Saskatchewan Government Insurance

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Main points

This chapter describes the result of our audits of Saskatchewan Government Insurance (SGI), the companies it owns, Saskatchewan Auto Fund, and SGI Superannuation Plan for the year ended December 31, 2005. SGI owns SGI Canada Insurance Services Ltd., Coachman Insurance Company, and Prince Edward Island Insurance Company.

We concluded that Coachman Insurance Company (Coachman) needs to strengthen its controls to monitor claims under agents' administration. During the year, Coachman incurred previously unreported and unrecorded claims resulting in a loss of $9.7 million from a policy under an agent's administration.

In 2006, we also examined the adequacy of SGI's succession planning processes for its key positions. For this examination, key positions include the President, Vice Presidents, Assistant Vice Presidents, managers, underwriters, and claim adjusters. We concluded that SGI had adequate succession planning processes for its key positions.

Introduction

Saskatchewan Government Insurance (SGI) sells property and casualty insurance in Saskatchewan. Its wholly-owned company, SGI Insurance Services Ltd. (SCISL), sells property and casualty insurance in Manitoba.

Also, SCISL owns 100% of the issued shares of Coachman Insurance Company (Coachman) and 75% of the issued shares of Insurance Company of Prince Edward Island (ICPEI). Coachman sells property and casualty insurance including automobile insurance in Ontario. ICPEI sells property and casualty insurance including automobile insurance in Prince Edward Island, Nova Scotia, and New Brunswick.

SGI also manages the Saskatchewan Auto Fund (SAF). SAF is Saskatchewan's compulsory automobile insurance program. It receives money from the motoring public and pays claims. SAF does not receive any money from the General Revenue Fund (GRF). Nor does it pay any dividends to the GRF or the Crown Investments Corporation. The financial results of SAF are not included in SGI's financial statements.

SGI sponsors the Saskatchewan Government Insurance Superannuation Plan (SGI Plan). The SGI Plan is a defined benefit pension plan (closed to new members since 1978). The Board of Directors of SGI is responsible for administration of the SGI Plan under *The Pension Benefits Act, 1992.* The primary objective of the SGI Plan is to provide pensions to retired employees and the dependents of deceased pensioners and employees of SGI. SGI provides day-to-day management of the SGI Plan.

The 2005 annual report for SGI includes its consolidated financial statements for the year ended December 31, 2005. Those statements report revenue of $308.8 million, net profit of $35.2 million, total assets of $598.2 million, and retained earnings of $63.4 million.

The 2005 annual reports for SCISL, Coachman, and ICPEI include their respective financial statements for the year ended December 31, 2005. The table below shows the consolidated financial results of SCISL and each of the companies it owns.

Table – Financial information for insurance companies that SGI owns (in millions)

Company	Revenue	Net Profit	Total Assets	Retained Earnings (Deficit)
SCISL - Consolidated	$ 50.6	$ 3.6	$ 200.0	$ (6.5)
Coachman	29.0	1.2	113.7	(14.3)
ICPEI	9.2	2.7	29.2	3.1

The 2005 annual report for SAF includes its financial statements for the year ended December 31, 2005. Those statements report revenue of $607.5 million, net increase to the rate stabilization reserve (net profit) of $61.4 million, total assets of $1,213.4 million, a rate stabilization reserve of $163.3 million, and a redevelopment reserve of $35 million.

The SGI Plan's annual report includes its financial statements for the year ended December 31, 2005. Those statements report contributions from employees of $0.1 million, pensions and refunds of $3.6 million, net assets of $45.3 million, and accrued pension benefits owing of $45.2 million.

Our audit conclusions and findings

Cabinet appointed KPMG LLP auditor for SGI and SAF. The Boards of Directors for SCISL, Coachman, and ICPEI appointed KPMG as auditor for those companies. Also, SGI appointed KPMG as auditor for the SGI Plan. Our Office worked with the appointed auditor using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*.[1] Our Office and KPMG formed the following opinions.

