SASKATCHEWAN AUTO FUND

ANNUAL REPORT

2019-2020

Mission

Transforming the insurance experience to promote peace of mind and safer communities.

Vision

Auto Fund

We are Saskatchewan's insurance company: providing exception value and traffic safety leadership.

SGI CANADA

We are Saskatchewan's insurance company: providing exception value and traffic safety leadership.

Values

Integrity: We do the right thing by being accountable, honest, trustworthy and fair.

Caring: We make an impact through empathy, respect and staying true to our roots.

Innovation: We transform our business through creativity, collaboration and continuous improvement.

Passion: We are energized, engaged and inspired in the work we do.

About the Saskatchewan Auto Fund

The Saskatchewan Auto Fund is the province's compulsory auto insurance program, operating the driver's licensing and vehicle registration system. The Auto Fund is designed to be financially self-sustaining over time. It does not receive money from, nor pay dividends to, the Government of Saskatchewan. Saskatchewan Government Insurance (SGI) is the administrator of the Auto Fund.

SGI

2019-20 SASKATCHEWAN AUTO FUND ANNUAL REPORT

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Letter of Transmittal

Regina, Saskatchewan
July 9, 2020

The Honourable Russ Mirasty, S.O.M., M.S.M.
Lieutenant Governor of Saskatchewan

Your Honour,

I am pleased to submit herewith the annual report of the Saskatchewan Auto Fund for the 12-month period ended March 31, 2020, including the financial statements in the form required by the Treasury Board and in accordance with *The Automobile Accident Insurance Act.*

Respectfully submitted,

Joe Hargrave
Minister Responsible for Saskatchewan Government Insurance

Minister's Message

As Minister Responsible for Saskatchewan Government Insurance (SGI), I'm proud to report 2019-20 marked another year of providing affordable rates to Saskatchewan people and continued commitment to making Saskatchewan roads safer.

Saskatchewan people have responded to the work we've undertaken in the past number of years on the traffic safety front, resulting in a significant shift – the province has exceeded the five-year target of a 30% reduction in injuries and fatalities on Saskatchewan roads by 2020-21. In the 2019 calendar year, compared to the baseline established in 2015, injuries dropped by 45% to 3,850 and fatalities dropped 56% to 71. Although even one fatality is too many and there's more work to do, this is the lowest number of traffic deaths in Saskatchewan since the province began tracking this data in 1951. I'm grateful there are fewer people getting hurt or killed in collisions on our roads and highways.

These results would not have been possible without significant efforts from a number of traffic safety partners, including law enforcement, community associations and many others. It's also due to awareness efforts and – most importantly – Saskatchewan people and communities deciding to make more responsible driving choices. Behaviours are changing, and that's great to see. A lot of the work has focused on impaired driving – still the factor most contributing to traffic fatalities in this province. Advertising campaigns like *Be a Good Wingman* remind us to always look out for friends and family and never let them drive impaired. *Wingman* has grown in reach and recognition through partnerships with First Nations, and through hockey and curling rinks across the province sharing the message or making it their own. SGI provided $500,000 to sponsor the Mothers Against Drunk Driving (MADD) *SmartWheels* bus, a mobile classroom that travelled around the province educating students about the harmful risks associated with alcohol and drug use, and impaired driving. SGI's Safe Ride app also got a revamp and expanded its transportation sources to include rideshare services. SGI continued to work with the Northern Alcohol Strategy group in 2019 to support their goal of reducing alcohol-related harms for Saskatchewan residents.

SGI also reminded people of other forms of driving impairment, including edible cannabis, which was legalized in Fall 2019, through ads and point-of-sale materials emphasizing driver impacts and penalties. It continued to offer free rides on New Year's Eve in a number of Saskatchewan communities – and more people stepped onto the buses and up to the decision not to drive impaired.

Distracted driving also remains a top factor in fatal collisions. It is the number one contributing factor in collisions overall. That's why in 2019-20 our government passed new legislation, bringing in some of the toughest distracted driving laws in Canada. The cost of a first-time ticket more than doubled to $580, with repeat offenders paying even more – $1,400 on a second offence within one year of being convicted of the first, and $2,100 on a third offence, along with a seven-day vehicle impoundment each time for those with more than one offence.

Calming traffic was another strategy to make roads safer, especially in high-volume areas. SGI added another photo speed enforcement (PSE) location near Wakaw to help address the high number of speed-related collisions in the area. A portion of the fines from PSE go into the Provincial Traffic Safety Fund Grant program and I'm proud that funding in 2019-20 enabled 48 communities across the province to complete traffic safety initiatives and improvements that included crosswalks, speed bumps, portable speed signs and more.

Commercial truck safety continued to be a focus over the past year. The work to provide comprehensive training has led to a project to develop an online version of the classroom training to make it more accessible and affordable. Transport Canada is supporting this project and looking into expanding online training for national use.

SGI also had a little fun this past year introducing Bucklebot to Saskatchewan youth. Bucklebot is an interactive robot that teaches children (and their parents and caregivers) the importance of being safe and secure with car seats. SGI also continued to provide car seat clinics and installation checks to 3,399 families to help make sure our smallest residents are riding safely.

Even though the last month of the 2019-20 fiscal year brought about an unexpected loss in investment earnings due to economic impacts of the COVID-19 pandemic, the Auto Fund is still in a strong capital position, consistently providing Saskatchewan residents among the lowest auto insurance rates in Canada, with comprehensive and affordable auto insurance and injury benefits.

I'm thankful for the hard work of everyone at SGI, from the employees to the Board of Directors to the motor licence issuers. Your dedication is why the Auto Fund is so strong, with achievements in traffic safety and excellent customer service.

I am pleased to present the 2019-20 Saskatchewan Auto Fund Annual Report.

Joe Hargrave
Minister Responsible for Saskatchewan Government Insurance

President's and Chair's Message

The Saskatchewan Auto Fund (Auto Fund) continued on a strong and consistent path in 2019-20, staying focused on what it does best – ensuring programs and services are well run, that it is financially strong and offering, on average, the lowest personal auto insurance rates in Canada – all while providing comprehensive injury benefits for customers who need them. At the same time, the province made a historic gain in making sure everyone using Saskatchewan highways and roads gets home safely. Traffic safety initiatives and awareness efforts are making an impact, and people are making better choices when they drive; something we should all be proud of.

SGI is in a healthy capital position which will carry it through the significant investment losses that came in March 2020, a result of the global COVID-19 pandemic and its impact on financial markets. Up until that point, the Auto Fund's well-diversified and well-managed investment portfolio was providing good earnings, but the pandemic impacts ultimately resulted in a $46.7 million decrease to the Rate Stabilization Reserve during the year. The underwriting loss totalled $134.6 million. We are confident investment earnings will return to profitability when markets stabilize. Despite challenges, the Auto Fund is still in strong fiscal shape overall, providing stability to the people of Saskatchewan.

This stability carries through to auto insurance rates. While rates often fluctuate in other jurisdictions, the Auto Fund has not increased rates since 2014, contributing to increased customer satisfaction. In fact, SGI ranks number one when compared to Canada's largest insurers when it comes to delivering a great customer experience. SGI's customer score was unchanged from 2018-19 and positions it within the "excellent" range. We're proud to say the Auto Fund always puts customers first in any work it does, and it shows.

Demonstrating its dedication to providing a great customer experience, in 2019-20 the Auto Fund gave people interacting with the customer service centre, claims area, fair practices office and accredited repair firms the ability to provide real-time feedback through a quick, online survey. Now, SGI can take immediate action to address concerns and improve customer service. We're pleased to see that customer feedback ratings have been very positive.

Weather wasn't as much of a factor for the Auto Fund in 2019-20 as it has been other years, with catastrophe claims totalling $29.3 million. We're happy to see the progress made in reducing collisions on Saskatchewan's roads has also resulted in a modest decrease in injury claim costs. However, damage claims were higher – not as a result of an increased number of claims, but due to the increased cost of collisions. Vehicles with more advanced technology are more costly to repair or replace.

To ensure safe, quality vehicle repairs for customers, SGI held town halls with repair firms across the province to consult about upcoming changes to accreditation requirements. The Auto Fund has been recognized for its leadership in setting standards to ensure safe repairs and other jurisdictions, including in the United States, are looking to our work as a model.

In 2019-20, the Auto Fund brought consistency to the injury claim process, enabling more employees to process claims regardless of location, spreading the case load province-wide for faster, more consistent service. SGI also built a new Yorkton Claims Centre, replacing a very old building. The new building is conveniently located beside the salvage centre and driver exam office, and is better-configured for improved employee collaboration and customer interactions.

For a number of years, SGI has been building relationships with Indigenous people and communities across the province, in part through traffic safety partnerships but also in dedicated work day-to-day. In January 2020, SGI signed the Saskatchewan Chamber of Commerce Indigenous Engagement Charter along with 38 other organizations. The charter is a three-year commitment to bring the Truth and Reconciliation Commission's Calls to Action into business decisions and practices, and SGI is proud to undertake this work to be even more reflective of the customers it serves.

Some of the best news of the year is that Saskatchewan's roads are getting significantly safer. In 2019, unfortunately 71 people were killed on Saskatchewan roads. However, compared to the baseline established in 2015, this is 56% fewer deaths, a historic low. Injuries are also down significantly. Years of work on high-profile awareness campaigns, coverage in the news media, social media posts, tougher legislation and partnerships with law enforcement and other organizations have helped bring about this success. We give heartfelt thanks to all our employees and others who have taken up this work alongside us, and we especially thank everyone in Saskatchewan who decided to adopt safer driving habits.

We are also grateful for the continued guidance and support from our Board of Directors, which added a new member – Ms. Chris Guérette – to the ranks over the past year.

Overall, 2019-20 was a stable year for the Auto Fund. While the COVID-19 pandemic added challenges as the fiscal year wound down, SGI's good financial standing means it will recover. Most of all, we were proud of the company's ability to respond and shift the majority of its staff to working from home, while continuing to provide services and transactions remotely for customers.

We are grateful to our employees, along with motor licence issuers, for their contributions to another solid year for the Auto Fund and Saskatchewan people.

Andrew R. Cartmell
President and Chief Executive Officer
Saskatchewan Government Insurance
as Administrator of the Saskatchewan Auto Fund

Arlene Wiks
Chair, SGI Board of Directors

Management's Discussion and Analysis

The following management's discussion and analysis (MD&A) is the responsibility of Saskatchewan Government Insurance (SGI) as the administrator of the Saskatchewan Auto Fund and reflects events known to SGI to May 27, 2020. The Board of Directors carries out its responsibility for review of this disclosure principally through its Audit, Finance and Conduct Review Committee, comprised exclusively of independent directors. The Audit, Finance and Conduct Review Committee's mandate can be found on SGI's website at www.sgi.sk.ca. The Board of Directors approved this MD&A at its meeting on May 28, 2020, after a recommendation to approve was put forth by the Audit, Finance and Conduct Review Committee.

Overview

The MD&A is structured to provide users of the Saskatchewan Auto Fund (the Auto Fund) financial statements with insight into the Auto Fund and the environment in which it operates. This section outlines strategies and the capability to execute the strategies, key performance drivers, capital and liquidity, financial results, risk management and an outlook for the coming year. Information contained in the MD&A should be read in conjunction with the financial statements and notes to the financial statements, along with other sections in this annual report. All dollar amounts are in Canadian dollars.

Caution Regarding Forward-Looking Statements

Forward-looking statements include, among others, statements regarding the Auto Fund's objectives, strategies and capabilities to achieve them. Forward-looking statements are based on estimates and assumptions made by SGI, as the administrator of the Auto Fund, in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances. SGI, as the administrator of the Auto Fund, deems that the assumptions built into the forward-looking statements are plausible. However, all factors should be considered carefully when making decisions with respect to the Auto Fund. Undue reliance should not be placed on the Auto Fund's forward-looking statements, which apply only as of the date of this MD&A document. The Auto Fund does not undertake to update any of the forward-looking statements that may be made from time to time by or on the Auto Fund's or the administrator's behalf.

The Saskatchewan Auto Fund

In 1944, the Government of Saskatchewan passed *The Saskatchewan Government Insurance Act*, creating the provincial Crown corporation that is known today as SGI. SGI was created to rectify problems in the Saskatchewan insurance industry. At that point in time, poor economic conditions had driven many insurers out of the province. Less than 10% of licensed Saskatchewan vehicles carried any insurance and there was a need for a compensation plan for persons injured in collisions.

In 1946, the government established basic compulsory automobile coverage for Saskatchewan residents under *The Automobile Accident Insurance Act* (AAIA). The Auto Fund was established effective January 1, 1984, by an amendment to the AAIA, which separated the property and casualty insurance operations of SGI and the compulsory Auto Fund. The administrator of the Auto Fund is SGI. The role of SGI, as the administrator, is to oversee the operations of the Auto Fund for the Province of Saskatchewan based on the legislative requirements contained in the AAIA.

The Auto Fund, as the compulsory automobile insurance program for Saskatchewan residents, provides vehicle registrations, driver's licences, basic minimum liability insurance required to operate a vehicle and coverage for damage to or loss of an insured's vehicle, subject to a deductible. Liability insurance provides for a specific amount to cover property damage and/or injuries caused to another person. The compulsory insurance package also includes injury coverage that provides an option to choose between No Fault Coverage and Tort Coverage. This basic insurance package allows a currently registered vehicle to operate legally anywhere in Canada or the United States of America.

The Auto Fund is governed by legislation contained in the AAIA, *The Traffic Safety Act*, *The All Terrain Vehicles Act* and *The Snowmobile Act* (the Acts) along with related regulations created by these Acts. The Auto Fund is also subject to legislation contained in *The Crown Corporations Act, 1993* and Part IX of the *Insurance Companies Act* (Canada) regarding the investments of the Auto Fund. It is subject to provincial privacy and access to information legislation contained in *The Freedom of Information and Protection of Privacy Act* and *The Health Information Protection Act*. It also has administrative, enforcement and other related duties under other provincial acts and regulations, and under the federal Criminal Code.

The Auto Fund does not receive money from, nor pay dividends to, the Province of Saskatchewan, SGI or Crown Investments Corporation of Saskatchewan (CIC). CIC is SGI's parent corporation. The Auto Fund is operated on a self-sustaining basis viewed over a long-term time frame. Any annual financial excess or deficiencies of the Auto Fund are recorded in its Rate Stabilization Reserve (RSR). The RSR is held on behalf of Saskatchewan's motoring public and cannot be used for any other purpose by the government or the administrator.

Financial results for the Auto Fund are not included in the consolidated financial statements of SGI nor CIC's consolidated financial statements, as the Auto Fund is a fund of the Province of Saskatchewan. Financial results for the Auto Fund are included in the Province of Saskatchewan's summary financial statements using the modified equity accounting method as required by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada.

The Auto Fund operates 20 claims centres and six salvage centres in 13 communities across the province. The Auto Fund's business operation is restricted to the Province of Saskatchewan and is operated from SGI's head office located in Regina, Saskatchewan.

The Auto Fund's quarterly and annual reports are available on SGI's website at www.sgi.sk.ca. Navigate to About Us and then click on "Financial Statements."

The Environment the Auto Fund Operates In

The Auto Fund's customers are Saskatchewan residents. It provides all residents with automobile injury coverage and a choice between a no-fault or tort product. As the sole provider of vehicle and driver's licensing in Saskatchewan, the Auto Fund operates based on legislative powers granted in the Acts. The Auto Fund is required to submit vehicle insurance rate changes to the Saskatchewan Rate Review Panel (SRRP), whose mandate is to evaluate the rate change and to provide an opinion on the fairness and reasonableness of the requested change. The SRRP does not have the authority to implement any of its recommendations; the final decision to approve, change or reject rate changes is at the discretion of the provincial government.

The Auto Fund provides vehicle registrations, driver's licences and related services to approximately 0.8 million drivers and approximately 1.2 million vehicles and trailers in Saskatchewan. Business partners include independent motor licence issuers, autobody repairers, law enforcement agencies and healthcare providers. These business partners are involved in different aspects of the Auto Fund's operations from licensing, road safety and repair of damaged vehicles, to provision of medical care and rehabilitative services for those injured in motor vehicle collisions.

