



# Centriq Life

---

## REPORT OF THE HEAD OF ACTUARIAL FUNCTION

on

The effect of the proposed transfer  
of long-term insurance business

from

Hollard Specialist Life Ltd

to

Centriq Life Insurance Company Ltd

---

05 December 2018

## Table of Contents

<b>1</b>	<b>Introduction</b>	<b>3</b>
<b>2</b>	<b>Overview of the Transfer</b>	<b>5</b>
<b>3</b>	<b>Policyholder security</b>	<b>7</b>
<b>4</b>	<b>Policyholder Reasonable Expectations and Principles of Financial Management Post-transfer</b>	<b>9</b>
<b>5</b>	<b>Alternatives to the proposed Scheme of Transfer</b>	<b>11</b>
<b>6</b>	<b>Conclusions</b>	<b>12</b>
	<b>Appendix A: Data sources</b>	<b>13</b>

# 1 Introduction

---

## 1.1 Background

Hollard Specialist Life Limited (previously known as Regent Life Insurance Limited, and hereinafter referred to as “Hollard Specialist Life”) is a public company as defined in the Companies Act and a registered Life insurance Company under the Insurance Act (of 2017). It is a provider of cell captive solutions to niche providers of insurance solutions.

As a condition to the acquisition of Hollard Specialist Life by the Hollard Group, a specified segment of the Life insurance business underwritten by Hollard Specialist Life needs to be transferred to another Life insurer. This had been identified as Centriq Life Insurance Company Limited (hereinafter referred to as “Centriq Life”).

## 1.2 Purpose of this report

The purpose of this report is to outline the effect of the proposed transfer, in terms of Section 50 of the Insurance Act of 2017 (“the Act”) of the long-term insurance business of Hollard Specialist Life to Centriq Life.

This report documents my review of the proposed transfer, considering the likely effect on the policyholders of Centriq Life to which Life insurance policies will be transferred.

It also serves to record my opinion on whether any policyholder of Centriq Life is likely to be prejudiced by the proposed transfer. This is done by considering whether the transaction is actuarially sound for policyholders transferring.

- For policies transferring, whether the security of those policyholders underwritten by Centriq Life (the Transferree Company) will be adequately safeguarded. This is done by considering the appropriateness of the liability calculation and the value of the transfer to be made, as well as any potential capital requirement implications, for Centriq Life, before and after the proposed transfer; and
- whether the reasonable benefit expectations of all policyholders are not adversely affected.

## 1.3 Intended audience

This report is addressed to the Prudential Authority of South Africa. It is also understood that it will form part of the proposed Scheme of Transfer and may be considered by the Court, the affected policyholders and the Board of Directors and management of Centriq Life.

## 1.4 Qualifications

This report has been prepared by the HAF of Centriq Life (Alexander Roux). I am a Fellow of the Actuarial Society of South Africa with a Practising Certificate that qualifies me to undertake assignments within the Life insurance industry such as this.

## 1.5 Disclosure and Clarification

It is important to state and clarify the role and responsibilities of the HAF for this particular transfer, considering any potential perceived conflicts of interest that may apply. The HAF for the Transferring Company, Hollard Specialist Life, also serves as the HAF for the Transferree Company, Centriq Life.

The business being transferred is a specified section of the policies underwritten within the ring-fenced cell captive which is owned by Motus Corporation Proprietary Limited (the Motus Cell and the Imperial Cell) through a preference share arrangement with the transferring company. Not all the business within this cell is being transferred.

A new cell is being constituted within the transferee company (Centriq Life) specifically for the purposes of this transfer, which will be owned by the same Motus Corporation through a preference share arrangement with the transferee company.

Therefore the ultimate commercial owner of the business being transferred will remain the same, before and after the transfer. While it is important to ensure the safeguard of policyholders' interest subsequent to any such transfer, for all policyholders considered (those transferring, as well as those not transferring, as well as those within the transferee company), due to the ringfenced nature of the cell captive structures, as well as the fact that no benefits of either insurer is of a discretionary nature, none of these safeguards to any of the subsets of the policyholders, are achieved at the expense or detriment of the other.

In addition to the above I declare that I do not own any policies issued by either the transferor or the transferee. In terms of related parties I do however own a Professional Indemnity policy intermediated by the Professional Provident Society, which is underwritten by The Hollard Insurance Company Limited.

