not have a complete public record to assess whether the 2027–28 increase is fair and reasonable. The consultants state that "the evidentiary record does not provide a sufficient basis" to assess the 2027–28 rate increase. As well, with the deterioration of the MCT and RSR over the last five years, the Panel requires a capital restoration and action plan before recommending 2027-28 rates.[11]

Additionally, there are also unresolved factors that could materially affect 2027–28 rates. SAF has deferred rate increases for motorcycles and urban taxis until 2027–28, pending the outcome of planned consultations in 2026, so the results of those consultations are not yet available. The consultants also noted that there may be further non-rate actions, such as the already announced increase to the deductible rates and services fees, that have not yet been announced, and their impact on 2027–28 cannot yet be assessed.

4. **That SAF adopt a capital margin of at least 6.5% effective immediately, and commit to implement its own capital build and release policy in order to reach the full required 9.2%. SAF should also present a multi-year capital restoration plan with the objective of restoring the Rate Stabilization Reserve (RSR) to the 125% Minimum Capital Test (MCT) policy target, modelled on the approaches taken by Manitoba Public Insurance (MPI) and the Insurance Corporation of British Columbia (ICBC) in comparable circumstances, as part of its next application.**

The RSR has significantly weakened, and the MCT is forecast to fall well below SAF's approved capital targets. Under SAF's Capital Management Policy, the Auto Fund's capital position is assessed using the MCT with a policy target of 125 per cent, and an internal minimum of 90 per cent. The policy is intended to ensure that SAF maintains sufficient capital to absorb adverse claims experience, investment volatility, severe weather losses and other financial risks, while supporting rate stability for customers. The capital margin included in rates is the mechanism used to maintain or rebuild the RSR toward the approved MCT target over time.

The capital margin required under SAF's Capital Management Policy is 6.5 per cent based on the initial rate application and has increased to 9.2 per cent based on updated information. The current rate program includes only a minimal capital margin of 0.06 per cent, and SAF has proposed no change to that margin because of affordability concerns. The Panel acknowledges those concerns, but the absence of a meaningful capital margin means SAF is not collecting sufficient revenue to maintain or restore its capital position in accordance with its approved policy.

The Panel recommends that SAF present a multi-year capital restoration plan with the objective of restoring the RSR to the 125 per cent MCT policy target. The capital build provision is necessary but not sufficient on its own, as SAF's MCT is forecast to remain below its 90 per cent internal minimum through the forecast period even with a capital provision included in rates. A structured restoration plan would provide a transparent and disciplined path back to financial adequacy, including annual reporting on the RSR balance, MCT trajectory, and the capital build amounts

[11] Review of Saskatchewan Government Insurance Saskatchewan Auto Fund 2026 Proposal for Rate Adjustment 2026, Effective June 30, 2026, Cathcart Advisors/Risk Consulting Service Inc., p. i

required in each year of the plan. This approach is consistent with how other public insurers in Canada have addressed capital deficiency.

5. **That SAF adopt a variable rate cap with a maximum cap of 15 per cent for classes with higher indicated rate requirements, in order to reduce cross-subsidization while continuing to limit rate shock.**

SAF proposes rate capping to manage the impact of indicated rate changes on individual policyholders. For vehicles with current premiums of $1,000 or higher, the proposed cap is 3.6 per cent. For lower-premium vehicles, fixed dollar caps apply. This design produces a 3.75 per cent overall increase, with approximately 98 per cent of vehicles receiving the 3.6 per cent increase. The Panel recognizes that capping is necessary to protect customers from sudden and significant rate shock. However, the indicated rate requirement for many vehicle classes is substantially higher than the proposed capped increase. Where rates are capped well below indicated levels, the shortfall is not eliminated; it is deferred to future applications, absorbed by the RSR, or addressed through cross-subsidization among vehicle classes.

The Panel notes that, in its 2021 report, it preferred a variable cap approach, including a higher cap for classes with higher indicated rate requirements. The Panel continues to support that approach. Given the current scale of the indicated rate gap, the deterioration of the RSR, and the need for a meaningful capital rebuild provision, the Panel has concluded that a variable cap of up to 15 per cent is appropriate for classes with higher indicated rate requirements. A 15 per cent maximum cap would allow classes that are materially below their indicated rate levels to move more quickly toward rates that reflect their anticipated claims costs, expenses and capital requirements, while still limiting the immediate impact on customers. This approach better supports class fairness, reduces cross-subsidization, and lessens the extent to which current rate shortfalls are deferred to future ratepayers.

6. **That SAF be required to demonstrate, in future rate applications, whether the projected savings and efficiencies from the Corporate Transformation (CT) project have been realized and how those savings have been reflected in operating expenses, productivity measures, and rate requirements.**

This recommendation is intended to ensure that future rate applications are based on current, transparent and verifiable assumptions. The CT project has contributed materially to SAF's operating expenses, but it is also expected to demonstrate tangible savings and operating efficiencies once the new systems are fully implemented. The Panel expects SAF to demonstrate whether those projected savings have actually been achieved, and how they have been reflected in operating expenses, productivity measures and rate requirements. This is important because if the anticipated savings are not realized, future rate requirements may be materially higher than currently forecast.

7. **That SAF use current economic assumptions in all future applications and provide updated assumptions during the review process where material inputs, including inflation, interest rates, claims trends, repair costs, or other key forecasting assumptions, have changed materially or are no longer current.**

Interest rates, inflation, claims trends, labour costs and repair costs can change significantly between the preparation of an application and the Panel's review. Using outdated assumptions can distort the assessment of rate adequacy, capital requirements and customer impacts. Requiring current assumptions and regular updates will improve transparency, strengthen the evidentiary record, and help ensure future rate recommendations are based on the best available information.

8. **That SAF be required to provide an annual rate and financial adequacy review to the Panel, whether or not SAF is seeking a change to rates.**

The annual review should include updated information on the RSR, MCT, claims experience, operating expenses, investment income, capital margin, progress on any capital restoration plan, and any material changes to assumptions or non-rate actions. When the annual review demonstrates that rates are no longer adequate, that the capital position is deteriorating, or that material changes are required, SAF should be directed to file a full rate application for the Panel's review.

9. **That SAF undertake an external independent review of the Integrated Cost Allocation Methodology (ICAM), including both the methodology and the resulting allocation of costs to SAF, and report the results in its next rate application.**

   SAF's ICAM is used to allocate SGI costs among SAF and SGI's competitive insurance operations. SAF made changes to the ICAM in 2023-24, including moving the cost allocation process from spreadsheets to an accounting application. This change allows cost drivers to be updated more frequently and provides SAF with greater control over the assessment of costs allocated through the ICAM. Significant changes were made to the cost allocation methodology following the adoption of IFRS 17, but SGI did not engage an external consultant to assist with the conversion or to assess whether the basis of cost allocation should change or remained reasonable. SGI has also not undertaken the independent cost allocation study recommended in the previous rate review.

   The need for an independent review is heightened by the current rate environment. SAF has experienced increased costs associated with the CT project, including elevated staffing levels, operating legacy and new systems in parallel, and increased software licensing and support costs. Given these changes, and the need for significant rate increases, the Panel recognizes that it is important to confirm that costs allocated to SAF customers are fair and equitable. Although SAF's financial statements are externally audited, that audit is prepared for a different purpose and does not assess whether the ICAM produces a fair and equitable allocation of costs for rate-setting purposes. An independent external review would help determine whether the methodology is fair, reasonable, adaptable to operational changes, consistent with industry practice, and sufficient to ensure that SAF customers are not subsidizing costs properly attributable to SGI's competitive operations.

10. **That the Minister ask SAF to review the Safe Driver Recognition program, including its discounts and surcharges, to determine whether the program remains fair, appropriate, statistically supported, and actuarially sound.**

Although the Safe Driver Recognition program is outside the Panel's mandate, the Panel is of the view that the program should be re-examined. Each driver brings a risk profile to the cost of providing insurance for the vehicle they own and operate. As insurance costs increase due to higher repair costs, more complex vehicle technology, accident benefit costs, and related health and rehabilitation expenses, it is important that discounts and surcharges continue to reflect risk in a fair and evidence-based manner. The Panel has concerns that the current program may not be fully actuarially or statistically based, which raises questions about fairness in its implementation.

Table of Contents

The Panel

Authority

The Panel was established through an Order-in-Council (437/2000 dated July 27, 2000) to serve as a Ministerial Advisory Committee to the Minister of the Crown Investments Corporation of Saskatchewan. The Panel's mandate is to

> *… conduct a review and provide an opinion of the fairness and reasonableness of proposed Crown corporation rate changes, referred to the Panel by the Minister of Crown Investments Corporation; and incorporate as part of its mandate specific terms of reference for particular Crown corporation rate change reviews that may be attached by further Minister's Order.*

Whether in the original Order-in-Council or in the Terms of Reference for particular reviews, the Panel has always been instructed to consider: "*…the interests of the customer, the Crown corporation, and the public*."
The mandate of the Panel extends to three Crown corporations in Saskatchewan: SaskEnergy, SaskPower and SGI's Saskatchewan Auto Fund. Serving as an advisory body to the Minister, the Panel provides independent advice on rate proposals from the above-noted corporations. The final decision about these proposals rests with the Saskatchewan government.

Members of the Panel

The following members have been appointed to serve on the Saskatchewan Rate Review Panel:

Chair	Albert Johnston, Saskatoon
Vice-Chair	Duane Hayunga, Prince Albert
Members	Glenn Dutchak, Canora; Bonnie Guillou, Saskatoon; Kim Hartl, Lake Lenore; Sid Katzman, Saskatoon; Keith Moen, Saskatoon

Panel's Terms of Reference

The Minister issued an Order on January 2, 2026, establishing the Terms of Reference guiding the Panel's review of the Saskatchewan Auto Fund Rate Rebalancing Application. The Minister's Order and the Terms of Reference for this application identified several factors that the Panel is to consider in conducting its review including:

- The interests of the Auto Fund, its customers, and the public;
- Consistency with the Auto Fund's mandate, objectives, and methodologies;
- Relevant industry practices and principles; and,
- The effect of the proposed rate changes and rebalancing on the competitiveness of the Auto Fund relative to other jurisdictions.

In reviewing the application, the Panel will consider the reasonableness of the proposed rate change(s) and rebalancing in the context of:

- The Auto Fund mandate to operate on a self-sustaining basis over time;
- The total forecasted premium revenue requirement by vehicle risk group including the assumptions, estimates, and methodology used in forecasting premiums, investment income, claims, and expenses for the basic {non-capital portion) rate indication being considered; and,
- The objective of ensuring stability and fairness in vehicle insurance rating such that each vehicle class pays sufficient premiums to cover its anticipated claim costs and minimize cross subsidization.

Under the Terms of Reference, there are certain parameters that the Panel must view as given:

- The compulsory insurance coverage provided by the Auto Fund through its legislative mandate;
- The Auto Fund is a public fund for motorists with no profit component required in the pricing of the product;
- SGI CANADA and SGI CANADA Insurance Services Ltd. are separate commercial entities from the Saskatchewan Auto Fund and shall not be considered part of the Auto Fund rate review;
- The existing program parameters of the International Registration Plan, Safe Driver Recognition Program, and the Business Recognition Program;
- The terms of the approved Capital Management Policy and approved target capital levels;
- The vehicle risk groups used by the Auto Fund; and,
- The accounting and operating policies and procedures used by the Auto Fund.

The Minister's Order for this review called for the Panel to complete its work no later than June 19, 2026, which was later revised to July 31, 2026.