The Auto Fund's philosophy is that all drivers are treated equally unless their driving record shows they are a greater risk for causing a collision. It does not use a driver's age, gender or where they live to determine a vehicle insurance premium or the fee for a driver's licence. It has successfully maintained this philosophy while offering Saskatchewan customers low rates, proving its merit.

While it has been successful at offering Saskatchewan residents low rates, the Auto Fund does face challenges. Claim costs represented 81.6% of the Auto Fund's costs in 2019-20. Over the last 10 years, auto damage claim costs have increased at an average annual rate of 5.7%, while personal injury costs have grown at 0.8% annually.

New and advanced technology means that newer vehicles are more expensive to repair than older ones, as they have more expensive parts. As a result, the average cost of a damage claim continues to climb as repair costs outpace inflation. Despite the continued increase in the average cost of a damage claim, total damage claim costs remained steady this year as the number of claims dropped.

The severity of injury claims stabilized this year after having grown for a number of years. In recent years, the frequency of severe injury claims has been declining, while the frequency of minor injury claims has increased. Overall injury costs have stabilized; however, it is too early to know if this trend will continue. Injury claim costs are significant to the Auto Fund and continue to be monitored closely.

The Auto Fund continues to offer Safe Driver Recognition (SDR) and Business Recognition (BR) programs. These programs have been in place since 2002 and 2004 respectively. The SDR program places all drivers on a safety rating scale based on their driving history. Changes were made to the SDR program in October 2016. The maximum discount increased by 1% over five years to a maximum of 25% on Jan 1, 2020. The BR program rewards businesses that maintain good loss experience with discounts on their vehicle insurance. The BR maximum discount available is 15% and BR maximum surcharge is 25%. These discounts represented $151.5 million of savings to customers (2019 – $149.1 million).

Strategic Direction

In 2019-20, SGI's 2016 to 2020-21 strategic plan came to a close, with most of the long-term goals being achieved a year early. A new direction for 2020-21 to 2022-23 took shape, including a new vision, mission and supporting long-term goals to guide the Auto Fund's future, as well as subtle changes to the value statements. The vision, mission and values under which the Auto Fund operated during 2019-20 were:

Vision

Achieve the safest roads in Canada while caring for customers

Mission

We're your insurance company, protecting you, your family and your community

Values

Integrity	Doing the right thing (by being accountable, honest, trustworthy and fair)
Caring	Understanding that empathy, courtesy and respect make an impact
Innovation	Transforming how we do things today for an even more successful tomorrow

Corporate Goals and Measures

The Auto Fund had three key goals in 2019-20:

- Prevent deaths, injuries and property damage caused by traffic collisions;
- Promote a culture that places customers at the centre of business decisions and drives high-performance; and,
- Address gaps and deficiencies in SGI's systems and implement new technology solutions to support customer centricity.

The Auto Fund uses a balanced scorecard approach to monitor performance towards these corporate goals and provide a balanced evaluation of key financial and operational results. The Auto Fund's balanced scorecard uses four perspectives: financial, customer, internal processes and organizational capacity. The balanced scorecard is reviewed annually to ensure continued alignment with the Auto Fund's corporate strategies.

The emergence of COVID-19 has had a material impact on the Auto Fund's expected 2020-21 performance. As a result, the targets for the coming year, normally contained within the corporate goals and metrics, have been removed as they do not accurately represent management's expectation for the year.

Financial

The Auto Fund measures financial results through rate adequacy:

Measure	2019-20 Target	2019-20 Result
Auto Fund rates adequate for package of coverage and services		
Rate adequate vehicles	28%	● 28%

Legend: ● achieved ○ not achieved

Auto Fund rates adequate for package of coverage and services

To achieve fairness in rating, the Auto Fund has committed to eliminate cross-subsidization between vehicle classes. This means each vehicle class would pay sufficient premiums to cover its claim costs. To accomplish this, an annual analysis is performed to determine if a vehicle class is rate adequate, or if an increase or decrease is required. The percentage of rate adequate vehicles is a measure of the number of vehicle types that are within 5% of the adequate rate.

The Auto Fund's long-term goal is to achieve rate adequacy for 98% of the vehicles it insures. Progress toward this goal was negatively impacted in 2015 by changes to the national vehicle rate groups that are set and maintained by the Insurance Bureau of Canada. As well, the Auto Fund did not proceed with a full program to rebalance rates in 2019-20. The proportion of vehicles within 5% of the adequate rate is currently 28%.

Rate adequacy has been removed from the balanced scorecard for 2020-21; however, it will continue to be monitored through the Auto Fund's annual rate analysis with a goal of achieving 98% rate adequacy. In 2020-21, the Auto Fund will assess its financial success by its ability to maintain low, stable rates for the people of Saskatchewan. This is measured using average personal auto rates across Canada and the Minimum Capital Test.

Customer

The Auto Fund evaluates success with customers by its ability to provide them with a positive experience and improve traffic safety throughout the province:

Measure	2019-20 Target	2019-20 Result
Customer experience		
Customer experience index score compared to the Canadian P&C industry average	4 points above	● 8 points above
Maintain Auto Fund rates that are among the lowest personal auto insurance rates in Canada	Among the lowest two	● The lowest
Traffic safety		
Reduction in injuries over baseline of 6,949	38% reduction 4,282 injuries	● 45% reduction 3,850 injuries
Reduction in fatalities over baseline of 160	26% reduction 118 fatalities	● 56% reduction 71 fatalities

Legend: ● achieved ○ not achieved

Injuries and fatalities are based on calendar year. The stated results are for the 2019 calendar year based on the injuries and fatalities reported as of April 30, 2020.

Customer experience

The Auto Fund used two measures to evaluate customer experience: the customer experience index and maintaining among the lowest personal auto rates in Canada.

With a focus on enhancing the overall experience being provided to customers, the company uses a customer experience index to assess what customers think of their interactions and relationship with the company. A combined Auto Fund and SGI CANADA score is used, as Saskatchewan customers do not differentiate between the two companies. A score of 76% exceeded the target of being four points above the Canadian P&C industry average, which is currently 68%.

As a public auto insurer, maintaining low and stable insurance rates is critical to providing a positive customer experience and remaining relevant. Public insurance companies exist to provide affordable coverage to residents. The Auto Fund completes regular cross-Canada rate comparisons to determine how much a vehicle owner would pay for auto insurance in other Canadian provinces (specifically British Columbia, Alberta, Manitoba, Ontario and Quebec) given their current vehicle, driving record and claim history. The Auto Fund aims to maintain among the lowest auto insurance rates in Canada, without compromising other important targets, such as the Minimum Capital Test. The Auto Fund achieved this in 2019-20 with the lowest personal auto rates in Canada.

Traffic safety

Customers value the Auto Fund's role in promoting traffic safety in the province. Over the years, SGI has evolved into a national leader in the area of road safety programs. The Auto Fund's traffic safety goals are simple and clear – prevent deaths and injuries due to traffic collisions by addressing driver, vehicle and road safety issues. As fewer collisions result in lower claim costs, work in this area also supports the goal of maintaining low rates.

The Auto Fund would ultimately like Saskatchewan's roads to be the safest in Canada. In 2016, the Auto Fund set out to reduce injuries and fatalities on Saskatchewan roads by 30% by 2020-21 to 4,864 and 112, respectively. This reduction is over the baseline set using the January 2010 to December 2013 averages. The 2019-20 targets were a 38% reduction in injuries and a 26% reduction in fatalities. The Auto Fund, and the people of Saskatchewan, exceeded these targets with 45% fewer injuries and 56% fewer fatalities. This translates into 3,099 fewer injuries than the baseline, and 89 fewer fatalities.

Internal processes

Efficiency and productivity are key to assessing the success of the Auto Fund's internal processes:

Measure	2019-20 Target	2019-20 Result
Efficiency and productivity		
Administrative expense ratio	6.4%	○ 7.4%

Legend: ● achieved ○ not achieved

Efficiency and productivity

Efficiency and productivity are measured based on the Auto Fund's administrative expense ratio. The ratio is total administrative expenses expressed as a percentage of net premiums earned. Administrative expenses are largely related to salaries and benefits, information technology and facilities costs. The Auto Fund missed its target, realizing a 7.4% administrative expense ratio, which is higher than the target of 6.4%. Analysis of administrative expenses is provided in more detail in the Financial Results section.

Organizational Capacity

The Auto Fund's ability to deliver on its corporate strategy is dependent on employees and maintaining an adequate level of capital. As such, organizational capacity is measured based on employee engagement and capital adequacy.

Measure	2019-20 Target	2019-20 Result
Employee engagement		
Engagement score compared to the Canadian public sector norm	1-point improvement	○ Unchanged
Capital adequacy		
Minimum Capital Test	153%	● 156%

Legend: ● achieved ○ not achieved

Employee engagement

A positive employee experience is essential to achieving the Auto Fund's corporate objectives. One way to measure this is through employee engagement, using an annual employee survey. The survey includes employees performing work for both the Auto Fund and SGI CANADA. An employee engagement score, derived from SGI's employee survey, is used to measure an employee's emotional and intellectual commitment to the Corporation. SGI's employee engagement score was 58%—a six-point increase from 2018-19. While SGI's score improved significantly, so too did the Canadian public sector norm—resulting in SGI's position in relation to the norm remaining unchanged.

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 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 156% was above the 2019-20 target of 153% and the long-term goal of 140%. At March 31, 2020, the actual MCT was 145%.

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

The Corporation continues to develop the capabilities of the workforce through customized and targeted training and development, and is in the process of significant cultural transformation. An extensive leadership development program was delivered at all levels of the organization and supported through a comprehensive change management approach. A reinforcement plan has been developed to maintain momentum and ensure the new cultural behaviours become common practice.

SGI is moving to a new human resources management system that will enable the delivery of more robust talent management programming. The new tool will better support the development and maintenance of career and talent profiles, as well as purposeful learning and development plans. The ability to consolidate and streamline this data will strengthen SGI's succession planning process, which focuses on: (i) outlining options for filling executive or management positions in the event the incumbent is no longer available, to ensure leadership continuity; (ii) identifying high-performing managers and senior staff who have the potential for a higher level role within management and to create a talent pool of candidates to be considered for executive, senior management or management roles; (iii) providing significant leadership development for existing EVPs, Chief Officers and VPs to develop our desired leadership culture; (iv) working with existing EVPs, Chief Officers and VPs to develop SGI's leadership team; (v) working with divisions on workforce planning to identify and develop strategies to eliminate gaps in knowledge transfer and to create workforce plans at the branch, department, and division levels; and (vi) providing enhanced leadership development for existing managers and senior staff to develop strong mid-level leadership bench strength.

SGI and the Canadian Office and Professional Employees' Union, Local 397 (COPE 397), are within a five-year Collective Bargaining Agreement, running from January 1, 2018, to December 22, 2022.

Motor licence issuers

The Auto Fund provides accessibility for customers by distributing products through a network of 365 independent motor licence issuers in 271 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.

Corporately, SGI has implemented cloud-based productivity technology which better supports collaboration and provides efficiencies. This technology enables employees to work effectively and securely from the office, their home or wherever else they may be, and it allows employees to virtually interact with customers, business partners and each other with ease. These technologies have and will continue to afford the Corporation flexibility in how it operates and how it responds to business challenges, such as COVID-19.

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 nor receive money from the province or 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 SRRP 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 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 the MCT to establish a target for the RSR.

The Auto Fund maintains a Capital Management Policy that applies a factor to move towards its MCT operating target of 140% in small increments with each rate program. The policy determines the amount of capital adjustment needed with each rate program by applying a factor to either recover one-fifth of the capital below 140% MCT or release one-fifth of the capital above 140% 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, 2020, the MCT ratio was 145%, and the 12-month rolling average MCT ratio was 156%.

2019-20 Financial Results

For the year ended March 31, 2020

Overview

The Auto Fund had a decrease in the RSR of $46.7 million. Operating results were negatively affected by the recent decline in investment returns related to COVID-19.

The Auto Fund generated investment earnings of $2.5 million in the 12 months ended March 31, 2020. Increased volatility generated significant negative results in the last three months pushing overall results down for the year. Higher investment earnings in recent years have helped the Auto Fund maintain its capital base near target levels.

With the $46.7 million decrease, the RSR dropped to $806.7 million and the MCT to 145%.

Statement of Operations

Premium revenue

	(thousands of $)		
	2020	2019	Change
Gross premiums written	962,705	956,472	6,233
Premiums ceded to reinsurers	(10,549)	(14,682)	4,133
Change in unearned premiums	3,454	(6,503)	9,957
Net premiums earned	955,610	935,287	20,323

Gross premiums written totalled $962.7 million, representing a slight increase of 0.7% over the prior year. The increase is the result of customers moving to vehicles with higher premiums as the exposures decreased overall during the year with the vehicle insured years decreasing slightly.

The Safe Driver Recognition (SDR) and Business Recognition (BR) programs continue to provide savings to Auto Fund customers each year. These programs returned $151.5 million to customers through safe driving discounts (2019 - $149.1 million). Expressed as a percentage of vehicle premiums, this equates to an average discount of 13.6% (2019 – 13.5%). Maximum discounts increased to 25% on January 1, 2020 for the SDR program, while remaining at 15% for the BR program.

Claims incurred

The following table details claim costs by categories:

	(thousands of $)		
	2020	2019	Change
Current year			
Damage claims, excluding catastrophe claims	566,327	561,978	4,349
Catastrophe claims[1]	29,333	26,190	3,143
Total damage claims	595,660	588,168	7,492
Injury claims	270,060	270,945	(885)
	865,720	859,113	6,607
Prior year deficiency (redundancy)			
Damage claims	10,638	6,178	4,460
Injury claims	(103,828)	(19,861)	(83,967)
	(93,190)	(13,683)	(79,507)
Change in discounting	116,771	49,452	67,319
Total claims incurred	889,301	894,882	(5,581)
Current year loss ratio*	90.6%	91.9%	-1.3%
Total loss ratio	93.1%	95.7%	-2.6%

* before prior year deficiency (redundancy) and change in discounting

[1]Catastrophe claims, also referred to as storm claims, represent claims occurring from a single event, limited to a period between 96 and 168 hours, with an estimated cost greater than $2.5 million. Catastrophic events for the Auto Fund generally relate to summer wind, rain and hail storms, forest fires and winter ice storms.

Current year claims

Current year damage claims, excluding catastrophe claims are 0.8% higher than the prior year due to increased claim severity. Catastrophe claims are 12.0% higher than 2019 due to increased claim severity. Overall, damage claim frequency has decreased from 124.9 damage claims per 1,000 insured years in 2019 to 121.9 in 2020.

Current year injury claims are 0.3% lower than the prior year due to decreased claim severity in 2020. Injury claim frequency remains consistent with the prior year at 4.8 injury claims per 1,000 insured years.

Development on prior year claims

With the assistance of its actuary, the Auto Fund makes provisions for future payments on existing claims and an estimate for claims that have occurred but have not yet been reported. At the end of each year, the actuary recalculates the estimate of the ultimate costs for prior years (along with an estimate for the current year). If the actuary reduces the estimate for prior years, a redundancy exists, resulting in a reduction in claim costs for the year. If the reverse is true and the actuary increases the estimate for prior years, a deficiency exists, resulting in an increase in claim costs for the year.

The prior year redundancy of $93.2 million includes a $10.6 million deficiency in damage claims due to worse than expected loss emergence on prior year claims, and a $103.8 million redundancy in injury claims due to adjustments to indexing of long-term benefits.

Impact of discounting

The change in discounting at March 31, 2020 resulted in a $116.8 million increase to claims incurred. The discount rate, comprised of bond and long-term equity yields, decreased compared to the prior year. This is largely due to the economic impact of the COVID-19 pandemic.

Expenses excluding claims incurred

	(thousands of $)		
	2020	2019	Change
Other expenses	200,906	182,225	18,681

Other expenses, excluding claims incurred, increased $18.7 million compared to the same period in 2019. The increase was primarily due to increases in administrative expenses, including systems enhancements and payroll related costs, and increases in spending on traffic safety programs.