## 1.6 Legislation and Guidance

In preparing this report I have been guided by the following:

- the terms of reference outlined in the Insurance Act (of 2017), and specifically Section 50, as issued in the Republic of South Africa;
- the Prudential Standards ("GOI 6") issued by the Prudential Authority of the South African Reserve Bank, which provides a framework for the governance and operational standards for Insurers. Specifically GOI6 covers the Transfers of Business by insurers;
- the Actuarial Practice Note 108 ("APN108") on the Transfer of Long-term Business of a registered insurer; and,
- the Actuarial Practice Note 106 ("APN106"), which provides general guidance to the Head of Actuarial Function for South African Insurers.

## 2 Overview of the Transfer

---

### 2.1 Motivation for the transfer

As a condition to the acquisition of Hollard Specialist Life Limited by the Hollard Group, The Competition Commission stipulated that a specified segment of the Life insurance business underwritten by Hollard Specialist Life needs to be transferred to another Life insurer. Since this transfer is a condition by the Competition Commission the motivation for this decision is not within the scope of this report. The transferee company had been identified as Centriq Life Insurance Limited (hereinafter referred to as Centriq Life).

### 2.2 Business affected by the transfer

The section of the Life insurance business to be transferred had been identified as all Credit Life policies issued through the Cell arrangements owned by the Motus Corporation Proprietary Limited (the “Motus Cell” also known as the “M-Sure Cell”, as well as the “Imperial Cell”), with an inception date on or after 1 July 2017. As at 30 June 2018, the number of policies contemplated for the transfer is 6,424. These are specifically Credit Life policies written in support of the credit arrangements for financed motor vehicles. These policies have defined stated benefits payable in the event of defined risk events. There is no discretion in the size or timing of the benefits payable by the insurer.

As will be shown in Section 3 below, the new cell within Centriq Life that will be owned by the Motus Corporation is expected to remain viable and a self-sustaining business venture, given the volume transferring as well as the future growth expected in this cell. More generally, the Transferee company will remain a sufficiently solvent going concern as a whole, in order to support the benefits and security of its entire portfolio subsequent to the transfer.

### 2.3 Mechanics of the transfer

#### 2.3.1 Effective Dates

The effective date of the transfer will be 30 June 2018. The actual transfer will take place on 30 April 2019. Hollard Specialist Life will therefore remain responsible for the policies from the effective date until (and including) 29 April 2019.

#### 2.3.2 Administration

The policies affected by the transfer are currently administered on 2 separate systems, namely “Warrantee World” and “TIA”. Warranty World is owned by Motus while TIA is owned by the Hollard group.

The policies on Warrantee World will remain on this system, while the policies administered on TIA, which are being transferred (i.e. the policies written since 1 July 2017), will be migrated to a new (third) system that is owned by Motus. The migration of the business being transferred to the new system will be performed from April 2019 and be completed by the end of June 2019.

Therefore while the actual transfer of the business will be done on 30 April 2019 resulting in the change in liabilities, assets and capital requirement changes as of that day, the operational transfer will not happen on the same day and will be complete by the end of June 2019.

### 2.3.3 Branding

The branding (white labelling) of policies will remain the same after the transfer. However, as required by legislation, the communication to policyholders will make it clear that there is a change in underwriter of the policies transferring.

## 2.4 Tax and transfer costs

### 2.4.1 Tax

There will be no loss of value to policyholders resulting from the transfer or as a result of associated expenses, undervaluation of assets and/or the fairness of the split of assets between policyholders' funds and shareholders' funds. In particular, since the liabilities calculated and contemplated in this transfer are negative, there will be no physical disinvestment of assets from the market due to the change in insurers, therefore there will be no additional capital gains tax. The assets to be transferred will be zero.

However, from a shareholder perspective, there will be tax implications for the transferor as well as the transferee companies due to this transfer. In particular the deferred tax liability generated from the future profits expected to be earned from the business being transferred will increase for the transferee company, and will reduce for the transferor, since the business being transferred is expected to be profitable. This liability is incurred by the shareholders of the respective companies. None of this however affects the solvency of either company in a material way and therefore does not affect the safeguarding of the benefits of any policyholders affected by the transfer.

### 2.4.2 Transfer Costs

Based on the transfer agreement between the parties, all costs incurred in support of the intended transfer will be shared as stipulated in that agreement and are therefore not repeated here. However, no fees will be charged to the policyholders as a consequence of the transfer.