The Application

The Saskatchewan Auto Fund (SAF), administered by SGI, has applied to the Panel for a two-year rate program with increases of 3.75 per cent effective June 1, 2026, and June 1, 2027. The June 2026 increase would be implemented on an interim basis and the June 2027 increase would be implemented in a similar manner following the rate review process. SGI stated that the proposal would result in an average annual increase of $38 in the first year, or approximately $3 per month.[12]

SGI indicated that SAF continues to operate as a public fund for Saskatchewan motorists and is intended to provide universal, fair and affordable automobile insurance on a self-sustaining, break-even basis.[13] As in prior applications, SGI's position is that rates must be sufficient to cover claim obligations and operating expenses over time while maintaining fairness among vehicle classes.[14]

In its application, SGI stated that the primary reasons for the proposed rate increases are increasing damage claim costs, inflation and higher expenses. Inflation and advanced technology in newer vehicles have caused a sharp rise in the cost of vehicle repairs, and SAF is no longer collecting enough revenue to cover the cost of claims.[15] The repair costs and vehicle values are expected to continue to rise during the proposed rating period due to the increased complexity of technology, materials and repair procedures used in newer vehicles. Contracted autobody repair labour rates increased by 3 per cent on April 1 in 2023, 2024 and 2025, contributing to higher damage claim costs.[16]

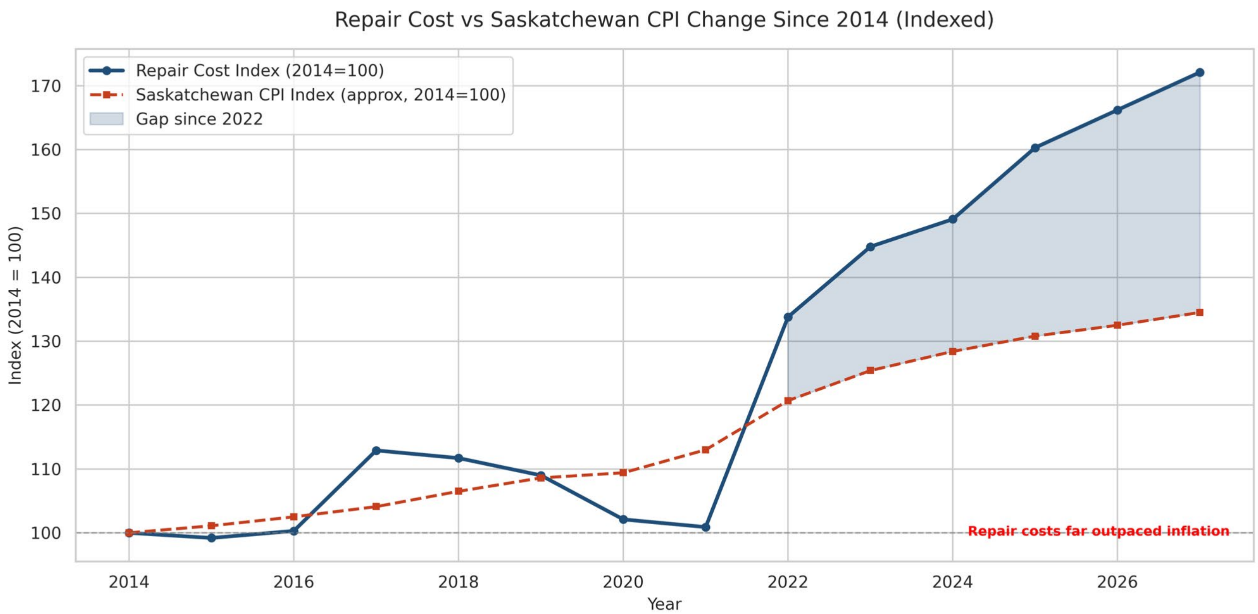
Rising claims and expense pressures have materially altered the SAF's financial position. The consultants reported that total collision repair costs were $430.9 million in 2025, an increase of $159.5 million, or 58.7 per cent, compared to 2021. SAF is forecasting total collision repair costs to increase further to $446.8 million in 2026 and $462.7 million in 2027. Over the six-year period from 2021 to 2027, total collision repair costs are forecast to grow at a compound

[12] Saskatchewan Auto Fund, *2026 Rate Proposal* p. 1-3
[13] Ibid, p. 5
[14] Ibid, p. 6
[15] Ibid
[16] Ibid, p. 14

annual growth rate of 9.3 per cent. The consultants noted that much of this increase is being driven by parts and paint materials, which have increased more quickly than general inflation.[17]

The following charts, drawn from the consultant's report, compare repair cost growth, parts cost growth and paint material cost growth with Saskatchewan CPI since 2014. They show that repair-related costs generally tracked close to CPI until approximately 2020, but then began to rise much more sharply. By 2027, total repair costs are projected to be approximately 68 per cent higher than in 2014, parts costs approximately 90 per cent higher, and paint material costs approximately twice as high. By comparison, Saskatchewan CPI is approximately 35 per cent higher over the same period. This widening gap demonstrates that collision repair costs are not simply reflecting general inflation, but represent a distinct and sustained cost pressure affecting SAF.[18]

Total Repair Cost Growth 2014-2027



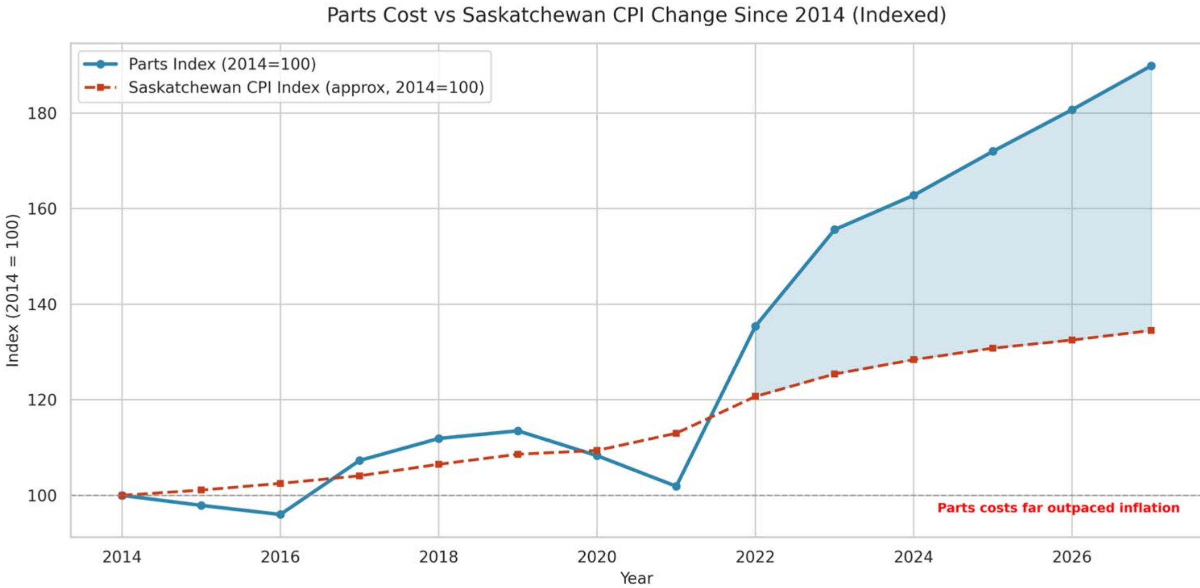
Repair costs generally moved in line with Saskatchewan CPI until about 2020. After that, the two measures began to separate. CPI continued to rise gradually, while repair costs increased much more sharply, especially from 2022 onward. By 2027, repair costs are projected to be about 68 per cent higher than in 2014, compared with about 35 per cent for CPI. The shaded area shows the widening gap between general inflation and repair cost inflation. This suggests that higher vehicle repair costs are not simply the result of normal inflation, but reflect a longer-term cost pressure affecting SAF.[19]

[17] *Review of Saskatchewan Government Insurance Saskatchewan Auto Fund 2026 Proposal for Rate Adjustments, Effective June 1, 2026 & June 1, 2027*, Cathcart Advisors Inc. and Risk Consulting Services Inc., July 15, 2026, p. 127

[18] Ibid, p. 129-131

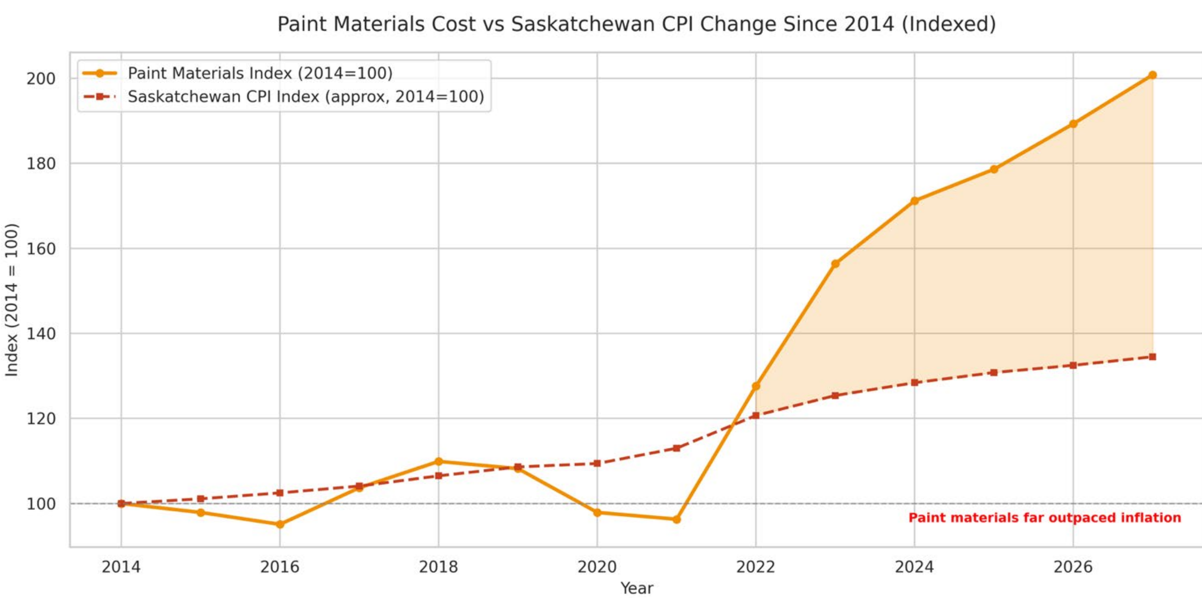
[19] Ibid, p.129

Repair Parts Cost Growth 2014-2027



Parts costs followed a similar pattern to overall repair costs, but the increase was even sharper. From 2014 to about 2020, parts costs were relatively stable and moved close to general inflation. After 2021, they began rising much faster than Saskatchewan CPI. By 2027, parts costs are projected to be about 90 per cent higher than in 2014, compared with about 35 per cent for CPI. The widening gap shows that parts costs are a major driver of repair cost inflation and are increasing well beyond normal inflation. This pressure is especially important because OEM parts continue to make up the largest share of total parts costs, even as aftermarket parts have been growing more quickly.[20]

Repair Paint Cost Growth 2014 - 2027



[20] Ibid, p. 130

Paint material costs have increased the most sharply of the three repair cost categories. From 2014 to about 2020, these costs were relatively stable and generally moved close to CPI. Beginning in 2021, however, paint material costs rose quickly and continued to increase through the forecast period. By 2027, they are projected to be about twice as high as they were in 2014, compared with about 35 per cent higher for Saskatchewan CPI. The widening gap shows that paint materials are rising far faster than general inflation and are one of the strongest cost pressures within collision repair.[21]

Growing Operations, Maintenance and Administration (OM&A) costs are also a contributor to SAF's overall cost pressures. SAF's total allocated operating expenses increased from approximately $314.8 million in 2022-23 to a forecast $400.1 million in 2026-27, an increase of about $85.3 million, or 27 per cent. This growth includes increases in internal loss adjustment expenses, traffic safety programs, underwriting administration, registrar and regulator expenses. The Corporate Transformation project is also contributing to increased administrative costs since the cloud-based implementation spending must be expensed as incurred under IFRS and that SAF is temporarily operating legacy and new systems in parallel, increasing IT and staffing costs during the transition.[22] The premium tax also contributes to SAF's cost structure. This tax is collected from policyholders and paid to the Province, and is calculated as a percentage of gross premiums written. Since it is tied to premium revenue, the dollar amount of premium tax increases as premiums increase, even though it does not directly fund claims costs or improve SAF's capital position. The tax is part of the overall cost pressure reflected in rates, but also as a cost outside SAF's direct control.[23]

SGI intends for the proposed 7.6 per cent increase over two years to cover all claim obligations and operating expenses for the proposed rating period. Unlike the 2021 application, however, the current rate program does not include a reduction to the capital margin. Instead, SGI proposes no change to the current capital margin, reflecting its position that existing financial pressures do not support that approach.[24] The application is designed to balance financial adequacy with affordability. In order to align with the government's Crown Sector Strategic Priorities and ensure that vehicle insurance rates remain affordable for Saskatchewan residents, SGI is proposing what it characterizes as a modest increase over two years rather than the full indicated need. SGI further states that rates would be capped to reduce the impact on vehicle owners.