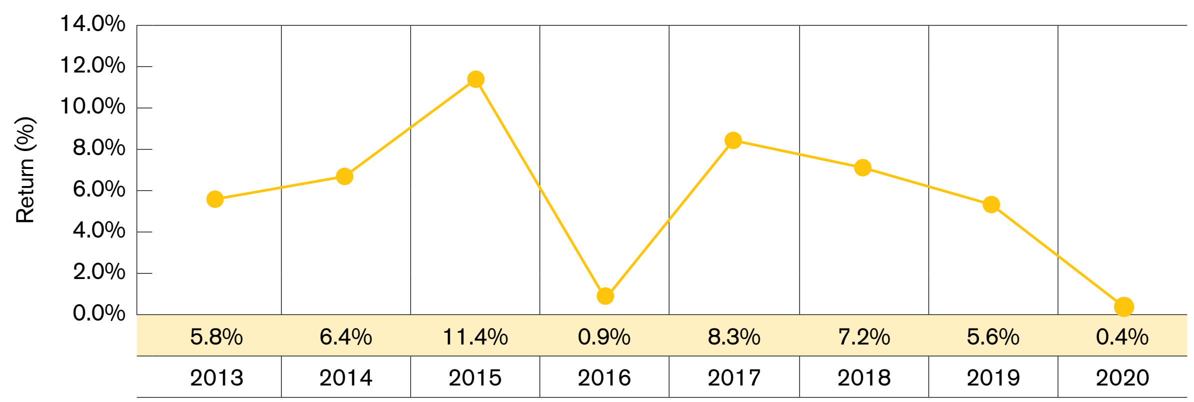
Investment earnings and other income

	(thousands of $)		
	2020	2019	Change
Net investment earnings	2,450	135,849	(133,399)
Other income	85,441	83,429	2,012

Investment earnings

In 2020, investment earnings were $2.5 million, a significant decrease from the $135.8 million earned in 2019. The components of investment earnings are disclosed in note 13 to the financial statements, and include interest, dividends, investment fund and limited partnership distributions, realized gains and losses on sales of investments, and unrealized gains and losses on change in market value of investments. For purposes of portfolio management, market-based returns are calculated based on the Auto Fund's investment earnings. In 2020, the total portfolio's market-based return was 0.4%, compared to a 5.6% return in 2019. The poor performance this year primarily related to negative equity returns in February and March resulting from the impact COVID-19 had on the investment markets.

Annual Market Based Returns to March 31



The Auto Fund investment assets are managed as two distinct portfolios – the Matching Portfolio and the Return Seeking Portfolio. More information regarding the Auto Fund's Matching and Return Seeking Portfolios is provided within the Statement of Financial Position section of this report.

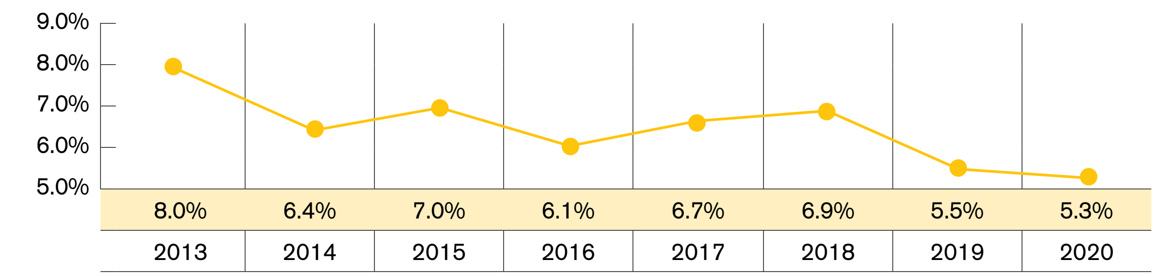
The Matching Portfolio trailed its benchmark for the year due to underperformance in corporate bonds but, importantly, remained well matched to the associated claim liabilities. The Return Seeking Portfolio returns were slightly under policy benchmarks for the year, with underperformance from Canadian and global small cap equities detracting from outperformance by global equities and real estate.

The following table illustrates the investment portfolio's actual performance by asset class for 2020 compared to the index and 2019 actual returns.

		Annual Returns to March 31 (%)		
Asset Class	**Benchmark Index**	**Actual 2020**	**Index 2020**	**Actual 2019**
Matching Bonds	Custom Bond Index	4.7	7.7	5.5
Mortgages	FTSE TMX Short & Mid-term Bonds	4.0	4.6	5.4
Canadian Equities	S&P/TSX Composite	-18.4	-14.2	1.4
Global Equities	MSCI ACWI ($C)	-1.8	-5.4	10.7
Global Small Cap Equities	MSCI ACWSCI ($C)	-18.3	-18.0	-4.2
Real Estate	Investment Property Databank	9.0	8.4	7.7
Infrastructure	Canadian CPI + 5%	14.0	5.9	6.9

While the Auto Fund monitors investment returns compared to benchmark returns on a monthly basis, the performance measures are expected to be met over four years, a long enough period to capture a full market cycle. This long-term measure is appropriate as it recognizes that the effectiveness of investment management styles varies depending on the market environment. As illustrated in the following graph, over rolling four-year periods investment performance remains satisfactory:

Four-Year Market Based Returns to March 31



Other income

Other income consists of fees charged to customers for using the AutoPay and short-term payment option programs, SDR program assessment fees and salvage operations income. Drivers in the SDR penalty zone (safety rating less than zero) are assessed a financial penalty each time an applicable incident occurs.

Other income increased $2.0 million over 2019. The increase was the result of increases of $1.9 million in SDR program fees to $28.6 million and $1.3 million in fees for payment option plans to $35.7 million. This was offset by a $1.2 million decrease in net earnings on salvage sales.

Statement of Cash Flows

	(thousands of $)		
	2020	**2019**	**Change**
Total operating activities	64,325	82,798	(18,473)
Investing activities	(48,198)	(86,507)	38,309
Net cash flow	16,127	(3,709)	19,836

Cash flows generated from operating activities of $64.3 million for the 12 months ended March 31, 2020 were offset by the use of $48.2 million in investing activities which resulted in an overall increase in cash and cash equivalents of $16.1 million.

Statement of Financial Position

	(thousands of $)		
	March 31 2020	March 31 2019	Change
TOTAL ASSETS	**$ 3,056,704**	**$ 3,040,596**	**$ 16,108**
Key asset account changes:			
Investments	2,646,556	2,665,024	(18,468)

Investments

The carrying value of investments decreased by $18.5 million during the year, as positive operating cash flows were offset by negative returns from equities.

The investment portfolio is held to pay future claims, while income earned on these investments helps keep insurance rates low for vehicle owners. The portfolio's asset mix strategy is set by the Board of Directors annually through a detailed assessment of the Auto Fund's risk tolerance. In summary, the Auto Fund's positive cash flows and the presence of the RSR, which serves to buffer the fund from short-term unfavourable investment performance, permits the Auto Fund to maintain a long-term investment horizon. The asset mix strategy takes into consideration the current and expected conditions of capital markets and the historic return and risk profile of various asset classes. In order to achieve long-term investment goals, the Auto Fund must invest in asset classes that provide an attractive risk-return profile over the medium to long-term. Over shorter periods, however, performance of these asset classes can be volatile. The Auto Fund investment portfolio continues to hold a diversified asset mix with a longer-term focus, balancing the need for capital preservation in the short term with the need for portfolio growth over the longer term.

The asset mix strategy is formally documented in the Statement of Investment Policies and Goals. In addition to capturing the asset mix strategy, this document provides guidance on permissible investments, quality and quantity guidelines, conflicts of interest, related party transactions and investment performance expectations, among others. Management monitors and enforces compliance with the investment policy. No material compliance deviations were noted in the 12-month period ended March 31, 2020.

The Auto Fund's investment portfolio is managed by external investment managers. The portfolio is comprised of short-term investments, bonds and debentures, equities, mortgages, real estate and infrastructure. Equities include investments in Canadian common shares as well as investments in two global equity investment funds and a global small capitalization equity investment fund. The Auto Fund's investments in real estate and mortgages are through investment funds as well. The four infrastructure investments are held in limited liability partnerships that are investment vehicles with similarities to an investment fund. More detail on the investment portfolio categories is provided in note 6 to the financial statements.

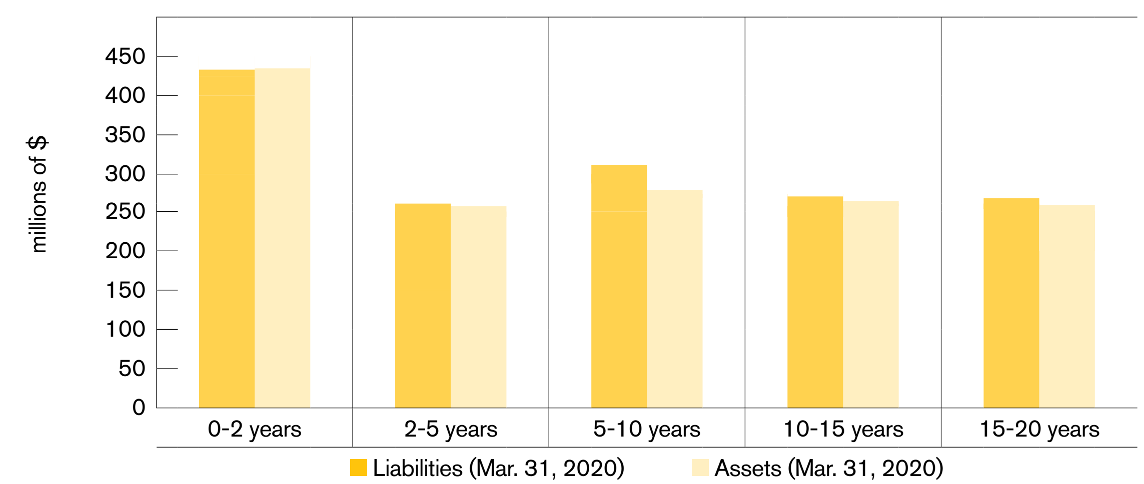
The Auto Fund investment portfolio operates as two distinct portfolios – the Matching Portfolio and the Return Seeking Portfolio. The Matching Portfolio holds the fixed income investments including mortgage securities, while the Return Seeking Portfolio is comprised of equities, real estate and infrastructure. The investment strategy relies on the Matching Portfolio to cover expected liability payments out to 20 years with remaining long-tail liabilities covered by the Return Seeking Portfolio.

The objective of the Matching Portfolio is to group claim payments into five buckets based on the expected payment date, and then match these outflows with anticipated cash inflows from coupon and principal payments from fixed income assets in each bucket. At initiation, the expected future liability stream and asset stream will demonstrate a close match. However, as bonds mature and actual claim payments vary from projection, the asset liability match will change. In conjunction with the Auto Fund's actuarial valuations, asset cash flows are realigned to revised liability cash flows to ensure a close match is maintained. From time to time, the allocation between the Matching and Return Seeking Portfolios may also require rebalancing to maintain the overall risk-return objectives of the combined portfolio.

The Matching Portfolio is rebalanced quarterly and continues to meet the objectives established by the investment policy.

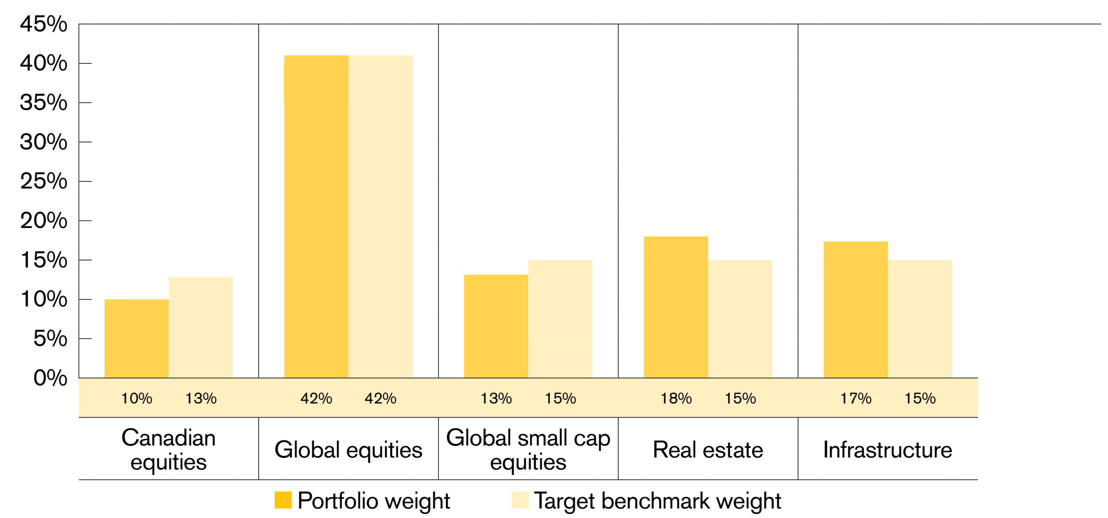
Expected liability cash flows and matching portfolio asset cash flows as of March 31, 2020, are as follows:

Matching Portfolio Asset-Liability Cash Flows



There were no significant changes to the investment policy during the annual review. The portfolio asset mix and benchmark weights at March 31, 2020, are as follows:

Return Seeking Portfolio Asset Mix as at March 31, 2020



	(thousands of $) March 31 2020	March 31 2019	Change
TOTAL LIABILITIES	**$ 2,249,957**	**$ 2,187,143**	**$ 62,814**
Key liability account changes:			
Provision for unpaid claims	1,781,398	1,712,209	69,189

Provision for unpaid claims

The provision for unpaid claims reflects the estimated ultimate cost of claims reported but not settled, along with claims incurred but not reported. The process for determining the provision requires management judgment and estimation as discussed in the following section, Critical Accounting Estimates.

The provision for unpaid claims grew by $69.2 million during the year to $1,781.4 million (2019 – $1,712.2 million). This represents an increase of 4.0%. Key components of the change in the provision for unpaid claims are discussed in the preceding section, Claims Incurred.

Quarterly Financial Highlights

The following table highlights quarter-over-quarter results for the Auto Fund:

	(thousands of $) 2019-20 Q4	2019-20 Q3	2019-20 Q2	2019-20 Q1	**2020**	2018-19 Q4	2018-19 Q3	2018-19 Q2	2018-19 Q1	**2019**
Net premiums written	195,152	216,358	247,177	293,469	**952,156**	197,688	213,541	237,920	292,641	**941,790**
Net premiums earned	228,514	237,994	249,185	239,917	**955,610**	222,931	234,284	243,215	234,857	**935,287**
Net claims incurred	251,467	182,155	221,857	233,822	**889,301**	223,695	241,821	216,434	212,932	**894,882**
Increase (decrease) to RSR	(217,712)	100,013	29,510	41,483	**(46,706)**	128,220	(112,073)	16,884	44,427	**77,458**
Cash flow from (used in) operations	(71,166)	42,978	39,046	53,467	**64,325**	(77,532)	61,725	32,976	65,629	**82,798**
Investments	2,646,556	2,872,555	2,793,366	2,701,457		2,665,024	2,525,160	2,604,025	2,545,022	
Provision for unpaid claims	1,781,398	1,757,181	1,778,299	1,755,303		1,712,209	1,704,607	1,689,610	1,652,297	
Rate Stabilization Reserve	806,747	1,024,459	924,446	894,936		853,453	725,233	837,306	820,422	

* Starting with the third quarter of 2019-20, the presentation format of the cash flow statement was updated. The update does have an effect on cash flow from operations balance. Prior quarter figures have not been updated.

The following points are intended to assist the reader in analyzing trends in the quarterly financial highlights:

- Premium earnings generally rise in the spring and summer months, largely a factor of increased premiums related to seasonal vehicles.
- With the exception of the period January to March, the Auto Fund generates positive cash flows from operations. Cash is typically low in this period as the Auto Fund pays annual premium taxes to the province in March and there are higher claim outflows from the winter driving season. Operating cash flows are generally strong throughout the remaining nine months of the year and during these months excess cash generated is directed to investments.

