



# **Hollard Specialist Life**

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## **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 Ltd**

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**04 December 2018**

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# 1 Introduction

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## 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 Limited 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 has been identified as Centriq Life Insurance 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 Insurance Limited (Hollard Life) to Centriq Life Limited (Centriq Life).

This report documents my review of the proposed transfer, considering the likely effect on the policyholders of Hollard Specialist Life Limited (Hollard) from which Life insurance policies will be transferred.

It also serves to record my opinion on whether any policyholder of Hollard, transferring or otherwise, is likely to be prejudiced by the proposed transfer. This is done by considering whether the transaction is actuarially sound for both policyholders transferring as well as those not transferring.

- For policies transferring, whether the security of those policyholders underwritten by Centriq Life (the Transferee 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;
- For policies not transferring, by considering the impact of the proposed transfer on the financial soundness of Hollard Specialist Life (the Transferring company) and hence the adequate safeguard of the benefits of policyholders not transferring to Centriq Life (the Transferee company). This is done by considering the appropriateness of the liability calculations and the capital requirements as a result of the transfer to be made; 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 Hollard Specialist Life.

## 1.4 Qualifications

This report has been prepared by the HAF of Hollard Specialist 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 Transferee 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

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### 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 has 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.

The number of policies not transferring and which will remain with the Transferor company is 6,306 within the Motus cell and 7,019 within the Imperial Cell respectively. The policies within these two cells that are not transferring are also credit life policies but which originate from different distribution sources to those transferring.

As will be shown in Section 3 below, the cells owned by the Motus Corporation, remaining with Hollard Specialist Life, as well as the new cell with Centriq Life are expected to remain viable and self-sustaining business ventures.

The total number of policies within the transferring company that is not transferring is 274,974. These comprise credit life policies, funeral policies and savings policies, as well as group life policies. As will be shown in Section 3 below the transferring company will remain a sufficiently solvent going concern in order to support the benefits and security of the policies not transferring. More specifically the Motus Cell and the Imperial Cell owned by the Motus Corporation will remain solvent and active for business from alternative sources from that being transferred.

### 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”. Warrantee 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 Hollard Specialist Life, on the Prudential Supervision Reporting basis as well as the impact on the Published basis.

While this report specifically considers the financial results of the Transferring Company Pre- and Post- the transfer, the protection of the transferring policies is also considered. The financial impact pre-and post the transfer within the Transferee Company (Centriq Life) is however not specifically illustrated in this report.

A report equivalent to this one has been prepared for submission to the Prudential Authority. In this report the impact of the transfer into the company of the transferring policies is illustrated. As the HAF of both the Transferring and Transferee companies, it is hereby confirmed that the Transferee company will be sufficiently solvent and liquid subsequent to the transfer, to ensure that the rights and expectations of the policies transferring will be adequately protected.

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

Hollard Specialist Life Impact	PSR Basis		Published Basis	
	Pre Transfer	Post Transfer	Pre Transfer	Post Transfer
Technical Provisions	-180,446	-1 63,540	260,187	272,204
Other Liabilities	488,124	483,134	371,740	368,119
Total Assets	1,312,063	1,312,063	1,349,406	1,349,406
<b>Basic Own Funds</b>	<b>1,004,385</b>	<b>992,469</b>	<b>717,480</b>	<b>709,083</b>
Own Funds available to Cover SCR	904,202	896,196		
SCR	482,602	475,854		
MCR	120,650	118,964		
SCR Cover	1.87 X	1.88 X		
MCR Cover	7.49 X	7.53 X		

Cell Specific Impact Transferring cells	Pre-Transfer		Post-Transfer	
	Motus	Motus	Imperial	Imperial
Assets	17,521	17,521	27,927	27,927
TPs	-12,813	-6,999	-21,973	-10,880
Other Liabilities	10,922	9,173	15,759	12,518
<b>Total Liabilities (TPs &amp; Other)</b>	<b>-1,892</b>	<b>2,174</b>	<b>-6,214</b>	<b>1,637</b>
Risk Margin	902	560	1,547	874
<b>Own Funds</b>	<b>19,412</b>	<b>15,346</b>	<b>34,140</b>	<b>26,289</b>
Capital Requirements	8,524	5,708	13,256	8,066
<b>SCR Ratio</b>	<b>2.28 X</b>	<b>2.69 X</b>	<b>2.58 X</b>	<b>3.26 X</b>

#### 3.1.1 Solvency in the Transferring Company – Hollard Specialist Life

As can be seen from the above table, the SCR and MCR cover of Hollard Specialist Life (the transferring company) post-transfer is financially sound at an SCR ratio of 1.88 and 7.53 respectively. Based on the above, we are satisfied that the solvency of Hollard Specialist Life on the Prudential Supervision Reporting basis post-transfer will not adversely affect the financial security of the remaining policyholders in this licence.

The specific cells owned by the Motus Corporation affected by this transfer, “Motus Class A” and “Imperial” will, on an overall basis have less negative provisions, causing the total liabilities to become positive. However the Solvency Capital Requirements (mostly driven by the future profits reflected in the negative liabilities) will be reduced accordingly causing the SCR ratio to improve slightly in both cells. Therefore the individual cells will also remain solvent subsequent to the proposed transfer.

### 3.1.2 Liquidity of the Transferring and Transferee Companies

The models developed to value the liabilities of the policies being transferred have 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 concluded that the business remaining in the Transferring company will remain adequately liquid subsequent to the transfer.

It is also my opinion that any stressed 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.

### 3.1.3 Capital Requirements in the Transferee Company

Although not illustrated in this report (it is disclosed in the equivalent report to this one pertaining to the Transferee company), the capital requirements resulting from these negative liabilities will be less than the basic own funds generated from the negative liabilities. Therefore no capital will need to be raised by Motus Corporation in support of the constitution of the cell at the Transferee company.

### 3.1.4 Asset management

The asset management of the Transferring company will remain unchanged subsequent to the transfer. Therefore the impact on the policies not transferring will remain unchanged subsequent to the transfer.

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

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### 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”. Warrantee 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. 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 Hollard Specialist Life, on the Prudential Supervision Reporting basis, is strong both pre- and post- the intended scheme of transfer. The Solvency position of Centriq 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 Non-Transferring Policyholders

The number of policies not transferring and which will remain within the cells provided by Hollard Specialist Life are 6,306 within the Motus cell and 7,019 within the Imperial Cell respectively. The policies within these two cells that are not transferring are also credit life policies originating from different distribution sources to those transferring.

There are no changes made to the terms and conditions of these policies, nor the administration services or investment practices. In addition, as shown in Section 3 of this report, the business remaining in the two cells provided by Hollard Specialist Life will remain solvent subsequent to the transfer. Given the nature of the Credit Life business, as projected by the models produced to value these, the cashflows generated for this business is

expected to remain positive under a reasonable range of scenarios. I am therefore satisfied that the interests of policyholders remaining in the cells provided by Hollard Specialist Life will be adequately protected subsequent to the transfer.

## 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

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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

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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 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.



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Alexander Roux  
FASSA  
Head of Actuarial Function  
Hollard Specialist Life Insurance Limited

04 December 2018

## Appendix A: Data sources

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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