SGI relies on rate rebalancing as part of its rationale. SGI states that rebalancing is intended to reduce cross-subsidization among vehicle classes by better aligning premiums with claims experience and the average cost of collisions, including damage, injury and liability costs.[25] The application also proposes a capping structure that limits rate changes on vehicles with higher premiums to 3.6 per cent, with corresponding dollar caps for vehicles with lower premiums. SGI states that this approach is intended to reduce rate shock while still moving classes toward rates that better reflect their risk and cost experience.[26]

No rate changes are being proposed for motorcycles and urban taxis in the first year of the application while consultations are undertaken with those groups. SGI plans to hold formal stakeholder consultations in 2026 to better understand challenges and look for viable solutions to address the rate need for these vehicles. The rate hold applies only to urban taxis operating in communities with a population of 5,000 or more, while rural taxis are rated differently and do not face the same rating challenges.[27]

[21] Ibid, p. 131
[22] Ibid, p. 141-144
[23] Ibid, p. 162
[24] Saskatchewan Auto Fund, *2026 Rate Proposal* p. 2
[25] Ibid, p. 7
[26] Ibid, p. 19
[27] Ibid, p. 54

Review Process

Technical Consultants

Cathcart Advisors Inc. and Risk Consulting Services Inc. were engaged by the Panel as independent technical advisers to review the fairness and reasonableness of SAF's proposed rate application, and to provide an independent report including recommendations that would be consistent with the Terms of Reference for the Panel's review of the application. The lead for Cathcart Advisors was Roger Cathcart, and for Risk Consulting Services Inc. was Felix Chan.

At the direction of the Panel, the consultants conducted a detailed analysis of the application, asked two rounds of information requests and supplementary questions (all posted on the Panel's website), and had individual discussions with SGI staff to clarify specific points. The consultants reviewed public comments to the Panel, and participated in several meetings and conference calls with the Panel during the review process before presenting their final report to the Panel.

Public Consultations

The Panel invited public input for the application including:

- Submissions received by mail;
- Online messages received through the Panel's website;
- Messages received directly through the Panel's email address;
- Messages received through the Panel's toll-free voice mailbox; and
- Messages posted to the Panel's Facebook account.

A public meeting was held on March 26, 2026, in Regina, in which SGI officials presented the rational for the application to the public, and the Panel's Chair moderated the discussion that followed. Members of the public were also invited to either attend the meeting in person or view the live broadcast online. The public had the opportunity to provide their questions in person or type their questions from their computer, tablet or smartphone during the broadcast.

All methods for public input were advertised in the two major daily newspapers, and information was disseminated through Facebook and the Panel's website and via media releases. The application received news coverage immediately after it was announced and copies of the application were available on SGI's and the Panel's website. There were a significant number of public comments on this application. Here is a sampling of the comments:

- *No concern with the proposed overall increases if the documentation supplied by SGI supports the proposed rate. However, continuing concern that auto clients continue to heavily subsidize other vehicle classes, notable motorcycles. Each class of user should be "paying their share" based on actual crash rates and related costs.*

- *Rate increases, go after the bad drivers, cause some of the terrible divers never learn even after their violations, and some shouldn't even have a license, and I'm not talking of the seniors, why punish the good drivers!!*

- *The cost of insurance is already too high. Also, it adds salt to the wound when you get into an accident and rely on SGI to give you a fair replacement value for your vehicle and they don't. Not only do they lowball you, but you have to fight tooth and nail to prove the value of your vehicle only to still have them give you a low settlement offer.*

- *The SGI rates need only be changed for drug or drunk drivers multiple tickets drivers multiple demerits drivers. We have a hard enough time putting food on the table and a roof over our heads not to mention utilities I don't approve of any rate increase.*

- *SGI is a monopoly and a crown corporation. They should not be making money. We the public are held captive to any rate increases as there is no alternative. They should not be operating at a loss but neither should they be operating at a profit. Saskatchewan auto rates are already higher than other provinces. Don't get me going on motorcycle rates. That is a complete rip-off.*

The Panel also received a number of written submissions from stakeholder groups including:

The **Saskatchewan Association of Automotive Repairers (SAAR)** supported the rate increase arguing that repair costs have risen significantly since SGI's last rate adjustment in 2014. SAAR stated that modern vehicles are more complex because of advanced materials, fuel-efficiency standards and safety technologies, making repairs more specialized and expensive. With average repair orders doubling from about $3,000 to $6,000, SAAR indicated that insurance rates needed to better reflect today's repair costs so shops can complete safe, quality repairs and receive fair compensation for their work.

The **Canadian Federation of Independent Business (CFIB)** expressed concern about SGI's proposed consecutive 3.75 per cent rate increases in 2026 and 2027 as small businesses and farms are already facing significant cost pressures. While CFIB acknowledged that SGI is dealing with inflation, higher repair costs and more complex vehicles, the federation argued that affordability and timing are major concerns for businesses that rely on work vehicles, fleets and trucks to operate. CFIB urged the Panel to consider the cumulative impact of rising Crown utility and insurance costs, particularly on rural, agricultural and small business operators with limited ability to absorb or pass on additional expenses.

The **Insurance Brokers Association of Saskatchewan (IBAS)** supported SGI's proposed rate application, but argued that it may not go far enough to address deeper structural pressures in the SAF. IBAS noted that claims costs have risen much faster than premiums, creating sustainability concerns, while Saskatchewan's auto insurance product has not seen major changes since 1998. The submission also emphasized the important role of insurance brokers and motor licence issuers, particularly in rural communities, and warned that their compensation had not kept pace with inflation or the growing complexity of transactions.

Riders Against Government Exploitation (RAGE) expressed its concern that SGI's proposed approach was a flawed rate-setting model for motorcycles by relying on rate increases rather than addressing how riders actually use and register their bikes. RAGE stated that motorcycle safety has improved significantly since 2014 with collisions and injuries declining, while overall motorcycle use has remained relatively stable. RAGE argued the issue is not increased risk, but a pricing model that encourages riders to shift to short-term permits, reducing revenue stability and placing more pressure on those who register for longer periods. The group recommended seasonal pricing, motorcycle-specific permits and a stronger focus on rider behaviour and safety as fairer, more sustainable alternatives.
All submissions and comments are available on the Panel's website at www.saskratereview.ca.

Analysis and Discussion

Insolvency Risk

SAF operates as a self-sustaining public insurance fund. It does not receive government funding and does not have access to competitive market mechanisms to manage its financial position. For that reason, the adequacy of its rates, the strength of its RSR, and its MCT position are central to the Panel's assessment of risk.

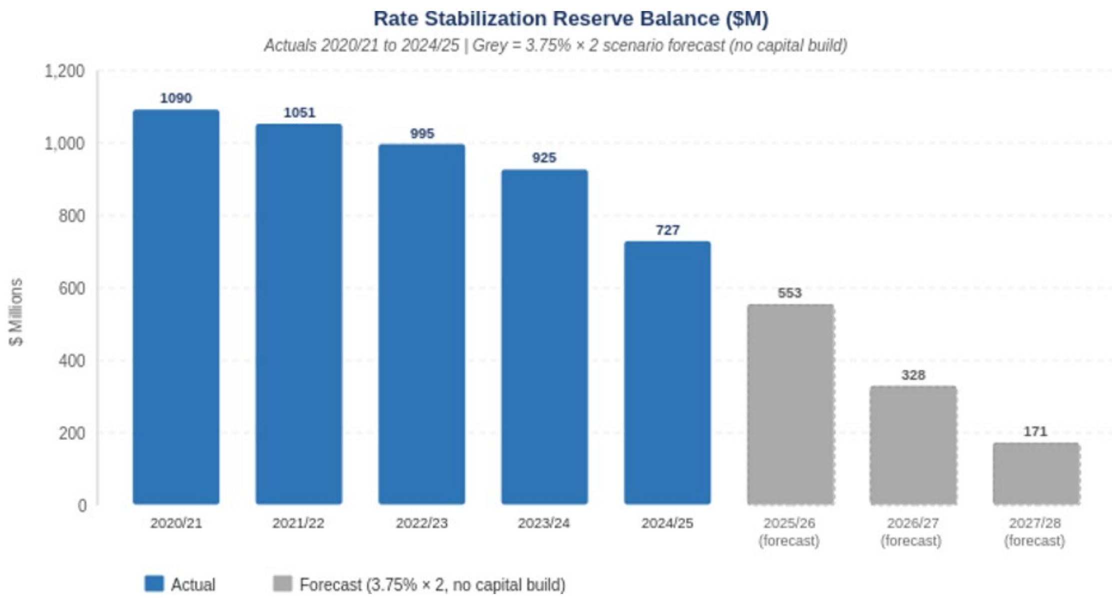
The consultants' report makes clear that SAF's proposed rate increases are materially insufficient to address the financial pressures facing the fund. The consultants state that the proposed increases are "in the right direction" but only recovers a fraction of that need.[28] The evidence before the Panel indicates that the proposed increases are substantially below the rate levels required to restore rate adequacy and stabilize SAF's capital position.

This gap between proposed and indicated rates is evident in the comparison of indicated and proposed rate changes by class. The application indicates that the indicated rate change for CLEAR-rated vehicles is approximately 33.2 per cent, compared to a proposed change of approximately 3.6 per cent. Several conventionally-rated vehicle classes show even larger gaps between required and proposed rates. For example, motorhomes have an indicated rate change of 287.7 per cent compared to a proposed change of 4.3 per cent; urban taxis have an indicated rate change of 86.6 per cent compared to no proposed increase in 2026; and motorcycles have an indicated rate change of 72.4 per cent, also with no proposed increase in 2026. While the Panel recognizes the need to moderate customer impacts and avoid rate shock, the scale of these gaps demonstrates that the current rate proposal is not designed to fully achieve rate adequacy in the short term.

SAF has suspended application of the required capital margin because of affordability concerns. Saskatchewan residents and businesses are facing cost pressures; however, affordability concerns do not eliminate the underlying financial requirement. If rates remain below the level required to fund claims, expenses, and capital needs, the shortfall does not disappear. It is absorbed by the RSR, increases pressure on future ratepayers, and narrows the range of future corrective options.