Related Party Transactions

The Auto Fund is related in terms of common ownership to all Government of Saskatchewan ministries, agencies, boards, commissions, Crown corporations, and jointly controlled and significantly influenced corporations and enterprises. Routine operating transactions with related parties were conducted in the normal course of business and recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Details of significant related party transactions are disclosed in the financial statements that follow.

SGI is the administrator of the Auto Fund on behalf of the Province of Saskatchewan. Administrative and loss adjustment expenses incurred by SGI are allocated to the Auto Fund directly or on the basis of specific allocations. Amounts incurred by SGI and charged to the Auto Fund were $172.3 million (2019 – $148.9 million).

Certain Board members are partners in organizations that provided $0.3 million (2019 – $0.2 million) of professional services to the Auto Fund. The above noted transactions are routine operating transactions in the normal course of business.

Off Balance Sheet Arrangements

The Auto Fund, in its normal course of operations, enters into certain transactions that are not required to be recorded on its statement of financial position – commonly referred to as the balance sheet. These items include litigation, structured settlements and rehabilitation funding commitments. These items are discussed below and in the notes to the financial statements.

The Auto Fund, as is common to other entities that operate in the insurance industry, is subject to litigation arising in the normal course of insurance operations. The Auto Fund is of the opinion that current litigation will not have a material impact on operations, the financial position or cash flows of the Auto Fund.

In the normal course of settling claims, the Auto Fund settles some long-term disability claims by purchasing structured settlements (annuities) from various financial institutions for claimants. This is a common practice in the property and casualty insurance industry. The net present value of the scheduled payments at March 31, 2020 was $25.4 million (March 31, 2019 – $24.3 million). The Auto Fund has no recourse to these funds. The Auto Fund provides a financial guarantee to the claimant in the event of default by the financial institution on the payment schedule to the claimant. No default has occurred in the past on these payment schedules and the likelihood of such default is considered extremely remote.

Critical Accounting Estimates

This discussion and analysis of financial condition and results of operations is based upon financial statements as presented in this annual report. These financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee. Significant accounting policies are described in note 3 to the financial statements. Some of these policies involve critical accounting estimates because they require SGI, as the administrator, to make particularly subjective or complex judgments about matters that are inherently uncertain, and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions. The development, selection and application of key accounting policies, and the critical accounting estimates and assumptions they involve, have been discussed with the Audit, Finance and Conduct Review Committee of the Board of Directors, and the Audit, Finance and Conduct Review Committee has reviewed the disclosures described in this section. The most significant critical accounting estimates involve the provision for unpaid claims and unpaid claims recoverable from reinsurers.

Provision for unpaid claims

A provision for unpaid claims is maintained to cover the estimated ultimate liability for losses and loss adjustment expenses for reported claims and claims incurred but not yet reported at the end of each accounting period. The initial provision is determined on the reported facts filed with the claim, and then revised regularly as more information on the claim becomes known. The provision does not represent the exact calculation of the liability owing to claimants, but is an estimate developed using Canadian accepted actuarial practices and Canadian insurance regulatory requirements. The estimate reflects an expectation of the ultimate cost of settlement and administration of claims. It involves an assessment based on the facts and circumstances of the events reported in the claim, experience with similar claims, historical trends involving claim payments, claim severity, the effect of inflation on reported and future claims, court decisions and the time frame anticipated to settle and pay the claim.

This provision is refined on a continual basis as prior fiscal year claims are settled and additional claims are reported and settled. There may be significant time delays from the occurrence of the insured event and when it is reported. If this occurs near the year-end date, estimates are made as to the value of these claims based on information known at that time. As well, uncertainty exists for reported claims that are not settled, as all necessary information may not be available. Thus, with the level of uncertainty involved in the claim process, until the final settlement occurs, current reserves may not be sufficient. The provision for unpaid claims has been calculated including the impact of discounting. Any adjustments to these estimates, both positive (a redundancy or excess) and negative (a deficiency) are included in the provision for unpaid claims and are reflected as claims incurred in the current year's Statement of Operations.

Unpaid claims recoverable from reinsurers

Unpaid claims recoverable from reinsurers include amounts for expected recoveries related to unpaid claim liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with claim and claim adjustment expense reserves, and are reported in the Statement of Financial Position. The ceding of insurance does not discharge the Auto Fund's primary liability to its insureds. An allowance for doubtful accounts is estimated on the basis of periodic evaluations of balances due from reinsurers, reinsurer solvency, management's experience and current economic conditions.

Risk Management

Risk management is a process for recognizing and addressing risks that could affect the achievement of corporate objectives. On an annual basis, management reviews the key risks faced by SGI, the administrator of the Auto Fund, by identifying specific risk events and their potential impact on both SGI's and the Auto Fund's operations, finances and reputation. Each risk event is rated based on the likelihood of the event occurring and severity of the consequences if it did occur, both before and after the application of current mitigations.

The above process results in a risk profile for SGI and the Auto Fund, which is reviewed by the Risk Committee of the Board of Directors annually. SGI's Audit Services department also uses the risk profile in developing its annual work plan, which provides an assurance component to SGI's risk management process.

The following risks represent the most serious threats to the Auto Fund. Failure to manage any of these risks could lead to significant operational, financial or reputational damage. The nature of these risks, along with efforts to mitigate them, is summarized below.

Corporate Transformation

Risk: SGI fails to change its people, process and technology to become a digital insurer.

Mitigation: Digital insurance transformation uses technology and data to improve business processes and procedures, customer experience, and partner relations. SGI intends to use technology to empower its employees and business partners to add value with each customer interaction, and to this end has committed significant business and IT resources to imagine future states of its people, processes and technologies using a disciplined framework. SGI has also stopped all non-critical business enhancements to its current systems.

Acquisition and Development of Expertise

Risk: SGI's business strategy involves significant corporate transformation efforts. Evolving to be a digital, customer-centric insurer is required for SGI to meet customer demands and maintain strong public support in Saskatchewan. SGI must acquire and develop employees who have the knowledge, skills, and the willingness to continue learning for the new roles and responsibilities required to deliver the work the way it will be designed.

Mitigation: SGI has initiated programs including expanded competency-based recruitment, movement towards modernized recruitment/staffing processes, expanded knowledge management solutions, succession planning, and monitoring engagement and enablement through employee surveys. A corporate learning strategy focused on growing talent and leaders at all levels has been developed and SGI continues to devote additional resources to training and development. SGI's succession planning process focuses on ensuring current senior management positions have succession plans to focus on targeted development to ensure readiness for potential opportunities and identifying high performing staff who have potential for more senior roles plus ensuring high-potential staff and the leadership team have ongoing development and support. The corporate leadership strategy will include a tiered leadership framework with an objective to develop individual abilities in areas such as strategic leadership, business acumen and leading a culture of change.

Employee Change Agility

Risk: SGI's business strategy involves significant corporate transformation efforts. Evolving to be a digital, customer centric insurer is required for SGI to meet customer demands and compete with other insurers across the country. SGI requires employees who have the willingness to embrace and adapt within a rapidly changing environment. This is a climate where SGI expects disruption to established processes and roles and where ambiguity and managing through disruptive change will be the norm.

Mitigation: SGI has a large number of initiatives dedicated to assisting employees in understanding and adapting to change, including significant efforts in Leadership Culture Development (LCD). The goal of developing a "growth mindset" can be observed in many initiatives – including the introduction of standardized education levels within career streams, expectations incorporated into new job descriptions/evaluations and the introduction of a tiered leadership framework that offers structured learning at all levels.

System Availability and Recovery

Risk: Systems are not available when the business needs them or cannot be recovered in a timely manner when an incident occurs.

Mitigation: In order to better meet the availability and system recovery needs for the business, SGI has initiated several major initiatives that are focused on developing new skills for staff, leveraging modern technology and adopting new processes. The systems transformation initiative will result in the modernization of the SGI's core systems along with the migration of other core corporate systems to Software as a Service (SaaS) platforms. Progress on some of these initiatives has been made over the past 12 months, along with significant improvements to the IT service management practices, which will result in an overall improvement in both the availability of systems as well as the improved time to recover from system failures.

Responsiveness to Business Needs

Risk: SGI is unable to meet the speed-to-market targets for products and services due to its complex internal system architecture. Increased business expectations and limited information technology resources have contributed to less responsiveness to business needs.

Mitigation: To better meet its current and future business needs, including speed to market, SGI is implementing a digital transformation strategy which includes building a modern technology platform and acquiring and adopting modern technology skills and practices. Under this strategy, SGI will move to a cloud-based platform, accelerate software development and simplify integration with partners and service providers. To ensure quality and accelerate the delivery of these technologies, the Corporation has established a unit of IT specialists to lead the adoption of best practices for software development and is creating an in-depth education and training program to reskill IT employees on the new tools and techniques.

System Security

Risk: The potential harm to SGI from threats (e.g., system breach, unauthorized access) that can have adverse effects on organizational operations, and result in significant financial and reputational damage.

Mitigation: There is an industry-wide shift in security methodology from perimeter-based security to identity-based protections. SGI has embarked on a transition from traditional perimeter-based security to a more holistic approach that includes identity protection.

SGI continues to maintain a security policy that includes corporate standards for user access (including remote and external vendor access), passwords, physical security, mobile devices, wireless networks and acceptable use of SGI systems. SGI has implemented many mechanisms (such as firewalls, intrusion prevention, anti-virus, etc.) to protect its data environment and continually monitors systems for potential threat activity. Should an event occur, SGI has developed incident response procedures to decrease the severity of the breach.

SGI has started on a corporate transformation journey and the cyber security strategy and cyber security governance must also transform. This will include shifting the cyber security culture, leveraging modern technology, developing new skills in the workforce and adopting new practices.

Market Value Changes

Risk: Market value changes within the Auto Fund investment portfolio impact the ability of the Auto Fund to deliver stable financial performance.

Mitigation: The Auto Fund investment assets are managed as two distinct portfolios – the Matching Portfolio and the Return Seeking Portfolio. The Matching Portfolio is structured to match the fixed income investment assets to the associated liabilities, thus reducing the impact of changes in interest rates. The Return Seeking Portfolio invests in equity, real estate and infrastructure assets to increase the long-term return. As a whole, the Auto Fund maintains a diversified asset mix with a longer-term focus, balancing the need for capital preservation in the short term with the need for portfolio growth over the longer term.

The structure and management of the Auto Fund's investment portfolios are governed by the Statement of Investment Policies and Goals. The policy is reviewed by the Board of Directors annually and captures the asset mix strategy, guidance on permissible investments, quality and quantity guidelines, conflicts of interest, related party transactions and investment performance expectations. This information is regularly reported to the Investment Committee of the Board and includes a compliance review and performance review by independent external consultants.

Outlook for 2020-21

The Auto Fund continues to be efficient and well-run – maintaining administrative expense ratios below other Canadian public insurers and providing among the lowest auto insurance rates in Canada.

The Auto Fund achieved the primary objectives of the 2016 to 2020-21 corporate strategy (30% reduction in injury and fatalities on Saskatchewan roads, a Customer Experience Index that exceeds the property and casualty insurance industry average, and among the lowest personal auto insurance rates in Canada). As a result, the Auto Fund is ending the five-year plan a year early and introducing a new corporate strategy aimed at addressing the two most pressing needs of the organization, reducing the technology deficit and corporate transformation. To achieve this, the Auto Fund will focus on four key areas in 2020-21:

- empower employees;
- engage customers;
- optimize operations; and,
- transform products.

Empower employees - this is about promoting continuous learning and working effectively together to improve the experience of both employees and customers. In 2020-21, the Auto Fund will continue to focus on developing our leadership culture and maintaining a disciplined approach to change management.

Engage customers - this is about providing customers with personalized experiences and delivery options, enabling them to make more informed decisions and positively influencing their behavior. In 2020-2021, the Auto Fund will focus on refreshing the corporate brand strategy, continuing to apply user-centered design principles, developing an enhanced claim handling strategy and continuing to improve traffic safety in Saskatchewan.

Optimize operations – this is about optimizing our business processes and improving our responsiveness through automation and digitization. In 2020-21, the Auto Fund will focus on maintaining low stable rates, improving long-term efficiency through process redesign and modern technology implementations.

Transform products – this is about using data, analytics and artificial intelligence to develop innovative products that deliver a tangible advantage. In 2020-21, the Auto Fund will focus on establishing a framework for data governance and developing processes to leverage corporate innovation.

Impact of COVID-19

In the fourth quarter of 2019-20, the COVID-19 virus became prevalent in Canada. In response, governments at all levels introduced unprecedented physical distancing measures in an effort to slow the growth in the number of cases (“flatten the curve”) and prevent the health care system from being overwhelmed. These measures resulted in the closure of non-essential businesses throughout Canada. Along with business closures, companies deemed to be essential services have shifted a significant percentage of their employees to some form of work from home arrangement in order to maintain social distancing. All of this has slowed economic activity and resulted in significant job losses to many sectors.

The insurance industry, although deemed essential, is not isolated from the shockwaves affecting the Canadian economic landscape. The following situations are being monitored by SGI and actions have been introduced as needed:

- The health of SGI’s employees is of utmost importance. More than 90% of employees have been working from home since late March. In cases where employees are unable to work from home or are required on-site, appropriate measures have been put in place, including physical distancing and additional cleaning.
- Continuing to serve customers is extremely important during the pandemic. Customers are encouraged to contact either SGI or their issuer by phone, email and online through MySGI.ca to complete many of the transactions offered by SGI.
- Customers are looking for ways reduce their day-to-day expenses and defer payments. Most insurers, including the Auto Fund, have reacted to this by working with customers to change payment plans and allowing customers to change to short-term registrations to defer payments and waiving returned payment fees.
- With fewer vehicles on the roads, insurance companies are expecting to see fewer auto claims and several have introduced a variety of COVID-19 discounts to reduce the financial burden to customers. For the Auto Fund, favourable claim experience will be reflected in future rate adjustments as the RSR is moved to target levels.
- Investment markets are beginning the long climb back to pre-COVID-19 levels; however, this path will likely be volatile. Insurance companies have large investment portfolios and this volatility will impact the strength of the company’s balance sheet and, in the Auto Fund’s case, the RSR. The Auto Fund has temporarily suspended the securities lending program and has increased the amount of cash on hand to provide flexibility in response to market volatility.

Overall, the impact of COVID-19 on the insurance industry and the Auto Fund continues to be a significant unknown; however, management is maintaining focus on the above items and developing an understanding of the range of possible outcomes.

Responsibility for Financial Statements

The financial statements are the responsibility of Management and have been prepared in conformity with International Financial Reporting Standards. In the opinion of Management, the financial statements fairly reflect the financial position, results of operations and cash flows of the Saskatchewan Auto Fund (the Auto Fund) within reasonable limits of materiality.

Preparation of financial information is an integral part of Management's broader responsibilities for the ongoing operations of the Auto Fund. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

An actuary has been appointed by the Auto Fund to carry out a valuation of the policy liabilities in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Auto Fund and the nature of the insurance policies. The actuary also makes use of Management information provided by the Auto Fund and the work of the external auditors in verifying the data used in the valuation.

The financial statements have been examined and approved by the Board of Directors of Saskatchewan Government Insurance, administrator of the Auto Fund. An Audit, Finance and Conduct Review Committee, composed of members of the Board of Directors, meets periodically with financial officers of Saskatchewan Government Insurance and the external auditors. These external auditors have free access to this Committee, without Management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

As appointed by the Lieutenant Governor in Council and approved by Crown Investments Corporation of Saskatchewan, KPMG LLP have been appointed external auditors. Their responsibility is to report to the Members of the Legislative Assembly regarding the fairness of presentation of the Auto Fund's financial position and results of operations as shown in the financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and her report on the policy liabilities. The Auditor's Report outlines the scope of their examination and their opinion.

