



Centriq Life

REPORT OF THE HEAD OF ACTUARIAL FUNCTION

on

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

from

Centriq Insurance Ltd

to

Centriq Life Insurance Company Ltd

03 June 2021

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1 Introduction

1.1 Background

Centriq Insurance (Centriq Insurance) Limited 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 result of the classification of the short-term insurance segments as specified under the Insurance Act of 2017 (“the Act”), a segment of the Life insurance business, Credit life insurance cover (which includes the risk of death due to natural causes, disability and retrenchment), needs to be transferred from Centriq Insurance (“the Transferor”) to Centriq Life Insurance Company (“Transferee”).

The Credit Life insurance business was historically, and will continue to be sold and administered by Umsuka Wemali Finance Proprietary Limited (Umsuka Wemali), a subsidiary of Fidelity Holdings 1 (Pty) Ltd.

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 Centriq Insurance 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 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; 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 affected policyholders, 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

The business being transferred is a specified section of the policies underwritten within the ring-fenced cell captive of Centriq Insurance Limited (a Short-term insurance provider that offers preference arrangements in the form of cell captives). Not all the business within this cell is being transferred, only the Credit Life Insurance business, which is classified as Life insurance in terms of the segmentation of classes of insurance in the Act, as sold and administered by Umsuka Wemali.

Umsuka Wemali is a subsidiary of Fidelity Holdings 1 (Pty) Ltd (Fidelity). Fidelity is a preference shareholder of a cell captive of the Transferor company, Centriq Insurance. As from the Effective date of this transfer, Fidelity will become a preference shareholder of a new cell captive within the Transferee company, Centriq Life.

Umsuka Wemali will remain the appointed intermediary and binder holder of both Centriq Insurance and Centriq Life and will therefore remain responsible for the day-to-day operations of the business being transferred.

It is important to ensure the safeguard of policyholders' interest subsequent to any transfer, for all policyholders considered. This applies to policyholders transferring, those not transferring, as well as those within the transferee company prior to proposed transfer. 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.

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 result of the new Insurance Act of 2017 (“the Act”) becoming effective in 2018, certain classes of insurance that were historically written on short term insurance licences have to be transferred to long term insurance licences. Since this transfer is a requirement given the definition of segmentation of classes in the Act, 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). The purpose of this report is to consider and present the views of the Head of Actuarial Control on the soundness of the proposed transfer of business to Centriq Life.

2.2 Business affected by the transfer

Umsuka Wemali currently intermediates various insurance policies on behalf of Centriq Insurance, including Credit Life insurance policies that cover the following insurance risks:

- Natural death cover;
- Accidental death cover
- Disability cover; and,
- Retrenchment cover.

This product was historically written as a combined Accident and Health product, with premiums separately charged for the compulsory credit life product and the accidental death benefit.

All the Credit Life policies will be transferred from Centriq Insurance to Centriq Life. Centriq Insurance will continue to underwrite the insurance contracts sold and administered by Umsuka Wemali that do not constitute Life insurance as defined in the Act.

As at 31 December 2020, the number of policies contemplated for the transfer is 2,538. These life insurance policies have defined stated benefits ranging from R1,500 to R20,000 payable in the event of death. 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 Fidelity cell within Centriq Life is expected to remain viable and a self-sustaining business, given the volume of business 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 date of approval of the transfer is expected to be during the financial period ending 31 December 2021. Centriq Insurance will therefore remain responsible for the policies from the effective date until (and including) this date. The reserve pertaining to the valid claim events that had occurred up to and including this date also forms part of the consideration being transferred from Centriq Insurance to Centriq Life. Centriq Life will therefore be liable for all valid claim events pertaining to the insurance policies being transferred that had originated prior to this date, as well as from this date onward.

2.3.2 Administration

All policyholders will continue to be serviced by Umsuka Wemali who will continue to act as the binder holder and intermediary of both Centriq Insurance and Centriq Life.

Umsuka Wemali will also continue to collect premiums on behalf of Centriq Life in respect of the life insurance contracts that will be transferred. There will however be a reduction in the amount collected from policyholders as VAT is not chargeable on the premiums payable for the life benefit.

The policies considered in this transfer will continue to be administered by the same system and the same owners of that system.

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. There will also be no additional capital gains tax emanating from the transfer of assets or liabilities.