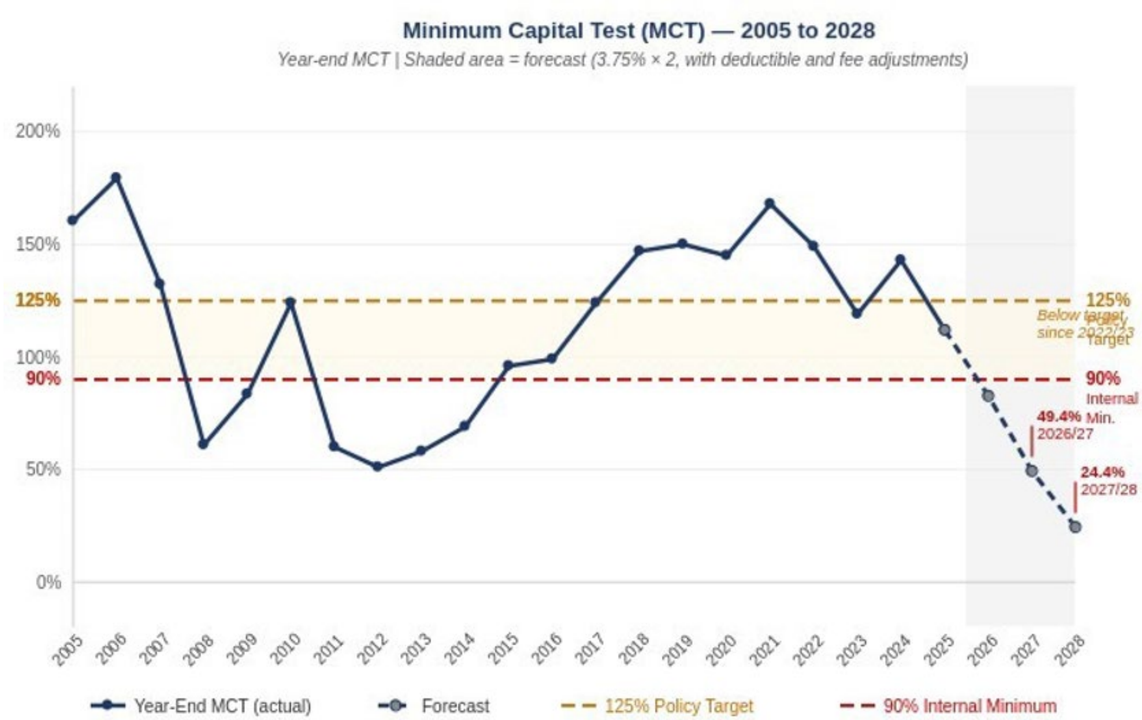
The RSR is the principal financial buffer available to SAF. It protects customers from abrupt rate increases in years when claims costs are higher than expected, when investment results are weaker than forecast, or when catastrophic events occur. SAF depends on the RSR to absorb bad years and protect drivers from emergency rate increases. This is particularly important because SAF provides compulsory basic automobile insurance. Saskatchewan drivers cannot choose another provider for this coverage, and SAF cannot rely on external capital injections or competitive pricing mechanisms to correct its position. RSR is not simply a reserve account; it is the primary mechanism for preserving rate stability and maintaining SAF's financial resilience.

[28] *Review of Saskatchewan Government Insurance Saskatchewan Auto Fund 2026 Proposal for Rate Adjustments, Effective June 1, 2026 & June 1, 2027*, Cathcart Advisors Inc. and Risk Consulting Services Inc., July 15, 2026, p. i



Source: SGI Auto Fund Annual Reports, 2020/21 to 2024/25; SAF Application Sensitivities to 2027/28.xlsx. Grey bars = forecast period.

The RSR has deteriorated significantly since the last application. Five years ago, the RSR stood at approximately $1.090 billion. By March 31, 2025, it had declined to approximately $727 million. Under the proposed rate increases, the consultants report that the RSR is forecast to fall to approximately $328 million by the end of 2026-27 and to approximately $171 million by the end of 2027-28. Put another way, under the proposed rate path, the RSR would fall to less than one-third of its 2020-21 level by the end of 2026-27, and to a much smaller balance by the end of 2027-28. This erosion is central to the Panel’s concern regarding insolvency risk.



Source: IR 2-16 (scenario c); SAF Application Sensitivities to 2027/28.xlsx, Baseline sheet. Reference lines: 125% policy target (amber dashed) and 90% internal minimum (red dashed). Shaded area = forecast period

The MCT provides a further measure of this risk. SAF uses the MCT to assess whether it has sufficient capital relative to the risks and obligations of SAF. The current policy target is 125 per cent, and SAF has identified 90 per cent as its internal floor (below this amount the capital position is considered deficient). SAF's MCT was 112 per cent as of March 31, 2025, already below the 125 per cent policy target. It is forecast to fall to approximately 83 per cent by the end of 2025-26. It is then forecast to fall to approximately 49 per cent by the end of 2026-27 and approximately 24 per cent by the end of 2027-28. At this level, SAF would hold "less than half the capital" required.[29]

The Panel views this trajectory as a serious warning sign. A low MCT ratio does not mean that SAF is immediately insolvent, but it does mean that the financial cushion available to absorb adverse events is being substantially depleted. A single bad year at the forecast 2026-27 capital level could require emergency action to meet SAF's financial and contractual obligations. This concern is heightened by the nature of automobile insurance risk. Claims costs can be affected by weather events, inflation, repair cost escalation, vehicle technology, legal and medical cost trends, and investment market volatility. When the RSR and MCT are already weakened, SAF has less flexibility to absorb these pressures without sharper future rate increases.

The Panel is further concerned that SAF is not merely deferring capital rebuilding; it is also not including the full capital maintenance provision required to prevent the MCT from further erosion. The capital management provision has two components: a maintenance component to preserve the capital position as the book of business grows, and a build or release component to move toward the MCT target over time. SAF calculated the capital management plan provision at 6.5 per cent of premiums based on the 2025 rate indication and later identified a required provision of 9.2 per cent based on the 2026 indication. Despite this, SAF proposed to maintain the current capital provision of approximately 0.06 per cent due to affordability concerns. This current approach is not sufficient to prevent continued capital deterioration.

The consultants' review of alternative rate scenarios supports this conclusion[30]. The Panel asked SAF to model eight scenarios showing the rate increases required to halt the deterioration of SAF's capital position, keep the RSR above zero, and restore the MCT to an acceptable level within a defined timeframe. SAF provided responses for all eight scenarios, but designated the full results confidential, including annual RSR balances, available and required capital, MCT projections, and required rate increases. As a result, the consultants could not disclose those details in their report. They also noted that the scenarios rely on known forward-looking assumptions and do not account for new external economic pressures or emerging trends, such as adverse loss development or rising loss trends. In the Panel's view, this confirms that the current rate proposal does not resolve SAF's capital risk. The proposed rate path would not restore the RSR, return the MCT to the 125 per cent policy target, or remove the need for a capital margin and multi-year capital restoration plan.

For these reasons, the Panel concludes that insolvency risk is not a remote or theoretical issue in this application. The current rate proposal is a limited response to a much larger rate adequacy and capital adequacy problem. The Panel supports confirming the 2026 increase because it is a necessary step toward addressing the immediate shortfall. However, approval of the 2026 increase should not be understood as resolving SAF's financial risk. The proposed rate path does not restore the RSR, does not return the MCT to the 125 per cent policy target, and does not eliminate the need for a capital margin and a multi-year capital restoration plan.

---

[29] Ibid, p. 8-9

[30] Ibid, p. 96

Financial Forecasts

An essential part of the any rate application is the financial forecasts for future years. These forecasts are typically for five years, although they tend to be longer for energy utilities. These forecasts allow those evaluating rate proposals to assess not only the current and longer-term impacts to customers, but also the adequacy of rates to cover SAF's claim costs, operating expenses and overall financial health into the future. These forecasts measure future financial results relative to the RSR and MCT against established targets.

These forecasts have been provided in prior applications from SAF. The consultants' report notes that the forecasts provided beyond the 2027-28 fiscal year have been marked confidential, which limits their disclosure and their use in evaluating the proposed second rate increase. As such, the Panel is unable to make a recommendation on the second year (2027-28) rate increase scheduled for June 1, 2027.

As outlined in Recommendation 3, it is evident that SAF's financial position is deteriorating at a rate that will not be addressed by the single rate increase in 2026. At this time there is not sufficient public information to assess the adequacy of the proposed rate increase for June 1, 2027, along with the Panel's recommended capital margin increase, that will moderate the financial deterioration.

It is evident that a rate increase along with other non-rate measures is required to put SAF on the path to recovery. There must be a wholesome and complete rate application to properly address this matter. The Panel is requesting this new application to include plans and new forecasts that demonstrate a recovery within the next five years. The Panel expects this new application before the end of 2027.

The terms of reference require the Panel to consider the reasonableness of the rate increase with a mandate for SAF to operate on a self-sustaining basis over time. Based on the available evidence, the Panel cannot confirm this criteria will be met.

The Panel also considers the financial forecasts as part of the process of reviewing and recommending whether the increase is fair and reasonable. The forecasts provided during this review do not provide the Panel with this assurance.

The terms of reference also indicate that the objective is to provide fair insurance rates, such that vehicles of similar classes pay their fair share of premiums. Based on the information provided, the Panel cannot state that the proposed rates meet this test. In particular, the Panel notes that motorcycles and taxis have had their rates set for zero increases for the second time. When premiums collected are compared with claims costs incurred, these classes remain significantly below the indicated rate level and are not paying their fair share, resulting in subsidization by other classes. For example, the indicated increase for CLEAR-rated vehicles (which is the largest class representing the majority of light vehicles) is approximately 33.2 per cent, while the proposed increase is approximately 3.6 per cent for 2026-27. Other classes, including motorcycles, motorhomes, urban taxis, some commercial vehicles, trailers and permits, show even larger gaps between indicated and proposed rates.

The Panel is to consider as a given the established Capital Management Policy, which states that the target MCT has been set at 125%. The rate application and forecasts provided do not set a path to this policy target; and in fact, indicates a further deterioration for this important metric.

Financial Outlook

The consultants reviewed SAF's financial forecast for the 2024-25 to 2027-28 period. The forecast reflects the proposed 3.75 per cent rate increase in each of 2026-27 and 2027-28, for a combined 7.65 per cent increase over two years. It does not include any change to the capital margin currently embedded in rates. The 2026-27 increase took effect on June 1, 2026. The following summary is drawn from the consultants' financial forecast table and highlights the overall financial trajectory of SAF.

Financial Forecast, 2024/25 to 2027/28

Year ended March 31	2024/25	2025/26B*	2026/27F	2027/28F
Gross premiums written	1,128.0	1,165.0	1,237.0	1,323.3
Change in gross unearned premiums	(21.7)	(17.0)	(33.8)	(38.0)
Short-term Registration and AutoPay Revenue	39.7	41.1	43.7	46.7
Insurance Revenue	1,146.0	1,189.1	1,246.9	1,332.0
Insurance Service Expenses				
Gross claims incurred	896.6	1,014.0	1,066.1	1,083.5
Prior year claims (Net of Disc/Risk Margin)	25.6	(20.7)		
Loss adjusting expense (LAE)	269.1	222.0	227.0	231.3
Issuer fees and premium taxes	116.3	119.1	125.9	134.6
Change in Loss Component	19.2	19.8	(20.3)	(30.6)
Insurance expenses	29.8	32.1	35.4	35.6
Insurance Service Expenses	1,356.5	1,386.3	1,434.1	1,454.4
Net revenue (expenses) from reinsurance contracts				
Premiums ceded to reinsurers	(26.2)	(20.9)	(20.7)	(22.1)
Change in unearned reinsurance premiums	0.6	(0.3)	0.6	1.0
Ceded claims incurred	21.5			
Ceded admin expenses	(0.2)	(0.2)	(0.2)	(0.2)
Net revenue (expenses) reinsurance contracts	(4.4)	(21.3)	(20.3)	(21.2)
Insurance Service Result	(214.9)	(218.5)	(207.4)	(143.7)
Investments Result				
Investment earnings (losses)	257.7	218.7	152.5	150.9
Insurance finance income (expense)	(139.1)	(64.1)	(63.7)	(79.4)
Reinsurance finance income (expense)	0.3	0.3	0.1	(0.0)

Year ended March 31	2024/25	2025/26B*	2026/27F	2027/28F
Investments Result	118.9	155.0	88.8	71.5
Other Revenue	126.0	128.8	136.5	155.5
Traffic Safety	21.7	25.8	26.5	26.6
Other Expenses	206.4	213.2	216.8	213.6
Increase (decrease) to Rate Stabilization Reserve	(198.0)	(173.6)	(225.3)	(156.9)
Rate Stabilization Reserve, beginning of year	924.9	726.9	553.3	327.9
Rate Stabilization Reserve, end of year	726.9	553.3	327.9	171.1
Minimum Capital Test (MCT)	111.8%	82.7%	49.4%	24.4%
MCT — Rolling 12-month avg.	133.3%	97.2%	66.0%	36.9%

** The 2025/26 figures shown are forecasts prepared during the review. Based on the recently released Annual Report, the audited 2025/26 Rate Stabilization Reserve decreased by $93.3 million against the projected decrease of $173.6 million, a favourable variance of $80.4 million, for an audited year-end Reserve of $633.6 million and an MCT of 98.0%. SAF advised that the variance is largely one-time and did not provide an updated forecast The Consultants have not been provided with the analysis supporting that flow through and the impact on the rating years.*

The Panel views this forecast as important context for this report as it demonstrates that the current application is not simply about the immediate affordability of the proposed rate increases. It is also about the longer-term sustainability of SAF, the adequacy of the RSR, and the need for a credible capital restoration plan. The forecast also reinforces the Panel's view that future applications must include complete public financial forecasts so that the Panel, ratepayers and stakeholders can understand the expected path of revenues, expenses, the RSR and the MCT.