Andrew R. Cartmell
President and Chief Executive Officer
Saskatchewan Government Insurance
as Administrator of the Saskatchewan Auto Fund

Jeff Stepan
Chief Financial Officer
Saskatchewan Government Insurance
as Administrator of the Saskatchewan Auto Fund

May 28, 2020

Annual Statement of Management Responsibility

I, Andrew Cartmell, President and Chief Executive Officer, and I, Jeff Stepan, Chief Financial Officer, certify the following:

a. That we have reviewed the financial statements included herein. Based on our knowledge, having exercised reasonable diligence, the financial statements fairly present, in all material respects, the financial condition, results of operations and cash flows, as of March 31, 2020.

b. That based on our knowledge, having exercised reasonable diligence, the financial statements do not contain any untrue statements of material fact, or omit to state a material fact that is either required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made.

c. That Saskatchewan Auto Fund (the Auto Fund) is responsible for establishing and maintaining effective internal controls over financial reporting, which includes safeguarding of assets and compliance with applicable legislative authorities; and, the Auto Fund has designed internal controls over financial reporting that are appropriate to its circumstances.

d. That the Auto Fund conducted its assessment of the effectiveness of its internal controls over financial reporting and, based on the results of this assessment, it can provide reasonable assurance that internal controls over financial reporting as of March 31, 2020, were operating effectively and no material weaknesses were found in the design or operation of the internal controls over financial reporting.

Andrew R. Cartmell
President and Chief Executive Officer
Saskatchewan Government Insurance
as Administrator of the Saskatchewan Auto Fund

Jeff Stepan
Chief Financial Officer
Saskatchewan Government Insurance
as Administrator of the Saskatchewan Auto Fund

May 28, 2020

Actuary's Report

To the Board of Directors of Saskatchewan Government Insurance

I have valued the policy liabilities and reinsurance recoverables of the Saskatchewan Auto Fund for its statement of financial position at March 31, 2020 and their changes in the statement of operations for the year then ended in accordance with accepted actuarial practice in Canada including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities net of reinsurance recoverables makes appropriate provision for all policy obligations and the financial statements fairly present the results of the valuation.

Chris McCulloch

Chris McCulloch
Fellow, Canadian Institute of Actuaries
Fellow, Casualty Actuarial Society

May 28, 2020
Winnipeg, Manitoba

Independent Auditor's Report

To the Members of the Legislative Assembly, Province of Saskatchewan

Opinion

We have audited the financial statements of Saskatchewan Auto Fund (the "Entity"), which comprise:

- the statement of financial position as at March 31, 2020
- the statement of operations and change in rate stabilization reserve for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at March 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditors' report thereon, included in the Annual Report

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in the Annual Report as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

May 28, 2020
Regina, Canada

Statement of Financial Position

	(thousands of $)			
		March 31 2020		March 31 2019
Assets				
Cash and cash equivalents (note 4)	$	35,807	$	19,680
Accounts receivable (note 5)		248,866		245,444
Investments under securities lending program (note 6)		–		427,089
Investments (note 6)		2,646,556		2,237,935
Unpaid claims recoverable from reinsurers (note 9)		5,067		12,425
Reinsurers' share of unearned premiums (note 12)		7,929		7,947
Deferred policy acquisition costs (note 7)		30,217		30,695
Property and equipment (note 10)		59,285		52,300
Intangible assets (note 11)		11,895		–
Other assets (note 8)		11,082		7,081
	$	**3,056,704**	$	3,040,596
Liabilities				
Accounts payable and accrued liabilities	$	57,125	$	57,088
Premium taxes payable		10,284		10,414
Amounts due to reinsurers		9,742		12,552
Unearned premiums (note 12)		391,408		394,880
Provision for unpaid claims (note 9)		1,781,398		1,712,209
		2,249,957		2,187,143
Equity				
Rate Stabilization Reserve		806,747		853,453
	$	**3,056,704**	$	3,040,596

Commitments and contingencies (note 19)
The accompanying notes are an integral part of these financial statements.
Approved by the Board of Directors and signed on their behalf on May 28, 2020

Arlene Wiks
Director

Denis Perrault
Director

Statement of Operations and Change in Rate Stabilization Reserve

	(thousands of $)			
For the years ended March 31		**2020**		**2019**
Gross premiums written	$	962,705	$	956,472
Premiums ceded to reinsurers		(10,549)		(14,682)
Net premiums written		952,156		941,790
Change in net unearned premiums (note 12)		3,454		(6,503)
Net premiums earned		**955,610**		935,287
Gross claims incurred		889,428		903,128
Ceded claims incurred		(127)		(8,246)
Net claims incurred (note 9)		889,301		894,882
Issuer fees		47,482		47,089
Administrative expenses		71,068		58,244
Premium taxes		48,309		47,424
Traffic safety programs		34,047		29,468
Total claims and expenses		**1,090,207**		1,077,107
Underwriting loss		**(134,597)**		(141,820)
Net investment earnings (note 13)		2,450		135,849
Other income (note 14)		85,441		83,429
(Decrease) increase to Rate Stabilization Reserve and Comprehensive Income		**(46,706)**		77,458
Rate Stabilization Reserve, beginning of the year		853,453		775,995
Rate Stabilization Reserve, end of the year	**$**	**806,747**	$	853,453

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

For the years ended March 31	(thousands of $) 2020	2019
Cash provided by (used for):		
Operating activities		
(Decrease) increase to Rate Stabilization Reserve and Comprehensive Income	$ (46,706)	$ 77,458
Non-cash items:		
Bond amortization	2,887	1,911
Depreciation	7,756	5,580
Net realized gains on sale of investments	(32,237)	(24,053)
Net unrealized losses (gains) on change in market value of investments	107,069	(28,018)
Interest revenue from investments	(31,621)	(30,468)
Dividend revenue from investments	(6,060)	(7,019)
Loss on disposal of property and equipment	146	71
Change in non-cash operating items (note 17)	63,091	87,336
	64,325	82,798
Investing activities		
Interest received	31,527	30,367
Dividends received	6,308	6,810
Purchases of investments	(875,523)	(957,314)
Proceeds on sale of investments	816,272	850,300
Purchases of property and equipment	(14,887)	(16,670)
Purchase of intangible assets	(11,895)	–
	(48,198)	(86,507)
Increase (decrease) in cash and cash equivalents	**16,127**	(3,709)
Cash and cash equivalents, beginning of the year	19,680	23,389
Cash and cash equivalents, end of the year	**$ 35,807**	$ 19,680

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

March 31, 2020

1. Status of the Auto Fund

The Saskatchewan Auto Fund (Auto Fund) was established effective January 1, 1984, by an amendment to *The Automobile Accident Insurance Act*. The address of the Auto Fund's registered office is 2260-11th Avenue, Regina, SK, Canada. The Auto Fund is a compulsory vehicle insurance program providing vehicle registrations, driver's licences and related services for Saskatchewan drivers and vehicle owners. In addition to vehicle damage and property liability coverage, the Auto Fund also includes injury coverage that provides a choice between No Fault Coverage or Tort Coverage.

The Auto Fund is a self-sustaining fund, administered by Saskatchewan Government Insurance (SGI). The role of SGI, as administrator, is to oversee the operations of the Auto Fund for the Province of Saskatchewan. Any annual excess or deficiencies of the Auto Fund are recorded in its Rate Stabilization Reserve (RSR). The RSR is held on behalf of Saskatchewan's motoring public and is intended to protect motorists from rate increases made necessary by unexpected events and losses arising from catastrophic events.

Substantially all of the Auto Fund's premium revenue is subject to review by the Saskatchewan Rate Review Panel (SRRP). The Auto Fund is required to submit vehicle insurance rate changes to the SRRP, whose mandate is to evaluate the rate change and provide an opinion on the fairness and reasonableness of the requested change. The SRRP does not have the authority to implement any of its recommendations; the final decision to approve, change or reject rate changes is at the discretion of the government of the Province of Saskatchewan.

Being a fund of the Province of Saskatchewan, the Auto Fund is exempt from federal and provincial income taxes. The financial results of the Auto Fund are included in the Province of Saskatchewan's summary financial statements and not in SGI's financial statements.

2. Basis of Preparation

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). References to IFRS are based on Canadian generally accepted accounting principles for publicly accountable enterprises as set out in Part 1 of the CPA Canada handbook. Part 1 of the CPA Canada handbook incorporates IFRS as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee.

Basis of measurement

The financial statements have been prepared using the historical cost basis, except for financial instruments and the provision for unpaid claims and unpaid claims recoverable from reinsurers. The methods used to measure the values of financial instruments are discussed further in note 3. The provision for unpaid claims and unpaid claims recoverable from reinsurers is measured on a discounted basis in accordance with accepted actuarial practice (which in the absence of an active market provides a reasonable proxy of fair value).

Statement of Financial Position classification
The Statement of Financial Position has been prepared on a non-classified basis broadly in order of liquidity.

Functional and presentation currency
These financial statements are presented in Canadian dollars, which is the Auto Fund's functional and presentation currency.

Use of estimates and judgment
The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation processes are related to the actuarial determination of the provision for unpaid claims and unpaid claims recoverable from reinsurers (note 9), the valuation of accounts receivable (note 5) and the valuation of investments classified as Level 3 (note 6).

COVID-19 pandemic
On March 11, 2020, COVID-19 was declared a pandemic by the World Health Organization, followed closely by state of emergency declarations in Saskatchewan.

The pandemic has created significant economic uncertainty around the world which has translated into unprecedented volatility in investment markets and commodities. This additional volatility and economic uncertainty has impacted the valuation of the Auto Fund's investments (note 6), provision for unpaid claims (note 9) and unpaid claims recoverable from reinsurers (note 9). The extent to which the COVID-19 pandemic may impact the Auto Fund's operations will depend on future developments and the effectiveness of actions that will be taken by governments and the central bank in Canada. Consequently, the Auto Fund's financial results will be subject to volatility.

3. Significant Accounting Policies

Adoption of new and amended accounting standards
This is the first set of the Auto Fund's financial statements in which IFRS 16, *Leases*, has been applied. The related changes to significant accounting policies is described in the Leases section below.

Financial assets and liabilities
The measurement basis for financial assets and liabilities depends on whether the financial assets and liabilities have been classified as fair value through profit and loss, available for sale, held to maturity, loans and receivables, or other financial liabilities. Financial assets and liabilities classified as fair value through profit and loss are measured at fair value and changes in fair value are recognized as an increase or decrease to the RSR. Financial assets classified as available for sale are measured at fair value with unrealized changes in fair value recorded in other comprehensive income; however, unrealized losses on investments that show objective evidence of impairment are recognized as a decrease to the RSR. Financial assets designated as held to maturity, or loans and receivables, are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment losses, if any. Other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. The Auto Fund has no financial assets or liabilities designated as available for sale or held to maturity.

The Auto Fund has designated its cash and cash equivalents and investments as fair value through profit and loss. Accounts receivable are designated as loans and receivables. Accounts payable and accrued liabilities and premium taxes payable are designated as other financial liabilities. Unpaid claims recoverable from reinsurers and the provision for unpaid claims are exempt from the above requirement.

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and liabilities simultaneously. Income and expenses are not offset in the Statement of Operations unless required or permitted by an accounting standard or interpretation, as specifically disclosed in the accounting policies of the Auto Fund. There are no financial assets or financial liabilities reported as offset in these financial statements.

Fair value of financial instruments
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. All fair value measurements relate to recurring measurements. Fair value measurements for investments are categorized into levels within a fair value hierarchy based on the nature of the valuation inputs (Level 1, 2 or 3).

The three levels are based on the priority of inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset's or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities

The Auto Fund defines active markets based on the frequency of valuation and any restrictions or illiquidity on disposition of the underlying investment and trading volumes. Assets measured at fair value and classified as Level 1 include Canadian common shares and equity investment funds. Fair value is based on market price data for identical assets obtained from the investment custodian, investment managers or dealer markets. The Auto Fund does not adjust the quoted price for such investments.

Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 2 inputs include observable market information, including quoted prices for assets in markets that are considered less active. Assets measured at fair value and classified as Level 2 include short-term investments and bonds and debentures. Fair value of short-term investments and bonds and debentures is based on, or derived from, market price data for same or similar instruments obtained from the investment custodian, investment managers or dealer markets.

Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities

Level 3 assets and liabilities include financial instruments whose values are determined using internal pricing models, discounted cash flow methodologies, or similar techniques that are not based on observable market data, as well as instruments for which the determination of estimated fair value requires significant management judgment or estimation. Assets classified as Level 3 include the Auto Fund's investment in the mortgage and real estate investment funds and infrastructure limited partnerships. The fair value of these investments is based on the Auto Fund's share of the net asset value of the respective fund or partnership, as determined by its investment manager, and used to value purchases and sales of units in the investments. The primary valuation methods used by the investment managers are as follows:

- The fair value for the mortgage investment fund is determined based on the market values of the underlying mortgage investments, calculated by discounting scheduled cash flows through to the estimated maturity of the mortgages (using spread-based pricing, over Government of Canada bonds with a similar term to maturity), subject to adjustments for liquidity and credit risk.
- The fair value of the real estate investment fund is determined based on the most recent appraisals of the underlying properties. Real estate properties are appraised semi-annually by external, independent professional real estate appraisers who are accredited through the Appraisal Institute of Canada. Real estate appraisals are performed in accordance with generally accepted appraisal standards and procedures and are based primarily on comparable sales, discounted cash flows, and income capitalization methods.
- The fair value of the infrastructure limited partnerships is determined by the investment manager. A number of valuation methodologies are considered in arriving at fair value, including internal or external valuation models, which may include discounted cash flow analysis. The most appropriate methodology to determine fair value is chosen on an investment-by-investment basis. Any control, size, liquidity or other discounts or premiums on the investment are considered by the investment manager in their determination of fair value. During the initial period after an investment has been made, cost may represent the most reasonable estimate of fair value.

The fair value of other financial assets and financial liabilities is considered to be the carrying value when they are of short duration or when the investment's interest rate approximates current observable market rates. Where other financial assets and financial liabilities are of longer duration, then fair value is determined using the discounted cash flow method using discount rates based on adjusted observable market rates. The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and premium taxes payable approximate their carrying values due to their short term nature.

Investments

The Auto Fund records investment purchases and sales on a trade-date basis, being the date when the transactions are entered into. Financial assets are derecognized when the rights to receive cash flows from them have expired, or when the Auto Fund has transferred substantially all risks and rewards of ownership.

Investments under securities lending program

Securities lending transactions are entered into on a collateralized basis. The securities lent are not de-recognized on the Statement of Financial Position given that the risks and rewards of ownership are not transferred from the Auto Fund to the counterparties in the course of such transactions. The securities are reported separately on the Statement of Financial Position on the basis that the counterparties may resell or re-pledge the securities during the time that the securities are in their possession.

Securities received from counterparties as collateral are not recorded on the Statement of Financial Position given that the risks and rewards of ownership are not transferred from the counterparties to the Auto Fund in the course of such transactions.

Investment earnings

The Auto Fund recognizes interest revenue as earned, dividends when declared, investment fund revenue when a distribution is declared, realized gains and losses on investments when the investment has been sold and unrealized gains and losses based on changes in market value of the investments held at the year-end date. Realized gains and losses represent the difference between the amounts received through the sale of investments and their respective cost base.

Interest revenue includes amortization of any premium or discount recognized at date of purchase of the security. Amortization is calculated using the effective interest method. Interest is generally receivable on a semi-annual basis.

Direct investment expenses, such as external custodial, investment management and investment consultant expenses, are recorded against investment earnings.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate in effect at the year-end date. Revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized foreign exchange gains and/or losses arising on monetary and non-monetary investments designated as fair value through profit and loss are recognized in investment earnings. Unrealized gains and/or losses arising on translation are charged to operations in the current year. Translation gains and/or losses related to other financial assets and liabilities are charged to operations in the current year.

Premiums written

The Auto Fund's vehicle registrations have all been classified upon inception as insurance contracts. An insurance contract transfers significant risk and, upon the occurrence of the insured event, causes the insurer to make a benefit payment to the insured party. The sale of vehicle registrations generates premiums written that are taken into income as net premiums earned over the terms of the related policies, no longer than 12 months. The portion of premiums relating to the unexpired term of each policy is recorded as an unearned premium liability on the Statement of Financial Position.

At the end of each reporting period, a liability adequacy test is performed, in accordance with IFRS, to validate the adequacy of unearned premiums and deferred policy acquisition costs (DPAC). A premium deficiency would exist if unearned premiums are deemed insufficient to cover the estimated future costs associated with the unexpired portion of written insurance policies. A premium deficiency would be recognized immediately as a reduction of DPAC to the extent that unearned premiums plus anticipated investment income is not considered adequate to cover all DPAC and related insurance claims and expenses. If the premium deficiency is greater than the unamortized DPAC, a liability is accrued for the excess deficiency.