In our opinion for the year ended December 31, 2005:

- **SGI, SAF, SCISL, Coachman, ICPEI, and the SGI Plan had adequate rules and procedures to safeguard public resources except that Coachman needs to strengthen controls over claims under agents' administration as described below**

[1] To view this report, see our website at www.auditor.sk.ca/rrd.html.

- **SGI, SAF, SCISL, Coachman, ICPEI and the SGI Plan complied with authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing**

- **the financial statements of SGI, SAF, SCISL, Coachman, ICPEI, and the SGI Plan are reliable**

We also report the result of our audit of the adequacy of SGI's succession planning processes for its key positions.

Controls need strengthening over claims under agents' administration

Coachman needs to strengthen its controls over claims under agents' administration. During the year, Coachman incurred additional claims resulting in a loss of $9.7 million from a policy under an agent's administration because Coachman did not have adequate controls over claims that it allowed the agent to administer.

In 1998, Coachman issued an insurance policy to a vehicle rental company (Rental Company) in Ontario. At the same time, Coachman made an agreement that allowed the Rental Company to act as Coachman's agent and sell insurance to customers renting vehicles under the policy. Coachman had this kind of insurance arrangement with other companies in Ontario, before SGI bought Coachman. After becoming part of SGI, Coachman did not renew those arrangements on their expiry. Management told us all such arrangements are now expired.

Under the arrangement, the Rental Company kept the premiums it charged its customers. The Rental Company was allowed to assess and pay customer claims directly or through a claims management firm that it may hire. The Rental Company paid Coachman an annual fee for this arrangement.

Because the insurance coverage was in the name of Coachman, it required the Rental Company to report the status of all reported and outstanding claims monthly. As a security to guarantee the settlement of all claims, Coachman required the Rental Company to maintain a trust account in an amount equal to minimum industry requirements.

Coachman and the Rental Company had informally agreed that the Rental Company would maintain such trust account in an amount equal to 120% of the unpaid claims relating to the insurance policy.

Such arrangements, generally known as fronting or service agreements (Service Agreements), are common in the insurance industry. In Service Agreements, insurance companies remain at risk of losses. Insurance companies manage that risk by ensuring agents estimate claims properly and set aside enough money to settle those claims. Also, the Service Agreements allow the insurance companies access to the claim files and trust accounts to ensure proper claim administration.

Under the arrangement, Coachman also retained the right to examine the claims files at the Rental Company and to estimate claims. However, Coachman's control processes did not include periodic review of claims files to ensure the Rental Company was estimating and recording all claims properly. Coachman received a quarterly report about the cost of claims outstanding from the claims management firm that the Rental Company had hired and information directly from the Rental Company about the balance in the trust account. Coachman ensured that the trust account balance equalled 120% of the outstanding claims that were reported. Coachman, however, did not ensure that the Rental Company (or the claims management firm hired by the Rental Company) properly estimated, recorded, and reported all claims. Accordingly, it did not know if the Rental Company had enough money in the trust account to pay all the claims.

The insurance policy and the agreement with the Rental Company expired on March 31, 2005. Soon after, the Rental Company filed for voluntary receivership. During the receivership proceedings, Coachman became aware that the Rental Company did not record and report all claims and did not deposit the required amount in the trust account. Because the insurance coverage is in the name of Coachman, it must pay all outstanding claims.

Management estimated that Coachman would need $10.9 million to pay all outstanding claims under the insurance policy. The trust account that the Rental Company maintained has a balance of $1.2 million. As a result, Coachman has incurred additional claims resulting in a loss of $9.7 million from the policy under the agent's administration.

1. We recommend Coachman Insurance Company improve its processes to properly examine and assess claims that are under agents' administration.