Additional Requirements for Next Application

The Panel has concluded that the 2027-28 rate year should be the subject of a separate application supported by a full public evidentiary record. This conclusion follows directly from the Panel's concern that the public record in this proceeding did not provide enough information to assess the reasonableness of the second-year rate increase. The Panel emphasizes that this does not mean a 2027-28 rate increase is unnecessary; in fact, the evidence reviewed in this application indicates that SAF's financial position is deteriorating and that additional rate action, capital rebuilding, or both will be required. However, the Panel cannot recommend approval of the second-year increase without the public evidence required to determine whether the proposed rate is adequate, fair, reasonable, in the public interest, and places SAF on a path to financial stability.

The next application should therefore include a complete public financial forecast. The consultants were clear that financial forecast information used to support a public rate application should not be treated as confidential in its entirety. The Panel agrees that a public forecast is essential because it allows the Panel, ratepayers and stakeholders to understand the expected path of premiums, claims, expenses, investment income, the RSR, and the MCT. Without that information, the public cannot properly assess whether proposed rates are sufficient to meet SAF's obligations over time.

The Panel also expects public disclosure of the financial forecast to become a standing expectation in future SAF rate applications. If SAF seeks future rate approval without a publicly available forecast, the Panel may not be able to recommend the proposed rates as fair and reasonable because the basis for those rates would not have been demonstrated on the public record.

At minimum, the next application should include multi-year projections of the RSR balance, MCT ratio, net premiums, claims incurred, operating expenses, investment income, and the insurance finance result under International Financial Reporting Standards (IFRS) 17. The information should be presented in a manner that allows the Panel and the public to understand both the annual results and the cumulative financial trajectory of SAF. The forecast should also clearly distinguish between actual results, current-year forecasts, and future-year projections. Where assumptions have changed from the previous application or annual review, SAF should explain the change and quantify its effect.

The next application should also include Financial Condition Testing results, or at minimum, a meaningful public summary of the key findings. Without public disclosure, the Panel must assess the application on a partial record. This is particularly true when SAF's capital position is projected to fall below its policy target and internal minimum. The Panel and ratepayers cannot assess capital adequacy without understanding the range of adverse scenarios SAF is capable of withstanding. Future filings should include stress testing, sensitivity analysis and alternate rate scenarios showing how its RSR and MCT would respond to changes in claims costs, investment income, inflation, repair costs, weather-related losses, and other material risks.

The Panel also expects the next application to include the results of SAF's consultations with motorcycle and urban taxi stakeholders. In this application, SAF proposed no rate changes for motorcycles and urban taxis in 2026-27, with rate changes possible in 2027-28 after consultations. The consultants identified this as one of the reasons the 2027-28 rate increase could not be assessed on the current record. The next application should provide a clear summary of the consultation process, the issues raised by stakeholders, the options considered by SAF, and the rationale for any proposed rate or non-rate changes affecting those classes. If SAF proposes to continue holding rates for any class below the required rate level, it should identify the financial impact, the source of any cross-subsidization, and the expected path toward rates that are sufficient to cover the anticipated costs of that class.

The next application should also provide a clear accounting of all non-rate actions that affect SAF's financial position or customer impacts. This includes any changes to deductibles, service fees, coverage design, program rules, recognition programs, claims practices, or other measures that affect revenue, claims costs, expenses, RSR, MCT, or ratepayer impacts. The consultants noted that there may be "further non-rate actions not yet announced whose impact on 2027/28 cannot be assessed."[31] The Panel expects SAF to identify all non-rate actions that have been implemented, approved, proposed, or are under active consideration, and to quantify their expected financial and customer impacts over the forecast period.

The next application must also include a multi-year capital restoration plan. The Panel has recommended that SAF adopt a capital margin of at least 6.5 per cent immediately and commit to reaching the full required 9.2 per cent. However, the consultants were clear that a capital margin alone will not be sufficient unless it is part of a broader plan to restore the RSR to the 125 per cent MCT policy target without increasing rates and moving them closer to the indicated rate level. The consultants recommended annual progress reporting on "the RSR balance, the MCT trajectory, and the amount being directed toward capital rebuilding through each rate program."[32] The Panel agrees that SAF should present a structured restoration plan showing the proposed timeframe, annual capital build

[31] Ibid, p. 91
[32] Ibid, p. 91

amounts, projected RSR balance, projected MCT ratio, and the proposed allocation of responsibility between current and future ratepayers.

The capital restoration plan should also include alternate scenarios. These should show the impact of different recovery periods, different capital margin assumptions, different rate paths, and different claims or investment outcomes. This information is necessary so the Panel can assess whether the proposed approach balances affordability with SAF's long-term, self-sustaining mandate. It would also help ratepayers understand the trade-offs involved. A slower restoration plan may reduce immediate rate impacts, but increase the risk of larger future increases. A faster restoration plan may improve capital adequacy sooner, but place more immediate pressure on customers. These trade-offs should be explicit in the next application.

The Panel further expects SAF to use current economic assumptions in the next application and update them during the review process if material inputs become stale. The consultants noted that SAF's interest rate forecast was based on data more than three months old at the time of submission. This principle should apply not only to interest rates, but also to inflation, repair costs, labour costs, vehicle values, claims trends, investment returns, and other material assumptions. If the review period extends over several months, SAF should provide updated information where there has been a material change. The Panel notes the actuary made several recommendations in the consultant's report, and urges SAF to review them and consider adopting these recommendations in future applications.

The next application should also include a detailed update on the Corporate Transformation (CT) project. The consultants noted that CT project costs have contributed materially to operating expense pressures, but that the project is also expected to generate savings. The consultants recommended that the Panel hold SAF to those projected savings, noting that if savings are not achieved as forecast, the rate path could be materially higher. The next application should include a benefits-realization report comparing actual savings and efficiencies against the business case, along with an explanation of how those savings have been reflected in operating expenses, productivity measures, and rate requirements.

Interim Rate Increases

The Panel is concerned that interim rate increases can limit the effectiveness of the public review process. The purpose of the Panel's review is to provide independent advice to the Minister on the fairness and reasonableness of proposed rate changes after considering the interests of customers, the Crown corporation and the public. When a rate increase is implemented before the Panel has completed its review, customers begin paying the proposed rate before the application has been fully tested through the public process.

The Panel recognizes that there may be circumstances where interim rate adjustments are necessary to protect the financial stability of SAF or to avoid material harm to ratepayers. However, interim implementation should be the exception, not the normal approach. Where SAF seeks an interim rate adjustment, it should provide a clear public explanation of why an interim implementation is required, the financial impact of delaying the implementation until the review is complete, the expected customer impact, and how any over-collection or under-collection would be addressed if the final approved rate differs from the interim rate.

The Panel is particularly concerned that interim rate implementation may reduce transparency and accountability if it is used when the evidentiary record is incomplete. In this application, the Panel has identified significant concerns regarding financial disclosure, the confidential treatment of SAF's longer-term forecast, unresolved motorcycle and urban taxi consultations, and the need for updated capital adequacy information. These concerns reinforce the importance of completing a full review before rates are implemented wherever possible.

Annual Rate and Financial Adequacy Review

The Panel recommends that SAF provide an annual rate and financial adequacy review, whether or not SAF is seeking a change to rates. The purpose of this annual review would not be to require a full rate application every year, nor to presume that rates must change annually. Rather, it would provide a regular and transparent process for assessing whether SAF remains on track with respect to rate levels, claims costs, operating expenses, investment income, the RSR, the MCT, and any approved capital restoration plan.

The need for an annual review is directly connected to the issues identified in this application. The absence of regular rate applications between 2021 and 2026 contributed to the current financial and capital pressures facing SAF. In the consultant's words, "rates that should have been adjusted incrementally over five years, have led to a significant rate gap that now must be addressed."[33] This is precisely the type of situation an annual review process is intended to avoid. A regular review would allow the Panel to monitor emerging pressures before they become structural problems requiring larger and more abrupt corrective action.

The Panel recognizes that annual full rate applications may not be necessary in every year. There may be years when SAF's rates remain sufficient to cover anticipated claims costs and expenses, when the RSR and MCT are tracking toward approved targets, and when no material rate action is required. In those circumstances, an annual financial adequacy review would provide assurance to the Panel, the Provincial Government, ratepayers, and stakeholders that SAF remains on a sustainable path. However, where the annual review shows that rates are no longer sufficient, that SAF's capital position is deteriorating, or that material changes are required, SAF should be directed to file a full rate application for the Panel's review.

The Panel considers annual reporting on the RSR and MCT particularly important during the capital rebuilding period now facing SAF. The consultants recommended annual progress reporting on "the RSR balance, MCT trajectory, and the amount being directed toward capital rebuilding through each rate program."[34] The Panel agrees that this is a necessary tool as an accountability measure. It would provide the Panel with the information needed to identify emerging risks, assess whether SAF remains financially sustainable, and determine whether a full rate application is required. It would also improve transparency for ratepayers by providing regular public information on the financial condition of SAF and the factors affecting future rates.

The purpose of this recommendation is to support more timely, measured, and transparent oversight. Smaller, regular adjustments, where needed, are generally preferable to allowing financial pressures to accumulate over several years and then requiring larger corrective action. Annual rate and financial adequacy reviews would help ensure that SAF's rates, capital position, and financial outlook are reviewed on a regular basis and that the Panel, the Provincial Government, ratepayers, and stakeholders have the information required to understand whether SAF remains on track.

Rate Capping and Rebalancing

Rate capping and rebalancing are important elements of this application because they affect how the proposed overall increase is distributed among vehicle classes and individual policyholders. SAF's actuarial analysis produces indicated rates for each vehicle class based on expected claims costs, expenses, investment income, and other rating factors. Those indicated rates are intended to show the rate level required for each class to cover its anticipated costs. However, the rates proposed in the application differ from the indicated rates because SAF has applied rate capping to limit the immediate impact on customers.