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 impact of the transfer on the results of the Transferee company, Centriq Life (the Promoter Cell) as at the effective date of the transfer, 31 December 2020, is shown in the tables below.

Centriq Life Fidelity Cell specific Impact	Prudential Supervisory Reporting Basis	
	Pre-Transfer	Post-Transfer
Best Estimate Liabilities	400	2,900
Risk Margin	15	16
Other Liabilities	27	27
Total Assets	3,094	5,594
Basic Own Funds	2,667	2,667
Own Funds available to Cover SCR	2,667	2,667
Solvency Capital Requirement	1,000	1,000
SCR Cover Ratio	2.67 X	2.67 X

The impact of the transfer on the results of the assessment of Centriq Life (the Statutory Entity as a whole), as at the effective date of the transfer, 31 December 2020, are shown in the tables below.

Centriq Life Statutory Entity impact	Prudential Supervisory Reporting Basis	
	Pre-Transfer	Post-Transfer
Assets	374,433	376,934
Best Estimate Liabilities	(1,697,546)	(1,695,046)
Risk Margin	99,923	99,923
Other Liabilities	615,569	615,569
Total Liabilities (TPs & Other)	(982,054)	(979,554)
Own Funds	1,356,488	1,356,488
Own Funds Eligible to meet the SCR	550,848	550,848
Solvency Capital Requirement	540,682	540,682
Minimum Capital Requirement	185,885	185,885
SCR Cover Ratio	1.02 X	1.02 X
MCR Cover Ratio	2.96 X	2.96 X

The impact of the transfer on the results of the assessment of Centriq Life as reported on the Published Reporting basis, and therefore as it appears in the Annual Financial Statements, as at the effective date of the transfer, 31 December 2020, is shown in the table below:

Centriq Life Statutory Entity impact	Published Reporting Basis	
	Pre-Transfer	Post-Transfer
Total Assets	1,223,354	1,225,855
Technical Provisions	120,916	123,417
Reinsurance Contract Liability (All Life)	160,597	160,597
Cell Owners Interest	680,078	680,078
Other liabilities	228,677	228,677
Total Liabilities	1,190,269	1,192,769
Net Asset Value	33,085	33,086

3.1.1 Solvency of the Transferee Company – Centriq Life

As can be seen from the above tables, the SCR and MCR cover of Centriq Life statutory entity post-transfer is financially sound at a ratio of 1.02 and 2.96, respectively. For the Centriq Life statutory entity, all excess own funds over and above the amount required to cover the SCR for each cell is not taken into consideration. Therefore, the SCR ratio appear low as the excess own funds within each cell is not taken into consideration.

For the SCR coverage of the Fidelity cell remains unchanged at 2.67. This is because the minimum capital requirement for any individual cell is R1m, which remains the case after the transfer. The amount of assets to be transferred is 2.5m, which is equal to the total liabilities considered in the transfer. Therefore, the basic own fund as well as the capital requirement is unchanged after the transfer, resulting in an unchanged coverage ratio.

The business being transferred is modelled on a short term basis. There are no long-term prospective liabilities. It is expected, given the pricing basis used and past experience, that the future cashflows will be positive under all reasonable scenarios. The only actuarial liabilities considered therefore are the ‘Incurred-But-Not-Reported’ claims (IBNR claims), while the Outstanding Claims already reported as at the date of transfer also forms part of the transfer. The transferee company will become responsible for all claims intimated before and after the effective date of transfer.

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 of the transferee company prior to the proposed transfer.

3.1.2 Capital Requirements in the Transferee Company

The cell that the business will be transferred into is already owned by the same owner of the transferor cell, i.e., the Fidelity Holdings, which started writing the new credit Life business into the Life cell prior to the effective date of this transfer. Therefore, the business being transferred had already been a closed book of credit life policies.

The Solvency Capital Requirements in this cell is based on all the business underwritten, including the business being transferred, and will remain at R1m, which is the absolute minimum required to be held by an individual cell.

3.1.3 Liquidity of the Transferring and Transferee Companies

The historic profitability of the business being transferred has been consistently positive and expected to continue to be such, it will not be necessary for the transfer consideration to include any tangible assets other than the assets backing the liabilities. The future premiums will be sufficient to cover the claims and other outgo emanating from this business.

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 within the new cell being constituted.

