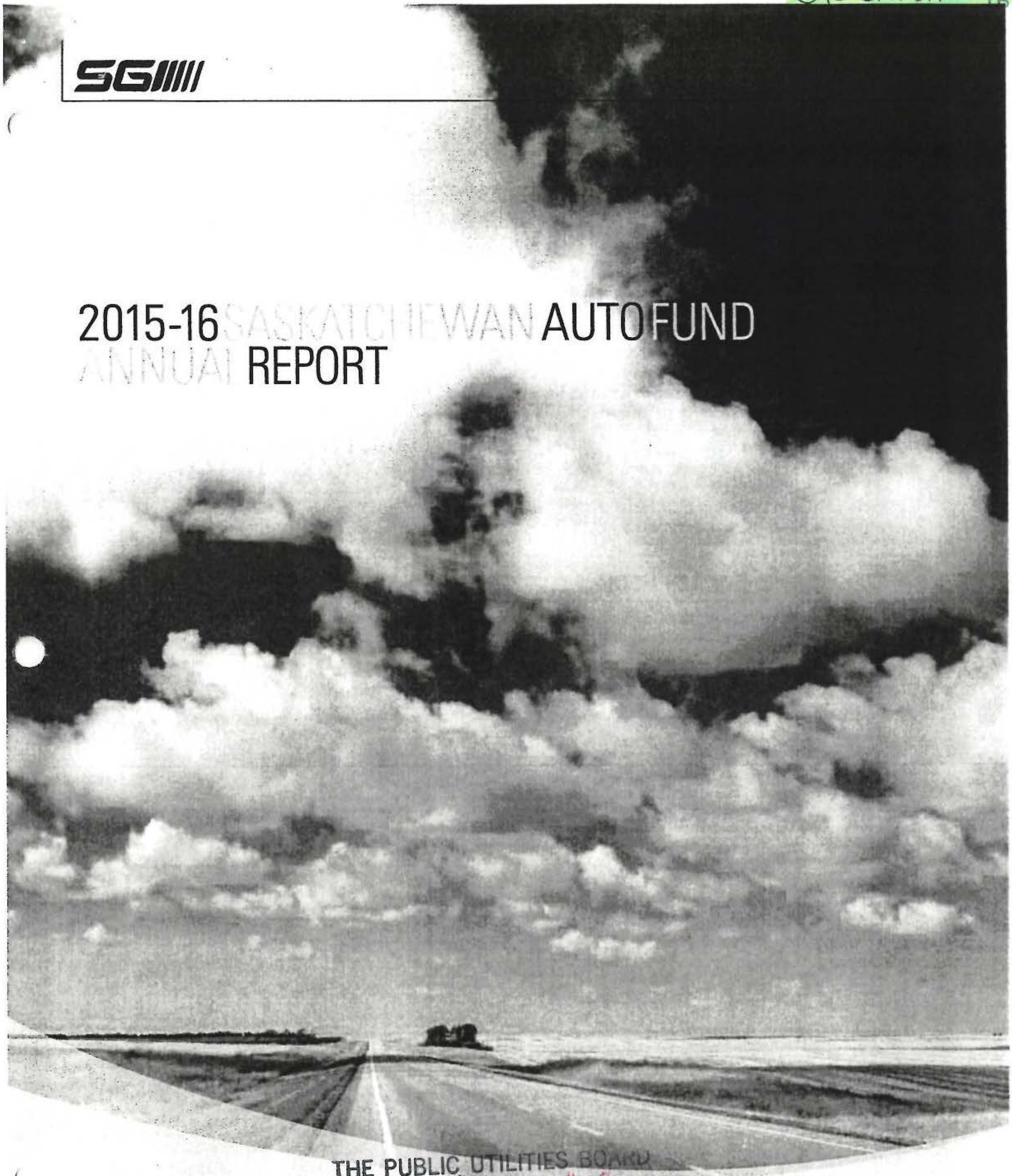
CAC EXHIBIT # 18

SGI



2015-16 SASKATCHEWAN AUTO FUND ANNUAL REPORT

THE PUBLIC UTILITIES BOARD

Exhibit No. CAC #18

Re: MPI GRA 2017

10/19/16

DATE

SECRETARY

In support of the company's long-term goal to be at or above the Canadian public sector, in 2016-17, it is targeting a one-point improvement over its 2014 result, which was five points below the Canadian public sector norm (52%).