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the year-end date. The estimate includes the cost of reported claims, claims incurred but not reported, and an estimate of adjusting expenses to be incurred on these claims and a provision for adverse deviation (PFAD) in accordance with Canadian Institute of Actuaries standards. The estimates are subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current year.

Deferred policy acquisition costs

Premium taxes, commissions and certain underwriting and policy issuance costs are deferred, to the extent they are recoverable, and charged to expense over the terms of the insurance policies to which such costs relate, no longer than 12 months.

Reinsurance ceded

The Auto Fund uses various types of reinsurance to limit its maximum insurance risk exposure. Estimates of amounts recoverable from reinsurers in respect of insurance contract liabilities are recorded as reinsurance assets on a gross basis in the Statement of Financial Position. Unpaid claims recoverable from reinsurers are estimated in a manner consistent with the method used for determining the provision for unpaid claims, unearned premiums and DPAC respectively. Reinsurance ceded does not relieve the Auto Fund of its primary obligation to policyholders.

Cash and cash equivalents

Cash and cash equivalents consist of money market investments with a maturity of 90 days or less from the date of acquisition, and are presented net of cash on hand less outstanding cheques.

Property and equipment

All classes of property and equipment are recorded at cost less accumulated depreciation and accumulated impairment, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset.

The Auto Fund has not incurred any borrowing costs attributable to property and equipment, and therefore no borrowing costs have been capitalized. Subsequent costs are included in the asset's carrying value when it is probable that future economic benefits associated with the item will flow to the Auto Fund, and the cost of the item can be reliably measured. Repairs and maintenance are charged to the Statement of Operations in the period in which they have been incurred.

The depreciation method being used, the useful lives of the assets and residual values of the assets are reviewed at each reporting period.

Depreciation is recorded on a straight-line basis, commencing in the year in which the asset is available to be placed in service, over their estimated useful lives as follows:

Buildings and improvements	15-40 years
Building components	15-30 years
Leasehold improvements	lease term
Furniture and equipment	3-5 years

Building components consist of heating and cooling systems, elevators, roofs and parking lots. Land is not subject to amortization and is carried at cost.

Impairment reviews are performed when there are indicators that the carrying value of an asset may exceed its recoverable amount.

Intangible assets

Intangible assets are recorded at cost less accumulated amortization and accumulated impairment, if any. Cost includes expenditures that are directly attributable to the acquisition of the intangible asset.

The Auto Fund has not incurred any borrowing costs attributable to intangible assets, and therefore no borrowing costs have been capitalized. Subsequent costs are included in the intangible asset's carrying value when it is probable that future economic benefits associated with the item will flow to the Auto Fund, and the cost of the item can be reliably measured.

The amortization method being used, the useful lives of the intangible assets and residual values of the intangible assets are reviewed at each reporting period.

The intangible assets have finite useful lives and are being amortized on a straight-line basis, commencing in the year in which the asset is available to be placed in service, over their estimated useful lives of 10 years.

Impairment reviews are performed when there are indicators that the carrying value of an asset may exceed its recoverable amount.

Leases

IFRS 16, *Leases* (IFRS 16) eliminates the operating and finance lease classifications for lessees with a single, on-balance sheet lease accounting model. As a result of this change, the Auto Fund now recognizes all leases to which it is a lessee in the Statement of Financial Position as a lease liability with a corresponding right-of-use asset, subject to recognition exemptions for certain short-term and low value leases. The Auto Fund adopted IFRS 16 using the modified retrospective approach. As at April 1, 2019, the date of initial application, no adjustment to retained earnings was required. The adoption of IFRS 16 has not had an impact on the Auto Fund's Statement of Financial Position as the Auto Fund does not directly hold any agreements that meet the definition of a lease.

Provisions and contingent liabilities

Provisions are recognized when the Auto Fund has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

Structured settlements

In the normal course of claim adjudication, the Auto Fund settles certain long-term claim losses through the purchase of annuities under structured settlement arrangements with life insurance companies. As the Auto Fund does not retain any interest in the related insurance contract and obtains a legal release from the claimant, any gain or loss on the purchase of the annuity is recognized in the Statement of Operations at the date of purchase and the related claim liabilities are de-recognized. However, the Auto Fund remains exposed to the credit risk that the life insurance companies may fail to fulfil their obligations.

Future accounting policy changes

The following future changes to accounting standards will be applicable to the Auto Fund:

IFRS 9 – Financial Instruments

IFRS 9 will replace IAS 39, and requires financial assets to be measured at either fair value or amortized cost, on the basis of the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. A financial asset that is held by an entity for the purpose of collecting contractual cash flows on specified dates per contractual terms should be measured at amortized cost. All other financial assets should be measured at fair value.

For equity instruments, management has an option on initial recognition to irrevocably designate on an instrument-by-instrument basis to present the changes in their fair value directly in equity. There is no subsequent recycling of fair value gains and losses from equity to the Statement of Operations; however, dividends from such equity investments will continue to be recognized in profit or loss.

The standard includes introduction of a fair value through other comprehensive income measurement category for simple debt instruments. In this measurement category, the Statement of Financial Position will reflect the fair value carrying amount while amortized cost information is presented in the Statement of Operations. The difference between the fair value and amortized cost information will be recognized in other comprehensive income.

The standard introduces a forward-looking impairment model. IFRS 9 replaces the incurred loss model under IAS 39 with an expected credit loss model. This standard is generally effective for annual periods beginning on or after January 1, 2018. However, in September 2016, IFRS 4 was amended to provide an option of a temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing insurance contracts within the scope of IFRS 4. Therefore, qualifying entities will have the option to adopt IFRS 9 upon the adoption of IFRS 17. The Auto Fund qualifies for the temporary exemption as the liabilities were predominately connected with insurance as at December 31, 2015, the prescribed date of assessment. Additionally, the Auto Fund has not previously applied any version of IFRS 9. Therefore, IFRS 9 is effective for annual periods beginning on or after January 1, 2023, which aligns with the effective date of IFRS 17. The Auto Fund is evaluating the impact this standard will have on the financial statements.

IFRS 17 – Insurance Contracts

IFRS 17 was issued in May 2017 and will replace IFRS 4. The intent of the standard is to establish consistent recognition, measurement, presentation and disclosure principles to provide relevant and comparable reporting of insurance contracts across jurisdictions.

The standard requires entities to measure insurance contract liabilities as the risk-adjusted present value of the cash flows plus the contractual service margin, which represents the unearned profit the entity will recognize as future service is provided. This is referred to as the general model. Expedients are specified, provided the insurance contracts meet certain conditions. If, at initial recognition or subsequently, the contractual service margin becomes negative, the contract is considered onerous and the excess is recognized immediately in the Statement of Operations. The standard also includes significant changes to the presentation and disclosure of insurance contracts within entities' financial statements.

IFRS 17 applies to annual periods beginning on or after January 1, 2023, as the IASB voted to approve a deferral of the effective date. The standard is to be applied retrospectively unless impracticable, in which case a modified retrospective approach or fair value approach is to be used for transition. The standard represents a comprehensive IFRS accounting model for insurance contracts and is expected to have a significant impact on financial reporting of insurers. The Auto Fund is evaluating the impact this standard will have on the financial statements.

4. Cash and Cash Equivalents

	(thousands of $)	
	2020	**2019**
Money market investments	$ 21,796	$ 11,200
Cash, net of outstanding cheques	14,011	8,480
Total cash and cash equivalents	$ 35,807	$ 19,680

The average effective interest rate on money market investments is 0.3% (2019 – 1.7%).

5. Accounts Receivable

Accounts receivable is comprised of the following:

	(thousands of $)	
	2020	**2019**
Due from insureds	$ 250,268	$ 253,401
Accrued investment income	14,911	7,902
Licence issuers	7,612	7,637
Salvage operation	2,200	2,144
Amounts due from reinsurers	1,970	1,737
Amounts due from municipalities and Ministry of Justice	414	567
Other	272	329
Subtotal	277,647	273,717
Less: Allowance for doubtful accounts (note 15)	(28,781)	(28,273)
Total accounts receivable	$ 248,866	$ 245,444

Included in due from insureds is $211.9 million (2019 – $215.3 million) of financed premiums receivable, which represents the portion of policyholders' monthly premium payments that are not yet due. The majority of policyholders have the option to pay a portion of the premium when the policy is placed in force and the balance in monthly instalments. The policyholder pays an additional charge for this option, reflecting handling costs and the investment income that would have been earned on such premium, had the total amount been collected at the beginning of the policy period (note 14).

6. Investments

The carrying and fair values of the Auto Fund's investments are as follows:

	(thousands of $)	
	2020	2019
Short-term investments	$ 8,749	$ 4,720
Bonds and debentures	1,034,727	635,733
Canadian common shares	141,551	184,890
Infrastructure limited partnerships	232,321	114,942
Investment funds:		
Global equity	582,704	646,809
Global small cap equity	186,282	219,338
Mortgage	212,094	203,926
Real estate	248,128	227,577
	2,646,556	2,237,935
Investments under securities lending program		
Bonds and debentures	–	358,235
Canadian common shares	–	68,854
	–	427,089
Total investments	$ 2,646,556	$ 2,665,024

Details of significant terms and conditions are as follows:

Short-term investments

Short-term investments are comprised of money market investments with a maturity of less than one year but greater than 90 days from the date of acquisition. These investments have an average effective interest rate of 1.7% (2019 – 1.7%) and an average remaining term to maturity of 6 days (2019 – 130 days).

Bonds and debentures

The carrying value and average effective interest rates are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	(thousands of $)			
	2020		2019	
Term to maturity (years)	Carrying Value	Average Effective Rates (%)	Carrying Value	Average Effective Rates (%)
Government of Canada:				
After one through five	$ 108,228	1.0	$ 129,960	1.8
After five	6,276	1.1	53,765	1.9
Canadian provincial and municipal:				
After five	555,197	2.3	503,797	2.6
Canadian corporate:				
One or less	199,200	2.1	149,213	1.8
After one through five	87,321	2.3	69,900	2.2
After five	78,505	2.0	87,333	2.4
Total bonds and debentures	$ 1,034,727		$ 993,968	

Canadian common shares

Common shares have no fixed maturity dates. The average effective dividend rate is 3.6% (2019 – 2.8%).

Investment funds and limited partnerships

The Auto Fund owns units in equity funds, a mortgage investment fund, a real estate investment fund, and four infrastructure limited partnerships. These investment funds have no fixed distribution rate. Returns are based on the success of the investment managers. Commitments related to these investments are $27.1 million (2019 – $119.1 million).

Securities lending program

Through its custodian, the Auto Fund participates in a securities lending program for the purpose of generating fee income. While in the possession of counterparties, the loaned securities may be resold or re-pledged by such counterparties.

At March 31, 2020, the Auto Fund held no collateral (2019 – $448.4 million) for the loaned securities, as there were no securities on loan.

Fair value hierarchy

Fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. The determination of fair value requires judgment and is based on market information where available and appropriate. Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of the inputs used in the valuation.

	(thousands of $)			
	2020			
	Level 1	Level 2	Level 3	Total
Short-term investments	$ –	$ 8,749	$ –	$ 8,749
Bonds and debentures	–	1,034,727	–	1,034,727
Canadian common shares	141,551	–	–	141,551
Infrastructure limited partnerships	–	–	232,321	232,321
Investment funds:				
Global equity	582,704	–	–	582,704
Global small cap equity	186,282	–	–	186,282
Mortgage	–	–	212,094	212,094
Real estate	–	–	248,128	248,128
	$ 910,537	$ 1,043,476	$ 692,543	$ 2,646,556

	(thousands of $)			
	2019			
	Level 1	Level 2	Level 3	Total
Short-term investments	$ –	$ 4,720	$ –	$ 4,720
Bonds and debentures	–	993,968	–	993,968
Canadian common shares	253,744	–	–	253,744
Infrastructure limited partnerships	–	–	114,942	114,942
Investment funds:				
Global equity	646,809	–	–	646,809
Global small cap equity	219,338	–	–	219,338
Mortgage	–	–	203,926	203,926
Real estate	–	–	227,577	227,577
	$ 1,119,891	$ 998,688	$ 546,445	$ 2,665,024

The Auto Fund's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

A reconciliation of Level 3 investments is as follows:

	(thousands of $)	
	2020	2019
Level 3 investments, beginning of the year	$ 546,445	$ 463,204
Add: Additions during the year		
Infrastructure limited partnerships	118,030	52,924
Mortgage investment fund	9,227	8,569
Real estate investment fund	–	1,775
Less: Disposals during the year		
Infrastructure limited partnerships	(14,263)	(889)
Net unrealized gains	33,104	20,862
Level 3 investments, end of the year	$ 692,543	$ 546,445

Investment in the infrastructure limited partnerships, the mortgage investment fund and the real estate investment fund are valued using the Auto Fund's share of the net asset value of the respective fund as at March 31, 2020.

During the year ended March 31, 2020, no investments were transferred between levels.

The impact of COVID-19 has been reflected in the valuation of Level 3 investments through adjustments to the discount rate and expected cashflows. These have been completed by the investment managers.

7. Deferred Policy Acquisition Costs (DPAC)

	(thousands of $)	
	2020	2019
DPAC, beginning of the year	$ 30,695	$ 29,993
Acquisition costs deferred during the year	95,310	95,086
Amortization of deferred acquisition costs	(95,788)	(94,384)
DPAC, end of the year	$ 30,217	$ 30,695

8. Other Assets

Other assets are comprised of the following:

	(thousands of $)	
	2020	2019
Prepaid expenses	$ 6,384	$ 1,921
Inventories	4,698	5,160
Total	$ 11,082	$ 7,081

9. Claims Incurred and Provision for Unpaid Claims

Net claims incurred

	(thousands of $)					
	2020			2019		
	Current year	Prior years	Total	Current year	Prior years	Total
Gross claims incurred	$ 982,629	$ (93,201)	$ 889,428	$ 918,356	$ (15,228)	$ 903,128
Ceded claims incurred	(138)	11	(127)	(9,791)	1,545	(8,246)
Net claims incurred	$ 982,491	$ (93,190)	$ 889,301	$ 908,565	$ (13,683)	$ 894,882

Current year claims relate to events that occurred in the current financial year. Prior year claims incurred relate to adjustments for the reassessment of the estimated cost for claim events that occurred in all previous financial periods.

Ceded claims incurred represent an estimate of the recoverable costs of those claims transferred to the Auto Fund's various reinsurers pursuant to reinsurance contracts.

Net provision for unpaid claims

	(thousands of $)	
	2020	2019
Net unpaid claims, beginning of year - discounted	$ 1,699,784	$ 1,619,117
PFAD and discount, beginning of the year	709,569	759,020
Net unpaid claims, beginning of year - undiscounted	2,409,353	2,378,137
Payments made during the year relating to:		
Prior year claims	(239,842)	(244,652)
Excess relating to:		
Prior year estimated unpaid claims	(93,190)	(13,683)
Net unpaid claims, prior years - undiscounted	2,076,321	2,119,802
Net unpaid claims, current year	292,808	289,551
Net unpaid claims, end of year - undiscounted	2,369,129	2,409,353
PFAD and discount, end of year	(592,798)	(709,569)
Net unpaid claims, end of year - discounted	$ 1,776,331	$ 1,699,784

The net provision for unpaid claims is summarized by type of claim as follows:

	(thousands of $)					
	Gross Unpaid Claims		Reinsurance Recoverable		Net Unpaid Claims	
	2020	2019	2020	2019	2020	2019
Injury accident benefits	$ 2,228,723	$ 2,274,599	$ –	$ –	$ 2,228,723	$ 2,274,599
Injury liability	92,258	92,816	–	–	92,258	92,816
Damage	53,070	53,681	4,922	11,743	48,148	41,938
PFAD	379,176	359,811	162	815	379,014	358,996
Effect of discounting	(971,829)	(1,068,698)	(17)	(133)	(971,812)	(1,068,565)
Total	$ 1,781,398	$ 1,712,209	$ 5,067	$ 12,425	$ 1,776,331	$ 1,699,784

Management believes that the unpaid claims provision is appropriately established in the aggregate and is adequate to cover the ultimate net cost on a discounted basis. The determination of this provision, which includes unpaid claims, adjustment expenses and expected salvage and subrogation, requires an assessment of future claims development. This assessment takes into account the consistency of the Auto Fund's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claims arise and the delay inherent in claims reporting. This provision is an estimate and as such is subject to variability that may arise from future events, such as the receipt of additional claims information, changes in judicial interpretation of contracts or significant changes in frequency and severity of claims. This estimate is principally based on the Auto Fund's historical experience and may be revised as additional experience becomes available. Any such changes would be reflected in the Statement of Operations for the period in which the change occurred.