Succession planning processes

Background

Succession planning is a systematic process to ensure that agencies have the right people with the right skills in the right place at the right time. The skills, knowledge, and behaviours essential to do jobs that keep an agency operational are called key competencies.

Succession planning processes at SGI are important. It employs over 1600 people in Saskatchewan. By 2016, SGI expects up to 50% of its managers will retire. This may result in the loss of knowledge essential to provide services effectively. Knowledgeable employees are essential for assessing risks and settling claims. Failure to arrange for others to succeed key staff could lead to loss of public money and confidence in SGI.

Audit objective

Our audit objective was to assess the adequacy of SGI's succession planning processes for key positions. We examined the processes in place as at February 28, 2006.

For this audit, key positions means the President, Vice Presidents, Assistant Vice Presidents, managers, underwriters, and claims adjusters. We audited SGI's succession planning processes for its staff in Saskatchewan and not in other provinces.

Criteria

To determine the adequacy of SGI's succession planning processes, we used criteria based on research, literature, and audit reports (see selected references). SGI agreed that the criteria listed below are reasonable and attainable.

SGI's succession planning processes for key positions should:

- ♦ support long-term strategic direction
- ♦ assess potential gaps in current and future workforce
- ♦ take action on strategies for succession to help bridge gaps
- ♦ monitor and evaluate progress

Throughout our audit, we followed *The Standards for Assurance Engagements* established by The Canadian Institute of Chartered Accountants.

Conclusion

As at February 28, 2006, SGI had adequate succession planning processes.

Key findings

We set out, below, our expectations (in italics) for each of the criteria together with our key findings.

Support long-term strategic direction

To support its long-term strategic direction, we expected SGI to:

- ♦ *align its human resource plan with its long-term strategic direction*
- ♦ *align its succession plans with its human resource plan*
- ♦ *keep overall succession planning strategies transparent*

SGI aligns its human resource plan, including its succession plans, with its overall strategic plan. It developed a *Talent Management Framework* [2]to guide its succession planning processes. This Framework coordinates SGI's human resource and succession plans with its corporate strategic plan.

[2] Talent Management Framework provides a roadmap (flowchart and descriptions) of the human resource processes the corporation uses to identify, hire, develop and sustain required competencies. The framework shows how human resource processes help SGI to achieve its goals.

SGI also developed initiatives to align its human resource plan with the direction from the Government including the Crown Investments Corporation. For example, it focused on opportunities to employ youth and Aboriginal people.

SGI keeps its succession planning process transparent in several ways. For example, in 2005, it held several information sessions for management. An online orientation for new employees introduces career progression at SGI including succession planning. Its Intranet[3] communicates peak years for retirements by position and explains job opportunities to all SGI employees.

Assess potential gaps in current and future workforce

To assess the potential gaps in its current and future workforce, we expected SGI to:

- *analyze current workforce demographics to identify future risks and opportunities*
- *analyze future workforce needs*
- *analyze potential competency gaps that may exist in the future workforce*
- *communicate gaps*

SGI monitors demographic trends and predicts their future impact. For example, it analyzes the movement of youth and Aboriginal employees into more advanced positions. It also projects its risk of many simultaneous retirements within each division and for SGI as a whole. Based on its analysis, SGI updated its retirement assumptions to improve the accuracy of its projections.

SGI identifies specific management and technical positions as key positions. To help assess its future workforce needs, SGI sets out the competencies and education required for its key technical positions—claims and underwriting.

SGI also drafted competencies for its key management and leadership positions in early 2006. These draft leadership competencies will help it further analyze potential gaps in its key leadership and management positions.

[3] Intranet is a private computer network that SGI uses to share information with its employees.

SGI identified potential competency gaps in its future workforce for some areas of the organization. For example, it recognized that it had a shortage of property and casualty actuaries in Western Canada—a key technical and leadership position.