Capital adequacy

Capital adequacy speaks to the Auto Fund's ability to honour its financial obligations. An adequate balance in the Rate Stabilization Reserve (RSR) gives the Auto Fund a financial resource to draw on when adverse events increase the cost of claims, thereby protecting customers against unpredictable premium increases for their auto insurance. The Auto Fund uses a common property and casualty industry measurement called the Minimum Capital Test (MCT) to monitor the adequacy of the RSR. The MCT is a risk-based capital adequacy formula that assesses risks to assets, policy liabilities and off balance sheet exposures by applying various factors to determine a ratio of capital available over capital required. The Auto Fund's 12-month rolling average MCT score of 95% was above the 2015 target of 69%, but remains below the long-term goal of 100%. At March 31, 2016, the actual, non-rolling MCT was 99%.

The Auto Fund's 2016-17 target is an MCT of 90%. This target is lower than its final 2015-16 result as it was set during the Auto Fund's corporate budget process, prior to knowing final results. The Auto Fund will continue to focus on moving towards its MCT target of 100%, as described in the following section, Capabilities to Execute Strategies, under Capital and Liquidity.

Capability to Execute Strategies

Fundamental to the capability to execute corporate strategies, manage key performance drivers and deliver results are employees, motor licence issuers, technology and systems, and capital and liquidity. They are discussed further below:

Employees

Auto Fund employees are experienced and knowledgeable about the Saskatchewan automobile insurance market. With many long-term employees and a low staff turnover rate, the Corporation has significant expertise in core areas, including licensing and registration, driver and vehicle safety services, and claim handling, as well as within the support areas. The challenge is to continue to recruit, develop and retain the best people to ensure the longevity, growth and maintenance of operations.

The corporate recruitment strategy was recently updated to enhance partnerships with outreach agencies and educational institutions and the Corporation's visibility as a preferred employer. SGI's succession planning process focuses on: (i) ensuring current senior management positions have succession plans; (ii) identifying high performing staff who have potential for more senior roles; and (iii) ensuring high-potential staff and the leadership team have ongoing development and support. SGI also recently introduced a program to support employees nearing retirement and assist with the transfer of critical knowledge and expertise.

SGI and the Canadian Office and Professional Employees' Union, Local 397 (COPE 397), are within a four-year Collective Bargaining Agreement, running from January 1, 2014, to December 31, 2017.

Motor licence issuers

The Auto Fund provides accessibility for customers by distributing products through a network of 380 independent motor licence issuers in 283 communities across Saskatchewan, and seven SGI branch offices throughout the province. The majority of motor licence issuers' interests are represented by the Insurance Brokers' Association of Saskatchewan. The relationship between the Auto Fund and motor licence issuers is governed by an Issuer Accord. The accord is intended to enhance the working relationship resulting in improved service to customers. Included in the accord are 15 agreed upon principles, such as fostering better communication between both groups, recognizing the value of each other's roles to provide service to Saskatchewan people and partnering on traffic safety programs.

Technology and systems

The Auto Fund relies on technology and information systems to deliver products and services to the motoring public. The Auto Fund operates using a sophisticated information system that gives it the flexibility to respond to customer needs and industry changes. Auto Fund products are widely accessible to customers through an online system in issuing offices throughout the province, and customers can perform many transactions through MySGI online services.

Capital and liquidity

As the Auto Fund belongs to the Province of Saskatchewan, legislation restricts how it can raise capital and mandates the benefits available to policyholders. The Auto Fund does not pay dividends to or receive money from the province nor from SGI, the administrator of the Auto Fund. The Auto Fund cannot go to public capital markets to issue debt or common shares. Since these traditional avenues for capital are not available to sustain the Auto Fund, it uses premiums and fees from operations, along with income generated from its investment portfolio, to fund operations. If premiums, fees and investment income are not sufficient to sustain operations, it must increase rates. The Saskatchewan Rate Review Panel reviews rate changes and then passes on recommendations to the provincial government, which has the final authority to approve, modify or reject rate changes.