## 3 Policyholder security

### 3.1 Financial strength of the Transferring Company Pre- and Post-transfer

As required by the Actuarial Practice Note 106 (APN106) as issued by the Actuarial Society of South Africa, I have considered the impact of the proposed transfer on Centriq Life, on the Prudential Supervision Reporting basis as well as the impact on the Published basis.

This report specifically considers the financial results of the Transferee Company (Centriq Life) Pre- and Post- the transfer. The protection of the policies not transferring is considered in a separate report for submission to the Prudential Authority.

The results of the assessment of Centriq Life as at 30 June 2018 are shown in the tables below.

Centriq Life Impact	PSR Basis		Published Basis	
	Pre Transfer	Post Transfer	Pre Transfer	Post Transfer
Technical Provisions	-47,472	-74,347	74,279	74,279
Other Liabilities	70,433	78,229	409,609	409,609
Total Assets	288,948	288,948	507,735	507,735
<b>Basic Own Funds</b>	<b>265,986</b>	<b>285,066</b>	<b>23,847</b>	<b>23,847</b>
Own Funds available to Cover SCR	85,206	97,460		
SCR	63,875	76,317		
MCR	20,940	22,454		
SCR Cover	1.33 X	1.28 X		
MCR Cover	4.07 X	4.34 X		

Cell Specific Impact	Post-Transfer
New cell for transferred business	Motus
Assets	0
TPs	-26,876
Other Liabilities	7,525
<b>Total Liabilities (TPs &amp; Other)</b>	<b>-19,351</b>
Risk Margin	964
<b>Own Funds</b>	<b>19,351</b>
Capital Requirements	11,561
<b>SCR Ratio</b>	<b>1.67 X</b>

#### 3.1.1 Solvency of the Transferee Company – Centriq Life

As can be seen from the above table, the SCR and MCR cover of Centriq Life (the Transferee company) post-transfer is financially sound at a ratio of 1.28 and 4.34 respectively. Based on the above, I am satisfied that the solvency of Centriq Life on the Prudential Supervision Reporting basis post-transfer will not adversely affect the financial security of the policyholders transferring into this licence nor those that had been policyholders prior to the proposed transfer.

#### 3.1.2 Capital Requirements in the Transferee Company

The specific cell that will be created for the Motus Corporation will generate a substantial negative liability due to the positive cashflows generated from the policies in force. The Solvency Capital Requirements will be solely driven by the future profits reflected in the negative liabilities. This is less than the own funds generated from the

future profits resulting in a solvent cell as a result of the proposed transfer. Therefore no capital will need to be raised by Motus Corporation in support of the constitution of the cell at the Transferee company.

### 3.1.3 Liquidity of the Transferring and Transferee Companies

The models developed to value the liabilities of the policies being transferred had been successfully independently replicated within 1% of the results produced by management. These models also show a generally strong positive cashflow for all transferring policies combined under a reasonable range of scenarios. Therefore the liabilities calculated are negative. Given the positive cashflow expected, under a reasonable range of scenarios, it will not be deemed necessary for the transfer consideration to include assets other than the negative liabilities generated from the transferring policies. This will therefore be a “cashless” transfer of liabilities.

It is also my opinion that any stretched scenario of experience that may result in negative cashflows at any point in time within the business being transferred can be adequately compensated for by the Transferee company subsequent to the transfer. There is therefore no concern over the liquidity requirements, either within the new cell being constituted, nor for the remaining policyholders in the transferring company.

### 3.1.4 Asset management

The management of the assets backing the transferring policies will change subsequent to the transfer, and will be performed by the asset management function of the Transferee company. However the principle being followed is to retain sufficient liquidity of the retained profits for either dividend payments or other liquidity management needs within the cell. This is consistent with the manner in which assets had been managed thus far in the Transferring company.



## 4 Policyholder Reasonable Expectations and Principles of Financial Management Post-transfer

---

### 4.1 Transferring Policyholders

Actuarial Guidance requires the HAF to specifically consider the following items with respect to the transferring policyholders:

#### 4.1.1 Terms and Conditions

The management of Hollard Specialise Life has confirmed that no terms and conditions will change as a result of the transfer. The policies will be transferred on the same terms as the original policies.