---

[33] Ibid
[34] Ibid

Rate Ranges and Capping Limits	2021 Rate Review Maximum Annual Cap	2026 Rate Review Maximum Annual Cap	Maximum Monthly Cap
$1-50	$25	$6	$1
$51-100	$50	$12	$1
$101-250	$75	$18	$2
$251-500	$100	$24	$2
$501-750	$125	$30	$3
$751-1,000	$150	$36	$3
$1,001 or greater	15%	3.6%	3.6%

For vehicles with current premiums of $1,001 or higher, SAF proposes to cap annual increases at 3.6 per cent. For vehicles with lower annual premiums, fixed dollar caps apply. These fixed dollar caps mean that some low-premium vehicles may experience percentage increases greater than 3.6 per cent. For example, a vehicle with a current annual premium of $101 could experience an increase of up to $18, or approximately 18 per cent.

The Panel recognizes that rate capping may be necessary to prevent rate shock. Some vehicle classes would face very large increases if the full indicated rate were applied immediately. However, capping should be used as a transitional measure to move classes toward adequate rates over time, not as a mechanism to defer rate corrections indefinitely or shift costs to other classes.

The Panel has considered the capping options identified by the consultants: no capping, a lower cap, a higher cap, and a variable cap. No capping would move classes more quickly to adequate rates, but could result in unacceptable rate shock for some customers. A lower cap would reduce immediate customer impacts, but would increase the risk of larger shortfalls in future applications. A higher cap would reduce some of that future risk, but would still apply a broad approach across classes. A variable cap provides a more balanced and equitable approach.

Under a variable cap, vehicle classes with higher indicated rate requirements would be subject to higher caps, while still being protected from the full immediate impact of the indicated rate. This approach better reflects the principle that each vehicle class should pay sufficient premiums to cover its anticipated claims costs and expenses, while still recognizing the need to avoid sudden and unreasonable increases for customers. It also reduces the extent to which customers in one class subsidize the costs of another class.

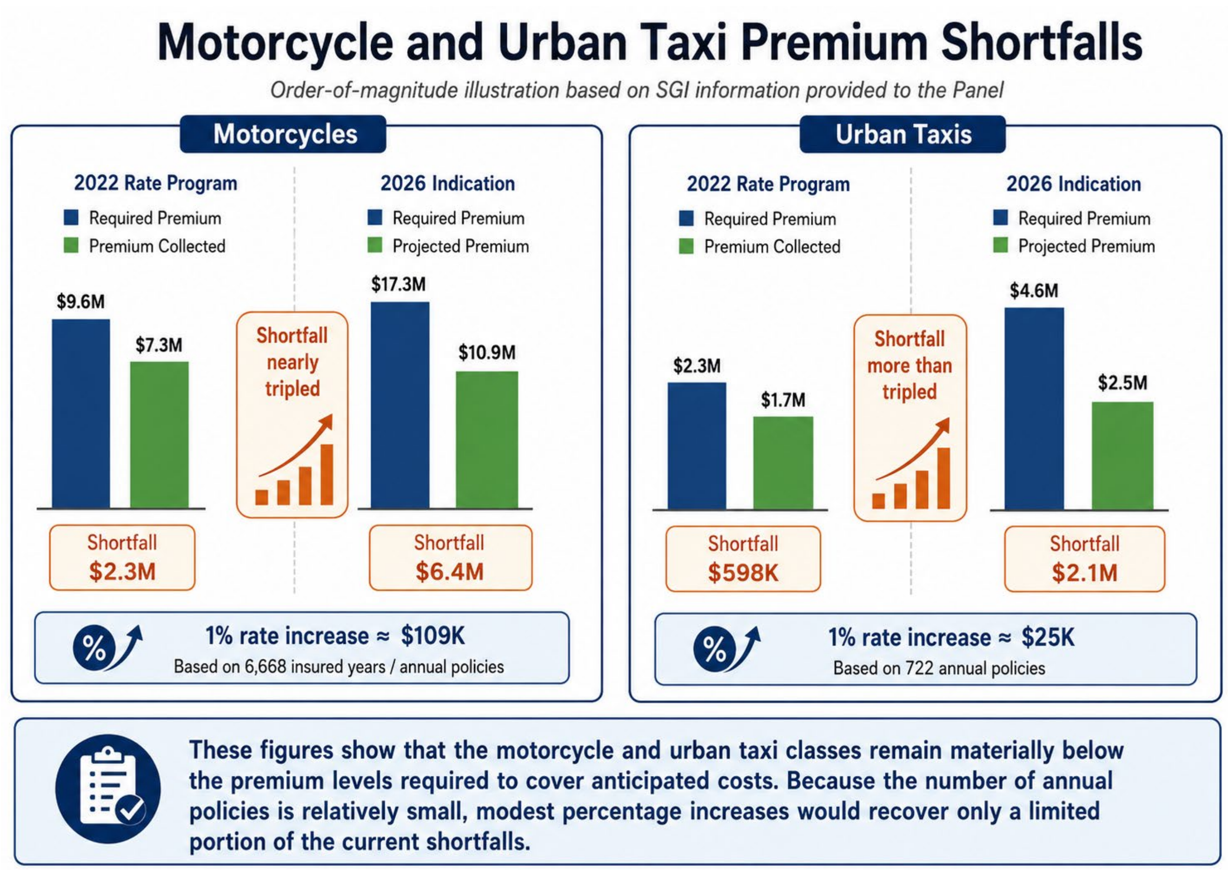
The Panel places particular importance on minimizing cross-subsidization among vehicle classes. Drivers of CLEAR-rated vehicles should not be required to subsidize the rates of motorcycles, taxis, or other classes whose premiums are materially below the level required to cover their anticipated costs. Similarly, those other classes should not subsidize CLEAR-rated vehicles or any other class. Regular rebalancing is necessary so that current information on claims costs, expenses, and risk experience is reflected in rates in a timely and equitable way.

The Panel also considers intergenerational equity to be an important consideration. Customers from past years should not subsidize current customers, and current customers should not be left to absorb costs that should have been addressed in prior years. Although this alignment is difficult to achieve, the Panel does not consider it appropriate to rely on reserves accumulated from past customers to reduce rates for current customers when SAF is already facing significant capital pressures. A variable cap with a limit of 15 per cent would help reduce the deferral of today’s indicated rate needs to future customers, while still phasing in increases in a reasonable manner.

Motorcycle and Taxi Considerations

The growing shortfalls in the motorcycle and urban taxi classes illustrate the consequences of allowing rates to remain materially below the amounts required to cover anticipated costs. During the 2021 application, the motorcycle class had a required premium of approximately $9.6 million but generated approximately $7.3 million in premiums, resulting in a shortfall of approximately $2.3 million. Under the 2026 application, the required premium has increased to approximately $17.3 million, compared with projected premium revenue of approximately $10.9 million. The resulting shortfall is approximately $6.4 million, nearly three times the amount identified during the previous rate program.

The urban taxi class has experienced a similar, and proportionately larger, deterioration. During the 2021 application, the class had a required premium of approximately $2.3 million and generated approximately $1.7 million, producing a shortfall of approximately $598,000. Under the current application, the required premium has increased to approximately $4.6 million, while projected premium revenue is approximately $2.5 million. The shortfall has grown to almost $2.1 million, more than three times the amount identified in 2022.



The relatively small number of annual policies in these classes limits how quickly these shortfalls can be addressed through incremental rate changes. Based on forecasts, each one percentage point increase in motorcycle rates would generate approximately $109,000 in additional annual premium from approximately 6,668 insured vehicle-years.[35] A one percentage point increase in urban taxi rates would generate approximately $25,000 from approximately 722

[35] Ibid, P. 110, 116

annual policies[36]. These figures demonstrate that modest percentage increases would recover only a small portion of the current shortfalls. They also reinforce the need for SAF's consultations with motorcycle and urban taxi stakeholders to consider not only the level and timing of rate changes, but also whether changes to registration, coverage, pricing, permit structures or other program features could contribute to a sustainable solution.

For motorcycles, the consultants' analysis shows that the issue is not limited to the aggregate class shortfall. The consultants described motorcycles as presenting "the most striking gap between the indicated and proposed rate of any vehicle class in this application."[37] They also stated that "the core of the motorcycle rate problem is injury costs."[38] The consultants noted that injury benefits account for approximately 82 cents of every dollar of required adequate premium for the motorcycle class, compared with roughly 18 per cent for private passenger vehicles and 18 per cent for SAF as a whole.[39] The required adequate gross premium for the motorcycle class is approximately $2,612, of which approximately $2,145 is attributable to injury benefits.[40]

This reinforces the need for SAF's consultation with the motorcycle community to consider not only the timing and level of rate increases, but also whether program design, injury benefit options, seasonal pricing, permit structures, safety initiatives or other measures could contribute to a more sustainable solution. Since these consultations have not yet taken place, the Panel cannot review the merits of any specific motorcycle pricing option in this report, but it expects SAF to provide a clear assessment of the options considered and the financial implications of each in its next application.

The Panel also recognizes the concerns raised by Riders Against Government Exploitation (RAGE) that higher rates have prompted some riders to shift from annual or full-season plates to short-term permits that are only used when weather conditions permit riding. This results in lower total registration revenue from the motorcycle class. The Panel urges SAF to examine whether the current registration and pricing structure is contributing to the class shortfall or is creating any other unintended consequences.

Urban taxis require similar attention. The consultants noted that urban taxis are a separate rate class and, like motorcycles, have been specifically excluded from the 2026 rate increase. SAF is proposing no rate change for urban taxis effective June 1, 2026, citing the need to conduct stakeholder consultations with the taxi industry before implementing any change.

The Panel expects SAF to continue reporting separately on transportation network company claims experience and loss ratios. The consultants noted that the Transportation Network Company (TNC) rate indication is influenced by the taxi credibility complement rather than solely by TNC-specific results. Better TNC-specific experience will assist SAF, the Panel and stakeholders in determining whether taxi and TNC rating assumptions remain appropriate and whether any future differentiation of rates, coverage, or pricing structure is warranted.

The consultants also observed that urban taxis were excluded from the April 2022 rate change. They stated that "two consecutive rate freezes raise a rate adequacy question."[41] The Panel recognizes the need for meaningful consultation with the taxi industry before significant changes are implemented. However, the fact that urban taxis have now been excluded from two consecutive rate changes raises concerns about fairness, rate adequacy, and cross-subsidization.

[36] Ibid, P. 107
[37] Ibid, P. 110
[38] Ibid
[39] Ibid
[40] Ibid
[41] Ibid, P. 108

Any continued rate hold should be supported by clear evidence of the resulting shortfall, the source of any cross-subsidization, and the path toward rates that better reflect the class's anticipated costs.

The Panel recognizes that the issues facing motorcycles and urban taxis are complex and longstanding. However, continued deferral is not a sustainable solution. A transparent path is required so these classes can move over time toward rates that are sufficient to cover their anticipated costs, while also allowing SAF to consider practical program changes that may improve fairness, affordability and revenue stability.

Operating, Maintenance and Administration Costs

Rising Operating, Maintenance and Administration (OM&A) costs are also contributing to SAF's overall cost pressures. The consultants reviewed SAF's allocated operating expenses and found that total allocated operating expenses increased from approximately $314.8 million in 2022-23 to a forecast $400.1 million in 2026-27, an increase of approximately $85.3 million, or 27 per cent. These expenses are not claims costs, but they are part of the overall cost of operating SAF and must be recovered through rates.

There are several areas contributing to this increase. Internal loss adjustment expenses, which include the internal costs of evaluating, processing and settling claims, increased significantly in 2024-25. Registrar and regulator expenses have also grown, with registrar expenses forecast to increase from $20.9 million in 2022-23 to $32.8 million in 2026-27, and regulator expenses forecast to increase from $12.9 million to $23.4 million over the same period. Traffic safety program costs are also forecast to increase to $26.5 million in 2026-27. These costs support important public insurance and safety functions, but they also contribute to the total revenue requirement that must be supported by premiums.