A key operating principle for the Auto Fund is ensuring consistency and stability in rates so that customers are not subject to ongoing price fluctuations or large rate increases. An adequate balance in the Rate Stabilization Reserve (RSR) gives the Auto Fund a financial resource to draw on when adverse events increase the cost of claims or a decrease in capital markets occurs, thereby protecting customers against unpredictable premium increases for their auto insurance. The Auto Fund uses a common industry measurement called the Minimum Capital Test (MCT) to establish a target for the RSR. The MCT is a risk-based capital adequacy formula that assesses risks to assets, policy liabilities and off balance sheet exposures by applying various factors to determine a ratio of capital available over capital required.

The Auto Fund maintains a Capital Management Policy that applies an amount to move towards its MCT target of 100% in small increments with each rate program. The policy determines the amount of capital adjustment needed with each rate program by applying an amount to either recover one-fifth of the capital below 100% MCT or release one-fifth of the capital above 100% MCT into the basic insurance rate every year. As such, the rate always includes a portion designed to move the RSR towards an adequate level, and avoids the volatility a surcharge might create, assuming rate programs are annual or close to annual. This method is consistent with private insurers that build cost of capital requirements into each regulatory rate filing.

The policy also considers whether overall capital needs have changed. As claim liabilities and investment assets grow, the need for capital to support the business also increases. With each rate program, SGI analyzes actual results and brings forward recommendations for adjustments required to maintain adequate capital. SGI anticipates that, with this policy in place, only minor adjustments will be needed to address capital needs in subsequent rate programs.

At March 31, 2016, the MCT ratio was 99%, and the 12-month rolling average MCT ratio was 95%.

The estimated contractual maturities related to the unpaid claims recoverable from reinsurers excludes the net effect of discounting and PFAD of $161,000 (December 31, 2014 – $221,000) (note 9). The estimated contractual maturities related to the provision for unpaid claims excludes the net effect of discounting and PFAD of $755,933,000 (December 31, 2014 – $693,682,000) (note 9).

15. Capital Management

The Auto Fund has a capital management policy, approved by the SGI Board of Directors. The primary objective of capital management for the Auto Fund is to maintain a level of capital in the Rate Stabilization Reserve sufficient to cushion the Auto Fund from the volatility inherent in investment and underwriting operations, and ensure a positive Rate Stabilization Reserve without the need for excessive rate increases for Auto Fund customers.

The Auto Fund's legislation restricts how it can raise capital and mandates the benefits it is to provide to policyholders. The Auto Fund does not receive money from the province nor from SGI, the administrator of the Auto Fund, and it does not pay dividends to the province or its administrator. The Auto Fund cannot go to public capital markets to issue debt or common shares. It uses premiums and fees from operations, along with income generated from its investment portfolio, to fund future operations.

The Auto Fund manages capital in accordance with its capital management policy using a common industry measurement called the Minimum Capital Test (MCT) to establish a target for the Rate Stabilization Reserve. The MCT is a risk-based capital adequacy formula that assesses risks to assets, policy liabilities and off balance sheet exposures by applying various factors to determine a ratio of capital available over capital required.

16. Change in Non-Cash Operating Items

The change in non-cash operating items is comprised of the following:

	(thousands of $)	
	15 months ended March 31 2016	12 months ended December 31 2014
Accounts receivable	$ (6,147)	$ (12,198)
Unpaid claims recoverable from reinsurers	1,346	26,190
Deferred policy acquisition costs	818	(3,469)
Other assets	(546)	(320)
Accounts payable and accrued liabilities	17,868	(1,560)
Premium taxes payable	(34,667)	2,992
Unearned premiums	(10,635)	22,468
Provision for unpaid claims	46,824	128,445
	$ 14,861	$ 162,548