

PROPOSED TRANSFER OF SHORT-TERM INSURANCE BUSINESS BETWEEN HOLLARD SPECIALIST INSURANCE LIMITED (REGENT) AND CENTRIQ INSURANCE COMPANY LIMITED (CENTRIQ)

I, Annemarie Sinclair, am writing this report in my capacity as the Head of the Actuarial Function of Hollard Specialist Insurance Limited.

Purpose of the Report

On 24 April 2017 the Competition Tribunal conditionally approved the acquisition by Hollard Holdings Proprietary Limited of Regent Insurance Company Limited and Regent Life Assurance Company Limited. One of the conditions imposed by the Tribunal is that the interim VAPs insurance policies must be transferred to a new underwriter. In this regard, Centriq Insurance Company Limited has been identified as the new underwriter of the non-life business. Although the name of Regent Insurance has been changed to Hollard Specialist Insurance, for the purpose of this report reference shall be made to Regent Insurance.

Explanation of the business to be transferred

The Section 50 Transfer application deals with the Regent VAPS book of business written in the Imperial Group cells. The effective date of the transfer application is 30 June 2018.

The total net unearned premium provision/reserve (UPR) for Regent equalled R 371m as at July 2018 while the UPR for the VAPS books being transferred were R 126m, i.e. 34% of the total UPR. The UPR for the scratch and dent cover, deposit cover and Adcover business is calculated using a 365th method while the UPR for the underwritten motor warranties is based on an earnings curve derived from the historical emergence of claims over the contract period.

The intention is not to transfer any retrospective (claims) liabilities (i.e. outstanding claims reserves (OCR) and incurred but not reported (IBNR) provisions) but only the IFRS UPR. To ensure the transaction has zero impact, an equal amount of cash will be transferred to back the IFRS liability. However, there is a small impact on NAV (R2.8 m) on a Prudential Supervision Reporting (PSR) basis because of a difference between the UPR on a PSR and IFRS basis. The current claims liabilities for the VAPs business will run off on the Regent licence.

The impact of the transfer on the balance sheet and capital adequacy requirement

The table below illustrates the impact on Regent before and after the transaction. The net IFRS UPR to be transferred (after reinsurance is taken into account) equalled R 126m as at the end of June 2018. The intention is to transfer the UPR of R 126m with an equal amount of cash to back the liability. This means that there is no impact on the net asset value. However, as discussed before there is a small reduction in NAV of R 2.8m on a PSR basis because of a difference in UPR between IFRS and PSR.

Prudential Supervision	Regent Insurance Company Limited
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Basis		
	Before Transaction	After Transaction
Assets	1 897 209	1 767 257
Liability (Net UPR)	784 874	657 741
Net asset value	1 112 334	1 109 515
Own Funds Eligible to meet SCR	870 397	809 908
SCR	470 729	438 480
SCR Cover	1.85	1.85

The SCR coverage ratio remains at 1.85, therefore no impact on Regent's solvency position.

The appointment of an independent actuary

I do not believe that it is necessary to appoint an independent actuary for the following reasons:

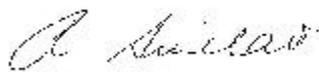
- The actuarial teams of both Regent and Centriq reviewed the earnings pattern used for the calculation of the Unearned Premium provisions and both teams are in agreement that the assumptions and methodology are actuarially sound.
- The UPR calculations as at 30 June 2018 have been audited by Deloitte's actuarial team as part of the annual audit and they were satisfied with the methodology and assumptions.

Policyholder expectations

The transaction will have no impact on policyholder expectations. There will be no changes to the terms and conditions of the policies and the business will continue to be underwritten by the same cell owners. The claims administration is currently performed by Motus via a binder agreement and this will continue in future.

Conclusion

Given the information at the time of the report, I can confirm that Regent is in a position to execute the said transaction and remain financially sound under the Prudential Supervision Reporting basis. I can further confirm that this transaction will have no impact on the current and future policyholders of the Imperial Group cells.



Annemarie Sinclair,
Head of The Actuarial Control Function of Hollard Specialist Insurance Limited

30 November 2018

Date