Salary-related costs are also part of this pressure. Wages and benefits allocated to SAF increased from $108.6 million in 2020-21 to a forecast $207.0 million in 2026-27. Over the same period, staffing levels increased from 1,171 full-time equivalents to a forecast 1,614 full-time equivalents, while the cost per full-time equivalent increased from $92,734 to $128,283. A portion of this increased salaries and benefit costs are attributed to the CT project.

The consultants also reviewed SAF's operating costs on a per insured vehicle basis. SAF's operating expenses increased from $168 per insured vehicle in 2022-23 to a forecast $193 per insured vehicle in 2026-27. Excluding CT costs, operating expenses increased from $136 per insured vehicle to $186 per insured vehicle over the same period. This shows that SAF's operating cost pressure is not only related to the temporary impact of the CT project, but also reflects broader increases in the ongoing cost of operating the Auto Fund.

The CT project has also affected SAF's operating expense profile. The consultants noted that CT project spending is included in SAF operating expenses and that cloud-based implementation spending must be expensed as incurred under IFRS rather than capitalized. SAF has also been operating legacy and new systems in parallel during the transition, which has increased IT, licensing and staffing costs. Although CT spending is expected to decline as the project is completed and legacy systems are decommissioned, the consultants noted that the project has resulted in costs that were not covered in rates and has reduced retained earnings.

Rising OM&A costs place additional pressure on SAF at the same time that claims costs, repair costs and capital requirements are also increasing. The Panel expects SAF's next application will clearly explain the drivers of OM&A costs, identify which costs are temporary and which are ongoing, and demonstrate how any expected CT savings or efficiencies have been reflected in the rate requirement.[42]

[42] Ibid, p. 141-147

Integrated Cost Allocation Methodology Study

The consultants reviewed SAF's Integrated Cost Allocation Methodology (ICAM), which is used to allocate SGI corporate costs between SAF and SGI's competitive insurance operations. This allocation is important because the costs assigned to SAF become part of SAF's operating expenses and affect the revenue requirement that must be recovered from ratepayers.

The consultants noted that SAF's share of allocated costs has increased since the last review. The overall magnitude of spending and the share of spending allocated to SAF have increased, including costs associated with the CT project, elevated staffing levels, parallel operation of legacy and new systems, and increased software licensing and support costs.[43]

The consultants also noted that significant changes were made to the cost allocation methodology following the adoption of IFRS 17, but SGI did not engage an external consultant to assist with the conversion or assess whether the revised basis of cost allocation remained reasonable. SAF has indicated that the cost allocation methodology is reviewed internally and audited annually as part of its financial statement audit. However, an audit is not the same as an independent regulatory review of whether the allocation methodology is fair and reasonable for rate-setting purposes.

This distinction is important because SGI operates both competitive insurance businesses and SAF, which provides compulsory basic auto insurance. If costs are not allocated appropriately, SAF ratepayers could be required to pay costs that should properly be attributed to SGI's competitive operations. An independent cost allocation study is needed to assess both the methodology and the resulting costs allocated to SAF. Such a review would help determine whether the methodology is fair, reasonable, adaptable to operational changes, consistent with industry practice, and sufficient to prevent cross-subsidization between SAF and SGI's competitive businesses.

Premium Tax

The consultants also reviewed issuer fees and premium taxes as part of SAF's operating expenses. A premium tax is a tax applied to insurance premiums and paid to the Province. For financial reporting purposes, SAF groups issuer fees and premium taxes together. Premium tax is forecast to increase from approximately $51.1 million in 2022-23 to approximately $61.4 million in 2026-27, and to $65.6 million in 2027-28. When issuer fees and premium taxes are combined, the total increases from approximately $100.2 million in 2022-23 to approximately $124.9 million in 2026-27 and $133.6 million in 2027-28.[44]

Premium tax is an important part of the rate discussion because it forms part of the overall cost structure that must be supported by premium revenue. It is not a claims cost and does not directly improve SAF's capital position or rebuild the RSR. However, because it is included in SAF's expenses, it contributes to the overall revenue requirement reflected in rates. As premiums increase, the dollar amount of premium tax also increases, adding to the total cost borne by ratepayers. The Panel therefore views premium tax as a cost pressure that is largely outside SAF's direct control, but one that should be clearly identified in future applications so that ratepayers can understand how much of the total rate requirement is related to claims, operating expenses, taxes, issuer fees and capital rebuilding.

[43] Ibid, p. 168
[44] Ibid, p. 162

Safe Driver Recognition Program

The Safe Driver Recognition (SDR) program is outside the Panel's direct mandate for this rate review since the Terms of Reference identify the existing program parameters as a given. However, the consultants' report confirms that the program has an impact on rates because it applies discounts and surcharges to otherwise applicable premiums.

The SDR program is an incentive program established in 2002 to promote safe driving. The program provides discounts to customers with safe driving records and applies penalties to drivers with a history of unsafe driving, including at-fault collisions, traffic convictions and licence suspensions. Under the program, drivers may earn discounts of up to 25 per cent on their vehicle insurance premiums, while drivers with poor driving records are assessed financial penalties.

Although the program is intended to encourage safe driving behaviour, the Panel notes there is a broader fairness issue. As claims costs, repair costs, accident benefit costs and related health and rehabilitation costs increase, it becomes more important to ensure that the discounts and surcharges applied to individual drivers continue to reflect risk in a fair and evidence-based manner. The application states that the objective of the SDR and Business Recognition programs is to promote safe driving behaviour rather than pure actuarial soundness, and that the discounts and surcharges have not been modified to be based on actuarial methodology since the programs were introduced.

The driver recognition programs also affect premium revenue. The SDR program provided $149.9 million in discounts in 2023-24 and is forecast to provide $172.7 million in discounts in 2026-27 and $184.7 million in 2027-28. These discounts are part of the overall rate-setting environment and therefore affect the amount of premium revenue collected by SAF.[45]

The Panel is not recommending changes to the SDR program as part of this rate review since it is outside the Panel's mandate, but considering the financial pressures facing SAF and the importance of fairness among ratepayers, the Panel believes the program should be reviewed to determine whether its discounts and surcharges remain appropriate, statistically supported and actuarially sound. Such a review would help determine whether the program continues to provide an effective safety incentive while also ensuring that individual driver adjustments are reasonably aligned with the cost risks associated with driving behaviour.

Competitiveness of the Proposed Rates

The Panel's Terms of Reference direct it to consider the effect of the proposed rate changes and rebalancing on the competitiveness of SAF relative to other jurisdictions. SAF provided a cross-Canada rate comparison as part of its application. The purpose of the comparison is to estimate how much a driver would pay for auto insurance in each Canadian jurisdiction, based on current vehicle, driving record and claim history.

The comparison uses 30 vehicle and driver profiles. Of those profiles, 27 relate to automobile insurance and three relate to motorcycle insurance. Rates for the automobile insurance profiles were sampled from two to five cities in each province, except Quebec, where comparison data is no longer available. The cities selected are intended to provide a geographic representation of rates within each province. The vehicle makes and models used in the comparison are those most commonly registered in Saskatchewan, British Columbia and Manitoba.[46]

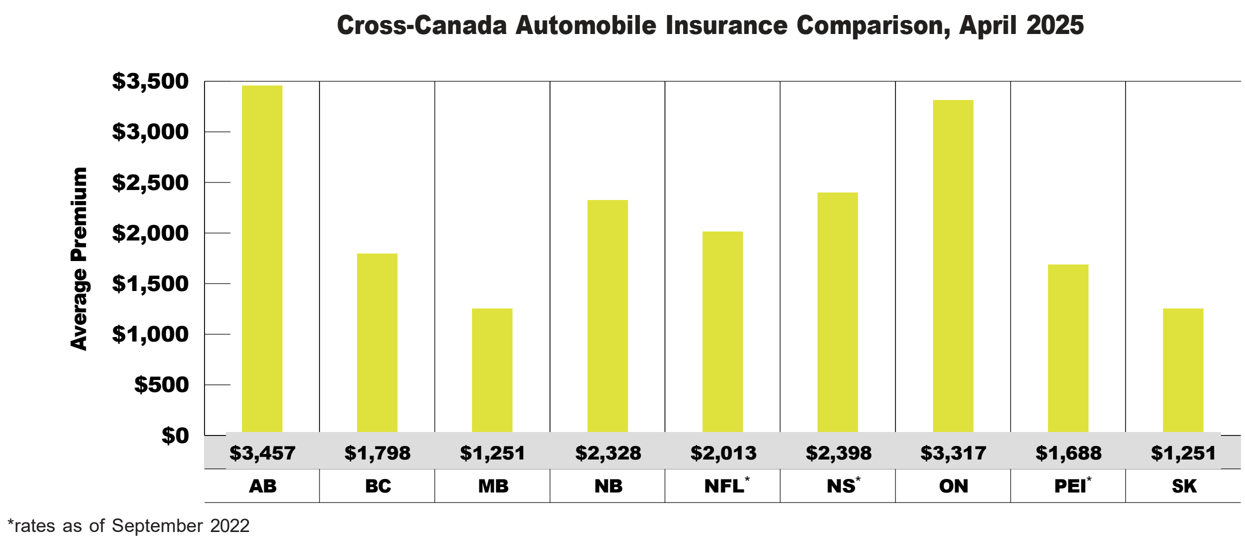
[45] Ibid, p. 12

[46] Saskatchewan Government Insurance, *Saskatchewan Auto Fund Rate Change Proposal: Minimum Filing Requirements* (2026 rate application), "Fairness in rating" and "Adequate capital," p. 8-9

In 2022, SGI partnered with Manitoba Public Insurance (MPI) and the Insurance Corporation of British Columbia (ICBC) to commission Ernst & Young to prepare a cross-Canada auto rate comparison report. That work expanded the geographic range of the comparison by adding New Brunswick, Newfoundland, Nova Scotia and Prince Edward Island. For the current application, rates in Ontario and Alberta were projected from the September 2022 Ernst & Young results by estimating provincial average rate changes from September 2022 to April 2025. Updated rates for Newfoundland, Nova Scotia and Prince Edward Island could not be determined because of a lack of available approved rate changes, so September 2022 rates were used for those provinces.[47]

The Panel recognizes that comparing auto insurance rates across jurisdictions is inherently difficult. Differences in population, road infrastructure, vehicle mix, insurance coverage, climate, benefit levels, no-fault versus tort systems, driver characteristics, operating expenses, tax levels, capital requirements and profit provisions can all affect average premiums. SAF has attempted to reduce some of this variability by standardizing the vehicles, driver profiles and coverage levels used for liability and physical damage coverage. However, the jurisdictions remain fundamentally different. For example, companies in competitive insurance markets may not be required to insure all vehicles and may not face the same limits on the rates they quote.

Based on updates to the 2022 Ernst & Young survey, Saskatchewan has the second-lowest average personal auto insurance rates in Canada. Manitoba continues to be Saskatchewan's closest comparator and, according to SAF's application, has now surpassed Saskatchewan with the lowest average rates in Canada. The comparison provided in the application shows average premiums of approximately $1,251 for both Manitoba and Saskatchewan, with Manitoba identified as the lowest-cost jurisdiction and Saskatchewan as second-lowest. British Columbia's rates have also decreased significantly since that province shifted to a no-fault system.



The comparison also shows that average premiums in Alberta and Ontario are substantially higher than in the Crown insurer provinces. SAF's comparison shows average premiums of approximately $3,457 in Alberta and $3,317 in Ontario, compared with approximately $1,251 in Manitoba and Saskatchewan. However, the Panel notes that Alberta and Ontario operate in competitive insurance environments with multiple insurers and a wider range of quoted rates. Those jurisdictions also include insurer profit margins and higher operating costs, including broker commissions and contingent commissions, which affect average premiums.