#### 4.1.2 Policy Servicing and Maintenance

As discussed, in Section 2.3.2 of this report, the policies affected by the transfer are currently administered on two separate systems, namely “Warrantee World” and “TIA”. Warranty World is owned by Motus Corporation while TIA is owned by the Hollard group. Those policies currently administered by TIA will be transferred to a new system owned by Motus Corporation. Although the administration services will therefore be changed for some of the policies, the manner of policy servicing and maintenance will remain the same after the transfer

#### 4.1.3 Correspondence

The communication responsibilities towards policyholders had historically been outsourced by the insurer to Motus Corporation, the Cell owner. Similarly Motus will retain this responsibility via a new outsource agreement with the transferee company (Centriq Life). Therefore the manner of correspondence with policyholders will remain the same after the transfer.

#### 4.1.4 Premiums and Benefits

Since the policies will transfer on their same terms and conditions, there will be no change to benefits provided or fees charged.

#### 4.1.5 Investment policy and Asset-Liability matching

To the extent that cash will be retained within the cell in the transferee company, Centriq Life, these funds will be invested in a pool of liquid money market instruments managed by Centriq Life. Since the policies overall generate negative liabilities, the cash held in the cell will be generated from the expected positive cashflows in the business and will be retained to the extent necessary for liquidity purposes. Therefore the investment requirements will remain to be liquid assets.

#### 4.1.6 Minimum Solvency Requirements

As demonstrated in Section 3, the post-transfer solvency position of Centriq Life, on the Prudential Supervision Reporting basis, is strong both pre- and post- the intended scheme of transfer. The Solvency position of Hollard Specilaist Life pre- and post- the intended transfer is also strong. This is however reflected in a separate report. Therefore, the proposed transfer will not have an adverse impact on the security of the transferring policyholders.

### 4.2 Communication plan

A comprehensive communications plan has been developed that will ensure that policyholders are provided with the necessary information relating to the transfer of their policies to Centriq Life as well as those not transferring. Additionally, since the entity responsible for the administration of the policies, Motus Corporation does not change, policyholders will continue to contact the same people for information on their policies

The Communication plan document is prepared by Webber Wentzel Attorneys which formulates the communication plan for both transferring and remaining policyholders and the responsibilities of the Transferring and Transferee companies respectively. It is therefore not repeated here, except to highlight that the plan is deemed comprehensive and sufficient by the HAF for the purposes of this particular transfer.

It is also understood that the Heads of the Internal Audit Control Function of both the transferring and transferee companies will review and report on the implementation of the proposed Communication Plan. An external auditor will not be appointed to review and report on the implementation as it is the view of management that the respective firms possess the necessary skills and expertise to perform this task.

It is also understood that the Prudential Authority will be furnished with reports from the respective Heads of the Internal Audit Control Functions upon completion of the proposed Communication Plan for its review and consideration.

## 5 Alternatives to the proposed Scheme of Transfer

---

Given that the transfer of the specified business has been instructed by the Competition Commission as a condition to the original acquisition of the Regent Life business (Hollard Specialist Life) by The Hollard Group, there is no alternative to the transfer being performed other than the closure of the future new business from the sources that generate the business that is required to be transferred. Therefore no alternative is being contemplated in this report.

## 6 Conclusions

---

I am satisfied that the information provided in the process of completing this report was relevant, reliable, complete and of sufficient detail in order to make the assessment and draw the conclusions required for this report.

Based on the investigations performed as detailed in this report, it is my opinion as the Head of the Actuarial Function of both Hollard Specialist Life (the Transferring company) and that of Centriq Life (the Transferee company) that:

- the proposed transaction is actuarially sound;
- the security of policyholders transferring to Centriq Life as well as the existing policyholders of Centriq Life is adequately safeguarded; and,
- the reasonable benefit expectations of policyholders are not adversely affected.

I would like to express our gratitude to the staff and management of both Hollard Specialist Life (the Transferring company) and that of Centriq Life (The Transferee company) for their assistance and support during the preparation of this report.



---

Alexander Roux  
FASSA  
Head of Actuarial Function  
Centriq Life Insurance Limited

05 December 2018

## Appendix A: Data sources

---

In addition to the model results and detailed policy data and analyses, the following data sources were used:

- Hollard Centriq VAPS Transfer WW Tracker 28 11 2018
- Transfer Agreement Life 31 October 2018 V2
- IF024 Approve Transfer of Assets and Liabilities
- 20181122 Communication Plan - NP v8\_1 with centriq comment Life