Included in the above amount is a PFAD in the amount of $379.0 million (2019 – $359.0 million). The incorporation of a PFAD within the provision for unpaid claims is in accordance with accepted actuarial practice and the selected PFAD is within the ranges recommended by the Canadian Institute of Actuaries. The PFAD considers the Auto Fund's assumptions concerning claim development, reinsurance recoveries and future investment earnings.

The provision for unpaid claims and unpaid claims recoverable from reinsurers are carried on a discounted basis to reflect the time value of money. In that respect, the Auto Fund determines the discount rate based upon the expected return of the investments that approximates the cash flow requirements of the unpaid claims. The discount rate applied was 3.8% (2019 – 4.1%). The resulting carrying amount is considered to be an indicator of fair value as there is no ready market for trading insurance contract liabilities.

In relation to COVID-19, the Auto Fund collected data currently available to estimate the potential impact. A set of assumptions were selected and applied to the actuarial methods in the determination of the claims liabilities reserve.

Structured settlements

The Auto Fund settles some long-term disability claims by purchasing annuities for its claimants from various life insurers. The settlements legally release the Auto Fund from its obligations to the claimants. Consequently, neither the annuities purchased nor the claim liabilities are recognized on the Statement of Financial Position. However, as part of the settlement, the Auto Fund provides a financial guarantee to the claimants in the event the life insurers default on the scheduled payments and is thus exposed to credit risk to the extent any of the life insurers fail to fulfil their obligations. As at March 31, 2020, no information has come to the Auto Fund's attention that would suggest any weakness or failure in the life insurers from which it has purchased the annuities. The net present value of the scheduled payments as of the year-end date is $25.4 million (2019 – $24.3 million). The net risk to the Auto Fund is the credit risk related to the life insurance companies that the annuities are purchased from. No defaults have occurred, and the Auto Fund considers the possibility of default to be remote.

10. Property and Equipment

The components of the Auto Fund's property and equipment, as well as the related accumulated depreciation, are as follows:

	(thousands of $					
	Land	Buildings and Improvements	Building Components	Leasehold Improvements	Furniture & Equipment	Total
Cost:						
Beginning of the year	$ 6,643	$ 53,996	$ 15,406	$ 2,457	$ 54,948	$ 133,450
Additions	–	813	272	2,726	11,076	14,887
Disposals	–	–	–	–	(921)	(921)
At March 31, 2020	6,643	54,809	15,678	5,183	65,103	147,416
Accumulated depreciation:						
Beginning of the year	–	29,481	10,043	1,273	40,353	81,150
Depreciation	–	1,821	643	326	4,966	7,756
Disposals	–	–	–	–	(775)	(775)
At March 31, 2020	–	31,302	10,686	1,599	44,544	88,131
Net book value at March 31, 2020	$ 6,643	$ 23,507	$ 4,992	$ 3,584	$ 20,559	$ 59,285

	(thousands of $)					
	Land	Buildings and Improvements	Building Components	Leasehold Improvements	Furniture & Equipment	Total
Cost:						
Beginning of the year	$ 6,643	$ 48,457	$ 14,336	$ 1,358	$ 47,487	$ 118,281
Additions	–	5,539	1,070	1,099	8,962	16,670
Disposals	–	–	–	–	(1,501)	(1,501)
At March 31, 2019	6,643	53,996	15,406	2,457	54,948	133,450
Accumulated depreciation:						
Beginning of the year	–	27,850	9,446	1,068	38,636	77,000
Depreciation	–	1,631	597	205	3,147	5,580
Disposals	–	–	–	–	(1,430)	(1,430)
At March 31, 2019	–	29,481	10,043	1,273	40,353	81,150
Net book value at March 31, 2019	$ 6,643	$ 24,515	$ 5,363	$ 1,184	$ 14,595	$ 52,300

Depreciation provided in the year is included in administrative expenses on the Statement of Operations. When an asset has been disposed, its original cost is removed from the financial statements along with any accumulated depreciation related to that asset.

11. Intangible Assets

The Auto Fund's intangible assets consist solely of internally developed software that has been created as part of SGI's digital transformation. The intangible assets, as well as the related accumulated amortization, are as follows:

	(thousands of $)	
	2020	2019
Cost:		
Beginning of the year	$ –	$ –
Additions	11,895	–
Disposals	–	–
End of the year	11,895	–
Accumulated amortization:		
Beginning of the year	–	–
Amortization	–	–
Disposals	–	–
End of the year	–	–
Net book value at end of the year	$ 11,895	$ –

12. Unearned Premiums

	(thousands of $)					
	Gross Unearned Premiums		Reinsurers' Share of Unearned Premiums		Net Unearned Premiums	
	2020	2019	2020	2019	2020	2019
Unearned premiums, beginning of the year	$ 394,880	$ 386,884	$ 7,947	$ 6,454	$ 386,933	$ 380,430
Premiums written	962,705	956,472	10,549	14,682	952,156	941,790
Premiums earned	(966,177)	(948,476)	(10,567)	(13,189)	(955,610)	(935,287)
Change in net unearned premiums	(3,472)	7,996	(18)	1,493	(3,454)	6,503
Unearned premiums, end of the year	$ 391,408	$ 394,880	$ 7,929	$ 7,947	$ 383,479	$ 386,933

13. Net Investment Earnings

Components of investment earnings are as follows:

	(thousands of $)	
	2020	2019
Investment fund distributions	$ 47,625	$ 55,776
Net realized gains on sale of investments	32,549	24,053
Interest and other	28,865	28,932
Dividends	6,060	7,019
Infrastructure limited partnership distributions	4,590	1,979
Net unrealized (losses) gains on change in market value of investments	(107,069)	28,018
Total investment earnings	12,620	145,777
Investment expenses	(10,170)	(9,928)
Net investment earnings	$ 2,450	$ 135,849

Details of the net unrealized (losses) gains on change in market value of investments are as follows:

	(thousands of $)	
	2020	2019
Bonds and debentures	$ 4,463	$ 20,960
Canadian common shares	(36,990)	(16,983)
Infrastructure limited partnerships	13,612	2,851
Investment funds:		
Global equity	(52,420)	27,950
Global small cap equity	(55,226)	(24,771)
Mortgage	(1,059)	1,848
Real estate	20,551	16,163
	$ (107,069)	$ 28,018

14. Other Income

The components of other income are as follows:

	(thousands of $)	
	2020	2019
Payment option fees	$ 35,710	$ 34,404
Safe Driver Recognition program penalties	28,606	26,678
Net earnings on salvage sales	21,125	22,347
Total other income	$ 85,441	$ 83,429

The Auto Fund offers a Short-Term Vehicle Registration and Insurance Plan that allows customers to choose the number of months they wish to insure and register their vehicle. Another payment option, AutoPay, allows customers to have equal monthly withdrawals made from their bank accounts for their vehicle registration and insurance.

The Auto Fund maintains a Safe Driver Recognition program based on a safety rating scale. Drivers lose safety rating points for certain driving incidents. Drivers in the penalty zone (safety rating less than zero) are assessed a financial penalty for each incident they are responsible for. The further the incident moves them in the penalty zone, the higher the penalty they have to pay.

The Auto Fund administers a salvage operation in order to maximize the derived economic value of salvageable vehicles, vehicle parts and materials available through the claim settlement process.

Net earnings on salvage sales is comprised of:

	(thousands of $)	
	2020	2019
Salvage sales	$ 60,848	$ 61,661
Cost of sales	(35,427)	(34,923)
Gross profit	25,421	26,738
Administrative expenses	(4,664)	(4,796)
Other income	368	405
Net earnings on salvage sales	$ 21,125	$ 22,347

15. Insurance and Financial Risk Management

The Auto Fund, through its administrator SGI, has established an enterprise risk management policy. The Board of Directors approved this policy, and management is responsible for ensuring it is properly maintained and implemented. The Board of Directors receives confirmation that the risks are being appropriately managed through regular reporting from management.

Insurance risk arises with respect to the adequacy of the Auto Fund's policy premium rates and provision for unpaid claims (consisting of underwriting and actuarial risks). The nature of insurance operations also results in significant financial risks, as the Statement of Financial Position consists primarily of financial instruments. Financial risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Insurance Risk

Underwriting risk

The Auto Fund manages insurance risk through underwriting and reinsurance strategies within an overall strategic planning process. Pricing is based on assumptions with regards to past experiences and trends.

Reinsurance

The Auto Fund also seeks to reduce losses that may arise from catastrophes or other events that cause unfavourable underwriting results by reinsuring certain levels of risk with other insurers. The policy of underwriting and reinsuring contracts of insurance limits the liability of the Auto Fund to a maximum amount on any one loss on a calendar year as follows:

	(thousands of $)	
	2020	2019
Automobile physical damage catastrophe	$ 17,500	$ 17,500
(subject to filling an annual aggregate deductible of)	17,500	17,500

While the Auto Fund utilizes reinsurance, it is still exposed to reinsurance risk. Reinsurance risk is the risk of financial loss due to inadequacies in reinsurance coverage or the default of a reinsurer. The Auto Fund evaluates and monitors financial condition of its reinsurers to minimize exposure to significant losses from reinsurer insolvency.

Actuarial risk

Establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances, and is therefore a complex process influenced by a variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Auto Fund at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists regarding the cost of reported claims that have not been settled, as all the necessary information may not be available at the year-end date.

The significant assumptions used to estimate the provision include: the Auto Fund's experience with similar cases, historical claim payment trends and claim development patterns, the characteristics of each class of business, claim severity and frequency, the effect of inflation on future claim settlement costs, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim, the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as physical damage or collision claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors, which necessarily involves risk that actual results may differ materially from the estimates.

The following table shows the development of the estimated net provision for unpaid claims for the 10 most recent accident years as estimated at each reporting date. The Auto Fund changed its year end from December 31 to March 31, effective March 31, 2016. As a result, historical net ultimate loss estimates for the March 31, 2016 and prior accident years are not available.

Net provision for unpaid claims

	(thousands of $)									
Accident year	**2010-2011**	**2011-2012**	**2012-2013**	**2013-2014**	**2014-2015**	**2015-2016**	**2016-2017**	**2017-2018**	**2018-2019**	**2019-2020**
Net Ultimate Loss										
At end of accident year	$ n/a	$ n/a	$ n/a	$ n/a	$ n/a	$ n/a	$ 716,484	$ 711,865	$ 759,830	$ 762,075
One year later	n/a	n/a	n/a	n/a	n/a	645,389	738,267	723,379	763,849	
Two years later	n/a	n/a	n/a	n/a	628,662	641,301	742,971	727,244		
Three years later	n/a	n/a	n/a	636,975	629,226	645,201	742,089			
Four years later	n/a	n/a	629,886	635,498	634,045	646,230				
Five years later	n/a	591,338	627,545	636,834	636,167					
Six years later	618,621	588,439	629,550	639,210						
Seven years later	617,488	592,199	630,411							
Eight years later	618,989	594,528								
Nine years later	622,544									
Cumulative loss development	$ n/a	$ n/a	$ n/a	$ n/a	$ n/a	$ n/a	$ 25,605	$ 15,379	$ 4,019	n/a
Cumulative loss development as a % of original ultimate loss	n/a	n/a	n/a	n/a	n/a	n/a	3.6%	2.2%	0.5%	n/a

Net ultimate loss

	(thousands of $)										
Accident year	**2010-2011**	**2011-2012**	**2012-2013**	**2013-2014**	**2014-2015**	**2015-2016**	**2016-2017**	**2017-2018**	**2018-2019**	**2019-2020**	**Total**
Current estimate of net ultimate loss	$ 622,544	$ 594,528	$ 630,411	$ 639,210	$ 636,167	$ 646,230	$ 742,089	$ 727,244	$ 763,849	$ 762,075	$ 6,764,347
Cumulative paid	(556,172)	(532,541)	(569,362)	(572,504)	(569,466)	(573,497)	(663,813)	(632,330)	(652,480)	(518,061)	(5,840,226)
Net provision for unpaid claims	$ 66,372	$ 61,987	$ 61,049	$ 66,706	$ 66,701	$ 72,733	$ 78,276	$ 94,914	$ 111,369	$ 244,014	$ 924,121
Net discounted claims outstanding for accident years 2009-2010 and prior											722,344
Loss adjusting expense reserve											125,892
Other reconciling items											3,974
Net provision for unpaid claims											$ 1,776,331

The Auto Fund's estimated sensitivity of its provision for unpaid claims to changes in best estimate assumptions in its unpaid claims liabilities is as follows:

		(thousands of $)	
		Change to Net Provision for Unpaid Claims	
Assumption	**Sensitivity**	**2020**	**2019**
Discount rate	+ 100 bps	$ (100,658)	$ (92,961)
Discount rate	- 100 bps	103,555	105,897

The net provision for unpaid claims refers to the provision for unpaid claims net of unpaid claims recoverable from reinsurers. The method used for deriving this sensitivity information did not change from the prior period.

Financial risk

The nature of the Auto Fund's operations results in a Statement of Financial Position that consists primarily of financial instruments. The risks that arise are credit risk, market risk and liquidity risk.

Significant financial risks are related to the Auto Fund's investments. These financial risks are managed by having a Statement of Investment Policies and Goals (SIP&G), which is approved annually by SGI's Board of Directors. The SIP&G provides guidelines for the Auto Fund's investment managers for the asset mix of the portfolio regarding quality and quantity of fixed income, real estate and equity investments using a prudent person approach. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. SGI receives regular reporting from the investment managers and custodian regarding compliance with the SIP&G. The investment managers' performance is evaluated based on the goals stated in the SIP&G.

The Auto Fund investment portfolio operates as two distinct portfolios – the Matching Portfolio and the Return Seeking Portfolio. The Matching Portfolio consists of short-term investments, bonds and debentures, and the mortgage investment fund, while the Return Seeking Portfolio holds Canadian common shares, the global equity, global small cap equity and real estate investment funds, and the infrastructure limited partnerships. The investment strategy relies on the Matching Portfolio to cover expected liability payments out to 20 years, with the remaining long-tail liabilities covered by the Return Seeking Portfolio.

Credit risk

The Auto Fund's credit risk arises primarily from two distinct sources: accounts receivable and certain investments. The maximum credit risk to which the Auto Fund is exposed is limited to the carrying value of those financial assets summarized as follows:

	(thousands of $) 2020	2019
Cash and cash equivalents	$ 35,807	$ 19,680
Accounts receivable	248,866	245,444
Fixed income investments [1]	1,255,570	1,202,614
Unpaid claims recoverable from reinsurers	5,067	12,425

[1] Includes short-term investments, bonds and debentures, and the mortgage investment fund

In addition, the Auto Fund is exposed to credit risk associated with its structured settlements as described separately in the notes to the financial statements.

Cash and cash equivalents include money market investments of $21.8 million (2019 – $11.2 million) that mature within 90 days from the date of acquisition. All short term investments have a credit rating of R-1.

Accounts receivable relate primarily to financed premiums receivable and amounts recoverable on paid claims. Balances are outstanding from customers, along with motor licence issuers, within Saskatchewan. Accounts receivable consist of balances outstanding for one year or less.