[47] Ibid

The Panel considers the comparison most meaningful when Saskatchewan is compared with Manitoba and British Columbia because all three jurisdictions have Crown-owned insurers providing basic compulsory auto insurance, supplemented by optional coverage. Even among those provinces, however, caution is required. The consultants noted that the degree to which MPI or ICBC is building up or drawing down capital can affect average premium levels and future rate changes. Differences in Minimum Capital Test levels, target capital levels, operating costs, traffic safety costs and government medical fees can also affect the comparison.

Based upon this information and analysis, the Panel accepts that SAF's rates remain competitive relative to other Canadian jurisdictions, particularly when compared with competitive insurance provinces. However, the Panel also notes that SAF must remain self-sustaining over time. Rates that appear competitive in the short term may still be insufficient if they do not cover projected claims costs, expenses and required capital. In this application, the evidence shows that SAF continues to offer comparatively low rates, but also that its RSR and MCT are deteriorating. The Panel's assessment of competitiveness must therefore be balanced against the need to restore SAF's long-term financial sustainability.

The Impacts of the Proposed Rates

Impacts on the Customer

The Panel recognizes that rate increases impact Saskatchewan motorists at a time when households, businesses, farms and non-profit organizations are already facing affordability pressures. However, the proposed increase is significantly lower than the full rate level required to address SAF's projected claims costs, operating expenses and capital requirements. The Panel views the 2026-27 increase as a necessary, but moderated step that balances customer affordability with the need to begin addressing SAF's financial deterioration.

The Panel's recommendation not to approve the second proposed rate increase means customers would not automatically be subject to the second-year increase without a further public review. Instead, SAF would be required to return with a separate application for 2027-28, supported by a complete public evidentiary record. From a customer perspective, this provides an important measure of accountability. It ensures that any further rate action is assessed with updated information on claims costs, operating expenses, investment income, the RSR, the MCT, non-rate actions, and the outcome of motorcycle and urban taxi consultations.

The proposed 2026 increase is also moderated through rate capping. SAF has proposed a 3.6 per cent cap for vehicles with current annual premiums above $1,000, with fixed dollar caps for vehicles with lower annual premiums. The purpose of this capping is to limit immediate customer impacts and reduce rate shock. The consultants noted that, under SAF's proposed capping structure, approximately 98 per cent of risks would be capped. For most customers, this means the increase would be significantly lower than the actuarially indicated rate change for their vehicle class.

However, the Panel recognizes that capping does not eliminate the underlying cost pressures. Where a class is capped below the level required to cover its anticipated claims costs and expenses, the remaining shortfall must be addressed in a future application, absorbed by the RSR, or reflected through cross-subsidization within SAF. This is particularly important because the current application shows substantial gaps between indicated and proposed rates for many classes. CLEAR-rated vehicles have an indicated rate increase of approximately 33.2 per cent, compared to a proposed increase of approximately 3.6 per cent.

The Panel also notes that the indicated rate changes shown in the application do not fully reflect the additional customer impact that would result from the Panel's recommendation to include a meaningful capital margin. While the indicated rate requirement for each class is based on projected claims costs and expenses, the Panel has also recommended a capital margin of at least 6.5 per cent to begin rebuilding SAF's capital position. If accepted, that capital margin would increase the total rate requirement faced by ratepayers, even though it does not change the underlying class indicated rate. The Panel recognizes that applying the full indicated increases, together with a capital rebuild provision, would create significant affordability concerns. However, continued deferral also increases pressure on the RSR, prolongs cross-subsidization among classes, and increases the likelihood of larger future rate corrections.

The Panel's recommendations are intended to protect customers from both immediate rate shock and longer-term financial instability. The consultants observed that the absence of annual rate applications between 2021 and 2026 contributed to the current capital concerns. Annual rate and financial adequacy reviews are intended to avoid this pattern in the future. More frequent monitoring would allow SAF, the Panel and the public to identify emerging issues earlier and consider smaller, more gradual corrective measures where needed.

Customers are also affected by the Panel's recommendation that SAF adopt a capital margin and prepare a multi-year capital restoration plan. If the reserve continues to decline, customers may face larger and more abrupt rate increases in the future. Rebuilding the reserve will likely place some pressure on future rates, but a planned and transparent restoration approach is preferable to allowing the fund's capital position to weaken further and then requiring emergency action.

The Panel also recognizes that some customer groups require further attention before longer-term rate decisions can be made. SAF has proposed no rate changes for motorcycles and urban taxis in 2026-27 while consultations are undertaken. The Panel supports meaningful engagement with these communities before any further rate action is proposed. However, the rate need for these classes has not disappeared. The next application should include the results of those consultations, the options considered, the financial implications of any proposed approach, and a clear path toward rates that are sufficient to cover the anticipated costs of each class.

Impacts on the Saskatchewan Auto Fund

If the Panel's recommendations are implemented, the immediate impact on SAF would be confirmation of the interim 3.75 per cent overall rate increase effective June 1, 2026, while requiring a separate application before any further overall increase is approved for 2027-28. The 2026 increase would provide additional premium revenue to SAF and represents an important first step toward addressing the gap between current rates and projected claims costs, operating expenses and capital requirements. The Panel also recognizes that this increase will not fully address SAF's financial pressures.

The impact on SAF is materially different from the circumstances considered in the previous rate application. In 2021, SAF had experienced a significant increase in the RSR, largely due to reduced claims during the COVID-19 pandemic and strong investment performance. In the current application, the situation has reversed. SAF's claims costs and expenses have increased, the RSR has deteriorated, and the MCT is forecast to fall well below SAF's policy target and internal minimum. The Panel's recommendations are intended to begin stabilizing the Auto Fund, while requiring SAF to provide a more complete public record before any further rate action is approved.

The Panel's recommendation not to approve the 2027-28 increase at this time would delay automatic implementation of the second-year rate increase. This may place some short-term pressure on SAF if its costs continue to rise as forecast. However, the recommendation does not prevent SAF from seeking further rate action. The Panel's recommendation that SAF adopt a capital margin of at least 6.5 per cent, and commit to reaching the full required 9.2 per cent, would have a significant impact on the SAF's financial planning. A meaningful capital margin would provide a mechanism to begin rebuilding and maintaining the RSR. This is necessary because the RSR is SAF's primary financial buffer against higher-than-expected claims costs, weaker investment results, severe weather events, and other volatility. Without a capital margin and a structured restoration plan, SAF's capital position is forecast to continue weakening, increasing the risk of larger and more abrupt rate action in future years.

The Panel's recommendation for a multi-year capital restoration plan would also have an important operational and governance impact on SAF. It would require SAF to set out a transparent plan to restore the RSR to the 125 per cent MCT policy target, including annual reporting on the RSR balance, MCT trajectory and the amount being directed toward capital rebuilding. This would support more disciplined capital management and provide a clearer framework for balancing affordability with SAF's obligation to operate on a self-sustaining basis over time.

The Panel also recognizes that rate capping and rebalancing affect SAF. Capping reduces the immediate impact on customers, but it also limits the amount of revenue collected from classes whose rates are materially below the level required to cover their anticipated costs. As a result, capping can increase cross-subsidization among vehicle classes, place additional pressure on the RSR, and defer required rate corrections to future applications. The Panel has concluded that a variable rate cap is the fairest approach because it allows classes with higher indicated rate requirements to move more quickly toward rates that reflect their anticipated costs, while still protecting customers from unreasonable rate shock. Given the scale of the indicated rate gaps in the current application, the deterioration of the RSR, and the Panel's recommendation that SAF include a meaningful capital margin, the Panel believes that the variable cap should allow increases of up to 15 per cent for classes with higher indicated rate requirements.

A 15 per cent maximum cap would not fully eliminate the gap between indicated and proposed rates for all classes, but it would make more meaningful progress toward class fairness than the proposed 3.6 per cent cap. It would also reduce the extent to which shortfalls are deferred to future ratepayers or addressed through cross-subsidization among vehicle classes. At the same time, the cap would continue to moderate immediate customer impacts by preventing the full indicated increases from being applied at once.

The recommendation for annual rate and financial adequacy reviews would have a positive impact on SAF by creating a regular process for identifying emerging risks before they become more difficult to manage. The absence of regular rate applications between 2021 and 2026 contributed to the current structural gap. Annual reviews would allow SAF and the Panel to monitor claims experience, operating expenses, investment income, RSR, MCT, capital margin, non-rate actions and progress on Panel recommendations. This should support more timely and measured decision-making, and reduce the risk that SAF will need to address several years of accumulated pressure in a single application.

The Panel's recommendations regarding financial disclosure would also affect SAF's future application process. SAF would be expected to provide a full public financial forecast and related capital adequacy information, subject only to targeted confidentiality where genuinely required. This would improve transparency and allow the Panel, ratepayers and stakeholders to better understand SAF's financial position and the basis for future rate proposals. While this may require more detailed public reporting by SAF, it would strengthen the evidentiary record and support public confidence in the review process.

The Panel's recommendations regarding motorcycles and urban taxis would require SAF to continue meaningful engagement with those stakeholder communities before proposing further rate changes. This should assist SAF in addressing long-standing rate and program design issues that cannot be resolved solely through this application. The next application should include the results of those consultations, the options considered, and the financial implications of any proposed approach.

Impacts on the Public

All Saskatchewan citizens have an interest in how SAF operates, regardless of whether they are individual policyholders. SAF provides compulsory basic automobile insurance and operates as a public fund for motorists. Its mandate is to be self-sustaining over time, with revenues and costs breaking even, rather than earning profits or paying dividends. For that reason, the impact on the public is different from the impact on shareholders of a commercial insurer. The public interest is not measured through dividends or profit distribution, but through the long-term stability, fairness, transparency and sustainability of the Auto Fund.

If the Panel's recommendations are implemented, there would be no direct shareholder impact on the public in the form of profit or dividend effects. However, there is a broader public interest in ensuring that SAF remains financially stable and able to meet its obligations. A financially-weakened SAF can affect the public by increasing the risk of larger future rate increases, reducing flexibility to respond to severe weather or unexpected claims costs, and creating pressure for more urgent corrective action. The deterioration in the RST and the MCT has implications beyond individual ratepayers.

The Panel's recommendation to confirm the 2026 rate increase is intended to begin addressing these financial pressures while moderating the immediate impact on customers. At the same time, the Panel's recommendation not to approve the 2027-28 increase without a separate public application protects the public interest by ensuring that any further rate action is based on current, complete and publicly available financial forecasts.

The Panel's recommendations on financial disclosure, annual rate and financial adequacy reviews, and a multi-year capital restoration plan also serves the public interest. These measures are intended to improve transparency and accountability in future reviews. The public should be able to understand the financial condition of SAF, the reasons for any proposed rate changes, and the steps being taken to restore the fund to a stable capital position. Stronger public disclosure will also allow stakeholders to participate more meaningfully in future rate reviews.

The Panel also considers it in the public interest for SAF to engage meaningfully with affected stakeholder groups, including motorcycles and urban taxis, before proposing further rate action for those classes. Long-standing rate and program design issues cannot be resolved solely through capped rate increases. A more transparent engagement process may help identify approaches that are fairer, more sustainable and better understood by affected communities.

In Appreciation

The Panel thanks SGI for the timely and helpful assistance it provided throughout this application.

The Panel thanks Cathcart Advisors Inc. and Risk Consulting Services Inc. for their thorough analysis of the application.

The Panel thanks Gerry Forrest, our general consultant, for his ongoing assistance in the work of the Panel.

The Panel thanks technical writer Pat Rediger for his assistance in preparing this report.

Finally, the Panel wishes to acknowledge the members of the public who participated in the review process. All contributions were received and evaluated by the Panel during its decision-making process.

For More Information

For more information on this review, please visit the Saskatchewan Rate Review's website at www.saskratereview.ca. The site contains the original application, SAF's public presentation on the application, the Panel's terms of reference, information requests to SAF and the responses, video links to the public meetings, public submissions and comments, the technical consultant's report, and the Panel's media releases.

Appendix A:

Technical Consultant's Report