3.1.4 Asset management

The management of the assets backing the transferring policies will not change subsequent to the transfer given that this will continue to be managed by the existing Centriq asset management function. The principle being followed is to retain sufficient liquidity from the profits retained for payment of liabilities as they materialise, and otherwise for dividend payments or any other liquidity management needs within the cell.

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 both the transferor and transferee has confirmed that no terms and conditions of the policies in question 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 serviced by Umsuka Wemali who will continue to act as the binder holder and intermediary of both Centriq Insurance and Centriq Life. Umsuka Wemali will also continue to collect premiums on behalf of Centriq Life in respect of the life insurance contracts that will be transferred. There will however be a reduction in the amount collected from policyholders as VAT is not chargeable on the premiums payable for the life benefit.

4.1.3 Correspondence

The communication responsibilities towards policyholders had historically been the responsibility of Umsuka Wemali as appointed intermediary and binder holder of both Centriq Insurance and Centriq Life. This arrangement will remain unchanged, and Umsuka Wemali will therefore retain this responsibility. Therefore, the manner of correspondence with policyholders will remain the same after the proposed transfer.

4.1.4 Premiums and Benefits

Since the policies will transfer on the 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 (i.e., the present value of future cashflows is expected to be positive), 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 before and after the intended scheme of transfer. The solvency position of both the transferor and transferee company before and after this intended transfer is also strong, which is reflected in a separate report. Therefore, the proposed transfer will not have an adverse impact on the security of those policyholders transferring and those not transferring.

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, Umsuka Wemali does not change, policyholders will continue to contact the same people for information on their policies.

As part of the review by the HAF in preparing this report, the communication plan was provided. The communication plan consists of the following:

1. The policyholders I question all have the same employer, which forms part of the same group of companies within Fidelity Holdings. Given the small number of policies affected as the effective date of the transfer, all policyholders will be contacted directly through Short Message Service ("SMS messaging"). As indicated in the Communication plan, all of the affected policyholders have indicated this to be their preferred method of communication;
2. The websites of the Parties and Umsuka Wemali will be used to display information about the Transfer as well as a complaints and information request email address which will respond to all queries;
3. The call centre of Umsuka Wemali, will be made available with effect from the first date of publication of the Formal Notice to answer queries of Affected Policyholders in accordance with a prescribed script that is detailed in the Communication Plan.

All enquiries and complaints submitted to the call centres will be submitted to the Head of the Internal Audit Control Function of Centriq Insurance in the case of the Centriq Insurance call centre and to the Head of the Internal Audit Control Function of Centriq Life. All calls will also be recorded. The telephone details of both Centriq Insurance and Centriq Life will be included should a policyholder wish to contact Centriq directly.

Each of these methods of communication is described in the Communication Plan.

For the reasons mentioned in the Communication Plan, Centriq Insurance does not intend publishing the Formal Notice in the Government Gazette.

Umsuka Wemali will implement the communication plan, and will be overseen by both Centriq Insurance and Centriq Life. The Umsuka Wemali call centre and contact details used by Umsuka Wemali will be for both the Centriq Insurance and Centriq Life policies of the future. However, policyholders will also be able to contact Centriq Insurance or Centriq Life at its head office telephone number.

5 Alternatives to the proposed Scheme of Transfer

This transfer of the specified business was compelled due to the fact the Act does not permit the Life insurance to be written on a Non-life (short term) insurance licence. This was permitted under the previous regulatory framework. Given the size of the Umsuka Wemali business to be transferred, it would not be commercially viable or practical for it to be written on to a new Life insurance licence. There is therefore no alternative to the transfer being performed other than the closure of the future new business from the sources that generate the business, which is required to be transferred. Therefore, no alternative is being contemplated in this report.

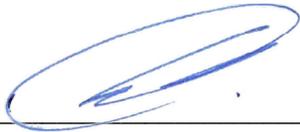
6 Conclusions

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 review performed as detailed in this report, it is my opinion as the Head of the Actuarial Function 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 Centriq Insurance (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

03 June 2021

Appendix A: Data sources

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

- Audited annual QRTs as at 31 Dec 2020 for Centriq Insurance and Centriq Life;
- Annual qualitative return template for both the Centriq Insurance and Centriq Life;
- Centriq Insurance and Centriq Life pro-forma QRT in respect of Statements OF1 and OF2 as presented in this report;
- Centriq Insurance and Centriq Life Audited Annual Financial Statements as at 31 December 2020, i.e., on the effective date and not on the closing date.