

Report of the Head of Actuarial Function

Section 50 transfer of insurance policies to Centriq Life from Centriq Insurance

3 June 2021

1. Purpose

The purpose of this document is to outline the effect and provide an opinion on the soundness of the proposed Section 50 transfer of certain policies intermediated by The Unlimited Group to Centriq Life Insurance Company Limited (“Centriq Life”) from Centriq Insurance Company Limited (“Centriq”). Soundness is defined as the ability to maintain, post-transaction, a financially sound condition on the Prudential Supervision Reporting basis, as determined in accordance with the Insurance Act. The effective date of the transfer application is 31 December 2019.

This report has been prepared with guidance from the following documents:

- Actuarial Practice Note 403: Head of Actuarial Function for South African Insurers;
- Actuarial Practice Note 401: Valuation and calculation of technical provisions using non-life insurance valuation principles;
- Prudential Standard GOI 6: Transfer of business and other significant transactions by insurers; and
- Insurance Act (of 2017) and specifically referring to Section 50.

This report replaces the previous Head of Actuarial Function report dated 19 March 2021.

2. Background

The Unlimited Group (TUG) is a direct marketer and intermediary of insurance products. Centriq is a licensed non-life cell captive insurer and underwrites the insurance benefits provided by TUG. The insurance business relating to certain of TUG’s products must be transferred to Centriq Life, a licensed life insurance company, as it cannot continue to be underwritten on a non-life licence post implementation of The Insurance Act of 2017. TUG is a binder holder and intermediary of Centriq Insurance and Centriq Life.

3. Business to be transferred

TUG intermediates various non-life insurance policies on behalf of Centriq Insurance such as:

- Natural death cover;
- Personal accident cover;
- Hospital cash benefit; and
- Legal expenses.

All natural death policies will be transferred from Centriq Insurance to Centriq Life. Should one of these transferring policies have an added personal accident and/or hospital benefit, this will also be transferred to Centriq Life. Centriq Insurance will continue to underwrite legal expenses and other non-life-type covers.

The effective date will be 31 December 2019 – being the financial year end of both Centriq Insurance and Centriq Life. There is currently a claims provision held by Centriq Insurance for claims incurred prior to the effective date and Centriq Insurance will transfer this provision to Centriq Life to cover any claims that are required to be settled after the effective date for premium earned prior to the transfer. Therefore, from a Prudential solvency calculation perspective, an asset equal to the value of the best estimate claim provision will transfer.

The business will be transferred from the Promoter cell of Centriq Insurance to the Promoter cell of Centriq Life. This transfer will involve two entities within the same group and owned by the same shareholder.

Approximately 88,000 policies are to be transferred, all of which are monthly renewable.

The impact on policyholders is expected to be as follows:

- All policyholders will continue to be serviced by TUG who will act as binder holder and intermediary of both Centriq Insurance and Centriq Life.
- TUG will continue to collect premiums on behalf of Centriq Insurance and Centriq Life for the non-life benefits and life benefits.
- Updated disclosures will be sent to all policyholders post the Transfer.
- There will be a reduction in the amount collected from policyholders as VAT is not chargeable on the premiums payable for the life benefit.

4. Financial Soundness

The table below summarises the solvency position of the Centriq Promoter as at 31 December 2019 both before and after the transfer.

	<u>Before Transfer</u>	<u>After Transfer</u>	<u>Change</u>
Assets	5,154,420	5,152,296	-2,125
Liabilities	4,829,310	4,827,185	-2,125
Basic Own Funds	325,110	325,110	0
Market Risk	200,187	200,119	-68
NLUR	93,334	90,277	-3,058
BSCR	241,098	239,229	-1,869
Op Risk	72,330	71,769	-561
LACDT	-87,760	-87,079	680
SCR	225,668	223,918	-1,750
Excess Own Funds	99,442	101,192	1,750

Own funds are not impacted by the transfer, however, the reduction in premium and reserve risk, market risk and operational risk following the transfer, leads to a favourable impact on the Promoter's solvency position.

The following table summarises the solvency position of the Centriq Licence as at 31 December 2019 both before and after the transfer.

	Before Transfer	After Transfer
Solvency Cover		
MCR	2.30	2.31
SCR	1.04	1.04
Summary of Solvency Position		
Total Assets	8,494,377	8,492,252
Total Liabilities	6,465,820	6,463,695
Basic Own Funds / Excess Assets	2,028,556	2,028,556
Own funds eligible to meet MCR	811,216	811,216
Own funds eligible to meet SCR	811,216	811,216
Summary of Liabilities		
BEL	5,768,581	5,766,456
Risk Margin	47,607	47,607
Other liabilities	649,632	649,632
Summary of Capital Requirements		
MCR	351,938	350,700
SCR	782,085	779,333

Centriq's Solvency Capital Requirement ("SCR") cover ratio and Minimum Capital Requirement ("MCR") cover ratio is expected to increase slightly following the transfer. The increased coverage is due to unchanged own funds but a slightly lower SCR resulting from lower premium and reserve risk, operational risk and market risk. The impact, however, is not significant or material.

5. Conclusion

Based on the analysis above I can conclude the following:

- The information provided as part of the process of completing this report was accurate, complete and appropriate in order to make the assessment and draw conclusions;
- Centriq will remain in a financially sound position following the transfer of business;
- given the immaterial nature of the transfer, no out-of-cycle ORSA is required;
- the transaction will have no impact on policyholder expectations; and
- the financial security of the current policyholders of Centriq will not be adversely affected by this transfer.



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Centriq Insurance Company Limited

Head of Actuarial Function

3 June 2021