SGI communicates competency gaps to its employees on its Intranet. The information informs employees of future opportunities within SGI due to projected vacancies. For example, SGI's Intranet shows the years in which it expects large numbers of retirements from specific types of positions. SGI's Intranet also lists the competencies required for each position. Using this information, employees can select positions of interest to them and begin to develop themselves as future candidates.

Take action on strategies for succession to help bridge gaps

When taking action on strategies for succession, we expected SGI to:

- *invest in developing skills and maximizing career opportunities*
- *transfer knowledge for key positions*
- *remove barriers to recruitment of skilled people*
- *remove barriers to retention*

SGI budgets for employee development and training. Comprehensive orientation programs for both in-scope and out-of-scope employees are in place.[4] All new staff complete an on-line orientation using SGI's Advanced Learning Platform combined with classroom discussion. Also, SGI's strategic plan outlines balanced scorecard measures including the annual number of training days and cost of training per employee.

SGI supports its employees to take responsibility for their own career development. Its employee orientation program introduces career planning. SGI also has a career development program with workshops to help employees map out their careers. It provides special assignments to some staff to further develop or maximize their career potential. For example, SGI gives some staff experience in several areas.

SGI recognizes the importance of knowledge transfer. For some key positions, it creates "assistant" positions to allow transfer of critical knowledge. For all key positions, SGI offers on-the-job training

[4] SGI employees in a union are in-scope while those in management positions are out-of-scope.

opportunities. Also, it offers voluntary in-class training for some key positions and has increased the in-house insurance classes it offers employees.

SGI uses several strategies to remove barriers to recruiting skilled people. It's human resource project committees investigate and recommend improvements to external hiring practises. SGI, along with other employers in the insurance industry, is exploring the potential for a post-secondary training program. SGI used external consultants periodically to review whether its compensation package remains competitive.

SGI also uses internship programs to remove barriers to recruitment. For example, it used internships to identify potential candidates for key positions (e.g. property and casualty actuary, insurance lawyers, rural claims adjusters). The internships give recent graduates work experience related to their studies, and allow SGI to assess whether the new graduates will meet its needs. It also employs students as part of the co-operative work-education program.

Retaining its skilled people is essential for SGI. It has many programs to help retain skilled employees. To promote a positive work environment, SGI has a mentorship program and conducts employee engagement surveys annually. Flex-time is available to staff upon request to promote a work-home-community balance. SGI also offers service recognition plans and a company pension plan to its employees.

SGI retains its skilled people by supporting their development with performance reviews, coaching, and focused development. To further this process for leadership positions, SGI plans to use its manager-leader competencies in its performance evaluation. Also it has a process to identify potential successors for its key positions. SGI assigns these staff to confidential "talent pools" and updates the assignments annually so that it knows the staff it needs to retain for key positions.

Monitor and evaluate progress

When monitoring and evaluating progress, we expected SGI to:

- *report progress on addressing gaps*
- *modify plans to address gaps*
- *evaluate the impact of its succession planning progress on its human resource plan*

SGI uses its Talent Management Framework to help it monitor and report progress. Managers receive regular updates on SGI's actions related to the Framework.

SGI monitors its progress on addressing gaps in its workforce. It monitors monthly the number of youths and Aboriginal people it employs. It also monitors whether youths (under age 30) and Aboriginal people are in non-permanent or permanent positions and whether they get promoted to higher pay or more advanced positions.

SGI's Board last reviewed the succession plan in 2003. Management told us that this year it plans to report to the Board on SGI's progress relating to potential competency gaps in key management positions.

SGI modifies its plans to address gaps as its workforce changes. When it recognizes potential competency gaps, it addresses them, and then considers if it needs to continue its strategy. For example, SGI recognizes that some internship programs such as its property and casualty actuary program served their purpose and may not need to be continued.

SGI has not yet evaluated the impact of overall progress with the succession plan on its long-term human resource planning. Management told us SGI plans to identify and analyze competency gaps for all its key positions for its long-term human resource planning.

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