	(thousands of $) 2020	2019
Current	$ 243,207	$ 240,034
30 - 59 days	3,004	3,013
60 - 90 days	2,566	2,311
Greater than 90 days	28,870	28,359
Subtotal	277,647	273,717
Allowance for doubtful accounts	(28,781)	(28,273)
Total	$ 248,866	$ 245,444

Provisions for credit losses are maintained in an allowance account and are regularly reviewed by the Auto Fund. Amounts are written off once reasonable collection efforts have been exhausted. An Auto Fund customer cannot complete a driver's licence or vehicle transaction without making arrangements for payment of outstanding balances, including balances previously written off.

Details of the allowance account are as follows:

	(thousands of $) 2020	2019
Allowance for doubtful accounts, beginning of the year	$ 28,273	$ 23,853
Accounts written off	(8,675)	(5,943)
Current period provision	9,183	10,363
Allowance for doubtful accounts, end of the year	$ 28,781	$ 28,273

Concentrations of credit risk for insurance contracts can arise from reinsurance ceded contracts as insurance ceded does not relieve the Auto Fund of its primary obligation to the policyholder. Reinsurers are typically required to have a minimum financial strength rating of A- at the inception of the treaty; rating agencies used are A.M. Best and Standard & Poor's. Guidelines are also in place to establish the maximum amount of business that can be placed with a single reinsurer.

Credit risk within investments is related primarily to short-term investments, bonds and debentures, and the mortgage investment fund. It is managed through an investment policy that limits debt instruments to those of high credit quality (minimum rating for bonds and debentures is BBB, and for short-term investments is R-1) along with limits to the maximum notional amount of exposure with respect to any one issuer.

Credit ratings for bonds and debenture investments are as follows:

	2020		2019	
Credit Rating	Fair Value (thousands of $)	Makeup of Portfolio (%)	Fair Value (thousands of $)	Makeup of Portfolio (%)
AAA	$ 297,473	28.7	$ 387,757	39.0
AA	510,107	49.3	422,860	42.5
A	196,522	19.0	150,857	15.2
BBB	30,625	3.0	32,494	3.3
Total	$ 1,034,727	100.0	$ 993,968	100.0

Within bonds and debentures, there are no holdings from one issuer, other than the Government of Canada or a Canadian province, over 10% of the market value of the combined bond and short-term investment portfolios. No one holding of a province is over 20% of the market value of the bond portfolio.

The Auto Fund's investment in a mortgage investment fund is subject to credit risk as its value is impacted by the credit risk of the underlying mortgages. This risk is limited by restrictions within its investment policy, which include single loan limits, and diversification by property type and geographic regions within Canada. Each underlying mortgage is secured by real estate and related contracts.

Market risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk impacts the value of the Auto Fund's investments.

Interest rate risk

The Auto Fund is exposed to changes in interest rates in its fixed income investments, including short-term investments, bonds and debentures, and the mortgage investment fund. Changes in interest rates also impact the amount of discounting included in the provision for unpaid claims. The impact that a change in interest rates has on investment income will be partially offset by the impact the change in interest rates has on claims incurred.

It is estimated that a 100-basis point increase/decrease in interest rates would have the following impacts:

	(thousands of $)			
	100 basis point increase		100 basis point decrease	
	2020	2019	2020	2019
Net investment earnings	$ (76,089)	$ (75,721)	$ 85,815	$ 85,064
Net claims incurred	(100,658)	(92,953)	103,555	105,890
Net increase (decrease) to RSR	24,569	17,232	(17,740)	(20,825)

Foreign exchange risk

The investment policy defines maximum limits to exchange rate sensitive assets within the investment portfolio. The following table indicates the exposure in the Return Seeking Portfolio to exchange rate sensitive assets and provides the sensitivity to a 10% appreciation/depreciation in the Canadian dollar and the corresponding decrease/increase in the RSR:

	2020		
Asset Class	Maximum Exposure (%)	Current Exposure (%)	10% change in exchange rates (thousands of $)
Global equities	52.0	41.9	$ 58,270
Global small cap equities	20.0	13.4	18,628
Infrastructure limited partnerships	20.0	16.7	23,232

	2019		
Asset Class	Maximum Exposure (%)	Current Exposure (%)	10% change in exchange rates (thousands of $)
Global equities	52.0	44.2	$ 64,681
Global small cap equities	20.0	15.0	21,934
Infrastructure limited partnerships	20.0	7.9	11,494

As the global equity funds and the infrastructure limited partnerships are classified as fair value through profit and loss, unrealized changes due to foreign currency are recorded in the Statement of Operations. There is no exposure to foreign exchange risk within the Auto Fund's bond and debenture portfolio. As well, no more than 10% of the market value of the bond and debenture portfolio shall be invested in bonds or debentures of foreign issuers. The Auto Fund's exposure to exchange rate risk resulting from the purchase of goods and services is not considered material to the operations of the Auto Fund.

Equity prices

The Auto Fund is exposed to changes in equity prices in Canadian and global markets. At March 31, 2020, equities comprise 34.4% (2019 – 42.0%) of the carrying value of the Auto Fund's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee or related group of investees represents greater than 10% of the market value of the Auto Fund's equity portfolio. As well, no one holding represents more than 10% of the voting shares of any corporation.

The Auto Fund's equity price risk is assessed using Value at Risk, a statistical technique that measures the potential change in value of an asset class. It is calculated over a four-year period, using a 95% confidence level. It is expected that the annual change in the portfolio market value will fall within the range outlined in the following table 95% of the time (19 times out of 20 years).

	(thousands of $)	
Asset Class	2020	2019
Global equities	$ +/- 118,289	$ +/- 149,413
Canadian equities	+/- 27,178	+/- 49,226
Global small cap equities	+/- 44,112	+/- 53,080

The Auto Fund's equity investments are classified as fair value through profit and loss and any unrealized changes in their fair value are recorded in the Statement of Operations.

No derivative financial instruments have been used to alter the effects of market changes and fluctuations.

Liquidity risk

Liquidity risk is the risk that the Auto Fund is unable to meet its financial obligations as they fall due. Cash resources of the Auto Fund are managed on a daily basis based on anticipated cash flows. The majority of financial liabilities, excluding certain unpaid claim liabilities, are short-term in nature, due within one year. The Auto Fund generally maintains positive overall cash flow through cash generated from operations as well as cash generated from investing activities.

The following tables summarize the estimated contractual timing of cash flows on an undiscounted basis arising from the Auto Fund's financial assets and liabilities.

	(thousands of $)							
	March 31, 2020							
	Carrying amount	Total	No stated maturity	0 - 1 years	1 - 2 years	3 - 5 years	5 - 10 years	More than 10 years
Financial assets								
Cash and cash equivalents	$ 35,807	$ 35,807	$ –	$ 35,807	$ –	$ –	$ –	$ –
Accounts receivable	248,866	248,866	–	248,866	–	–	–	–
Investments	2,646,556	2,646,556	1,603,080	207,949	60,471	135,078	126,215	513,763
Unpaid claims recoverable from reinsurers	5,067	4,922	–	5,465	(550)	7	–	–
	$ 2,936,296	$ 2,936,151	$ 1,603,080	$ 498,087	$ 59,921	$ 135,085	$ 126,215	$ 513,763
Financial liabilities								
Accounts payable and accrued liabilities	$ 57,125	$ 57,125	$ 22,682	$ 34,443	$ –	$ –	$ –	$ –
Premium taxes payable	10,284	10,284	–	10,284	–	–	–	–
Amounts due to reinsurers	9,742	9,742	1,583	8,159	–	–	–	–
Provision for unpaid claims	1,781,398	2,374,051	–	246,269	202,217	154,154	301,649	1,469,762
	$ 1,858,549	$ 2,451,202	$ 24,265	$ 299,155	$ 202,217	$ 154,154	$ 301,649	$ 1,469,762

	(thousands of $)							
	March 31, 2019							
	Carrying amount	Total	No stated maturity	0 - 1 years	1 - 2 years	3 - 5 years	5 - 10 years	More than 10 years
Financial assets								
Cash and cash equivalents	$ 19,680	$ 19,680	$ –	$ 19,680	$ –	$ –	$ –	$ –
Accounts receivable	245,444	245,444	–	245,444	–	–	–	–
Investments	2,665,024	2,665,024	1,666,336	153,933	81,357	118,503	157,539	487,356
Unpaid claims recoverable from reinsurers	12,425	11,743	–	9,204	2,512	27	–	–
	$ 2,942,573	$ 2,941,891	$ 1,666,336	$ 428,261	$ 83,869	$ 118,530	$ 157,539	$ 487,356
Financial liabilities								
Accounts payable and accrued liabilities	$ 57,088	$ 57,088	$ 19,441	$ 37,647	$ –	$ –	$ –	$ –
Premium taxes payable	10,414	10,414	–	10,414	–	–	–	–
Amounts due to reinsurers	12,552	12,552	4,419	8,133	–	–	–	–
Provision for unpaid claims	1,712,209	2,421,096	–	243,698	195,290	146,355	288,283	1,547,470
	$ 1,792,263	$ 2,501,150	$ 23,860	$ 299,892	$ 195,290	$ 146,355	$ 288,283	$ 1,547,470

The estimated contractual maturities related to the unpaid claims recoverable from reinsurers excludes the net effect of discounting and PFAD of $0.1 million (2019 – $0.7 million) (note 9). The estimated contractual maturities related to the provision for unpaid claims excludes the net effect of discounting and PFAD of $592.7 million (2019 – $708.9 million) (note 9).

16. Capital Management

The Auto Fund has a capital management policy, approved by SGI's Board of Directors. The primary objective of capital management for the Auto Fund is to maintain a level of capital in the RSR sufficient to cushion the Auto Fund from the volatility inherent in investment and underwriting operations, and ensure a positive RSR 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 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 MCT as at March 31, 2020 was 145% relative to its internal target MCT of 90%.

17. Change in Non-Cash Operating Items

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

	(thousands of $)	
	2020	2019
Accounts receivable	$ (3,576)	$ (7,293)
Unpaid claims recoverable from reinsurers	7,358	(800)
Reinsurers' share of unearned premiums	18	(1,493)
Deferred policy acquisition costs	478	(702)
Other assets	(4,001)	(536)
Accounts payable and accrued liabilities	37	4,499
Premium taxes payable	(130)	355
Amounts due to reinsurers	(2,810)	3,843
Unearned premiums	(3,472)	7,996
Provision for unpaid claims	69,189	81,467
	$ 63,091	$ 87,336

18. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Auto Fund by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties"). Routine operating transactions with related parties were conducted in the normal course of business and recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The Auto Fund has elected to take a partial exemption under IAS 24, *Related Party Disclosures*, which allows government-related entities to limit the extent of disclosures about related party transactions with government or other government-related entities.

SGI acts as administrator of the Auto Fund. Administrative and loss adjustment expenses incurred by SGI are allocated to the Auto Fund directly or on the basis of a cost allocation formula. These are operating transactions incurred in the normal course of operations. Amounts incurred by SGI and charged to the Auto Fund were $172.3 million (2019 – $148.9 million) and accounts payable were $4.2 million (2019 – $8.5 million).

Certain Board members are partners in organizations that provided $0.3 million (2019 – $0.2 million) of professional services to the Auto Fund. These services were recorded in claims incurred and administrative expenses in the Statement of Operations. Other related party transactions are described separately in the notes.

19. Commitments and Contingencies

The Auto Fund has commitments to provide funding to STARS Air Ambulance, to provide funding to Saskatchewan health organizations for costs associated with rehabilitation for those involved in automobile collisions and for systems contracts as follows:

	(thousands of $)					
	2020-21	2021-22	2022-23	2023-24	2024-25	Thereafter
Commitments						
STARS air ambulance	$ 400	$ 400	$ –	$ –	$ –	$ –
Medical funding	39,606	39,864	40,906	42,467	32,620	–
Systems contracts	6,754	2,559	971	845	607	559
	$ 46,760	$ 42,823	$ 41,877	$ 43,312	$ 33,227	$ 559

In common with the insurance industry in general, the Auto Fund is subject to litigation arising in the normal course of conducting its insurance business. The Auto Fund is of the opinion that litigation will not have a significant effect on its financial position or results of operation.

20. Comparative Information

Certain comparative figures have been reclassified to conform to the current year's presentation.

Glossary of Terms

Catastrophe reinsurance
A policy purchased by a ceding company that indemnifies that company for the amount of loss in excess of a specified retention amount subject to a maximum specific limit from a covered catastrophic event.

Claims incurred
The total for all claims paid and related claim expenses during a specific accounting period(s) plus the changes in the provision for unpaid claims for the same period of time.

Combined ratio
A measure of total expenses (claims and administration) in relation to net premiums earned as determined in accordance with GAAP. If this ratio is below 100% there was a profit from underwriting activities, while over 100% represents a loss from underwriting.

GAAP
Generally accepted accounting principles. These are defined in the handbook prepared by the Canadian Institute of Chartered Accountants.

Gross premiums written (GPW)
Total premiums, net of cancellations, on insurance underwritten during a specified period of time before deduction of reinsurance premiums ceded.

IBNR reserve
Abbreviation for 'incurred but not reported'. A reserve that estimates claims that have been incurred by a policyholder but not reported to the insurance company. It also includes unknown future developments on claims that have been reported.

IFRS
International Financial Reporting Standards. These are global accounting standards issued by the International Accounting Standards Board (IASB), including interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

Loss ratio (Claims ratio)
Claims incurred net of reinsurance expressed as a percentage of net premiums earned for a specified period of time.

Motor licence issuer
A person who negotiates driver's licences and vehicle licence/insurance on behalf of the Auto Fund and who receives a fee from the Auto Fund for licences placed and other services rendered.

Net premiums earned (NPE)
The portion of net premiums written that is recognized for accounting purposes as revenue during a period.

Net premiums written (NPW)
Gross premiums written for a given period of time less premiums ceded to reinsurers during such period.

Premium	The dollars that a policyholder pays today to insure a specific set of risk(s). In theory, this reflects the current value of the claims that a pool of policyholders can be expected to make in the future, as well as the costs of administering those potential claims.
Premium tax	A tax collected from policyholders and paid to the province. It is calculated as a percentage of gross premiums written.
Redundancy & deficiency	Claim reserves are constantly re-evaluated. An increase in a reserve from the original estimate is a deficiency while a decrease to the original reserve is called a redundancy.
Underwriting profit/loss	The difference between net premiums earned and the sum of net claims incurred, commissions, premium taxes and all general and administrative expenses.
Unearned premiums	The difference between net premiums written and net premiums earned. It reflects the net premiums written for that portion of the term of its insurance policies that are deferred to subsequent accounting periods.

Governance

Please visit the SGI website at www.sgi.sk.ca for information on governance for the Saskatchewan Auto Fund, including:

- governance guidelines
- Board of Directors' photos and bios, committee members, frequency of meetings and terms of reference
- SGI executives' photos and bios

In Memoriam

Paul Canniff, a Customer Experience Architect in Brand and Visual Communications, was passionate about his work in web content technology, business analysis and information management. Always learning new skills in his field, he encouraged and facilitated others to do the same. He was kind, helpful, a bringer of cakes and an enthusiastic supporter of the Chelsea soccer team. Paul was fond of popular culture, able to quote from Star Trek and The Simpsons effortlessly.

Lisa Johnson, a Driver Education Assessment Coordinator, worked out of Prince Albert and travelled all over the province in her role. She was great at developing relationships with all the driver educators she worked with and was an enthusiastic promoter of traffic safety. There was genuine care and a great sense of humour in her approach to life and work. Lisa and her life partner loved raising huskies, quad trips, camping, fishing and spending time at the cabin they built themselves.

Brian Lepine, an Appraiser at the Lloydminster Claims Centre, was a reliable force on the appraisal team with a deep knowledge of autobody repairs, particularly for the oilfield and farming industries in his local area. He was always ready to help his co-workers and would drop what he was doing to lend a hand. He had a great sense of humour, loved fishing, golfing, the outdoors and camping. Brian and his wife were avid gardeners, eager to share their harvest.

Leslie Nichols, a Product Representative II at the Saskatoon Claims Centre, had a positive, kind spirit and gentle heart. Les always had a smile on his face and was interested in learning more about everything and everybody. He had a quick wit that was always at the ready, and was known as a joker, especially in his home community of Indian Head. He loved family events, camping and clog dancing and touched a lot of hearts.