Centriq Life

REPORT OF THE
HEAD OF ACTUARIAL FUNCTION

on
The effect of the proposed transfer of Long-Term Insurance Business from Centriq Life Insurance Ltd to OMART Ltd

18 November 2022

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1 Introduction

1.1 Background

All Life (Pty) Ltd (All Life) is an authorised financial service provider that distributes and administers Life Cover for people living with HIV or Diabetes. Centriq Life Insurance Company limited (hereinafter referred to as "Centriq Life"), has historically underwritten Life insurance policies distributed by All Life until December 2018. Subsequent to this, All Life commenced with a new preference share arrangement with Old Mutual Alternative Risk Transfer Limited (OMART). All Life now require for the business underwritten by Centriq Life to be transferred to OMART.

Centriq Life (also referred to as "the Transferor" in this report) and OMART (also referred to as "the T in this report) are public companies as defined in the Companies Act and are registered Life insurance Companies under the Insurance Act (of 2017). Both are providers of cell captive solutions to niche providers of insurance solutions.

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 life insurance business from Centriq Life.

This report documents my review of the proposed transfer, considering the likely effect on the policyholders of Centriq Life from 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 and policyholders remaining underwritten by Centriq Life.

While the security of those policyholders transferring from the Transferor being adequately safeguarded by the Transferee is primarily the responsibility of the Transferee company, the interest of transferring policies is also considered. None of the policies underwritten by Centriq Life contain any discretionary benefits policies, therefore besides the stated contractual obligations, the reasonable benefit expectations of policyholders, as generally understood to apply to discretionary benefit policies, is not applicable to this transfer.

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 Head of the Actuarial Control Function (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 which is owned by Centriq Life. All the life insurance business within this cell is being transferred, classified as Life insurance in terms of the segmentation of classes of insurance in the Act. However the preference share agreement between All Life and Centriq Life will remain in place for the time being, but with no insurance obligations remaining within the arrangement.

Subsequent to the intended transfer of the life insurance contracts to OMART, All Life will remain the appointed intermediary and binder holder. This is based on the existing binder agreement between OMART and All Life. All Life 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 Transferor subsequent to proposed transfer.

None of these safeguards to any of the subsets of the policyholders, will be at their expense or detriment. This is due to the following:

- as will be shown in Section 3 of this report, the Transferor will remain solvent subsequent to the transfer.
- the ringfenced nature of the cell captive structures of the Transferor, each of which will be unaffected by the transfer, which will therefore remain solvent subsequent to the transfer, and;
- the fact that no benefits of the Transferor is of a discretionary nature.

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, GOI 6 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

All Life has a preference share agreement with Centriq Life for its Life insurance business written up to December 2018. All Life previously entered into a similar agreement with OMART for new business written subsequently. It now wishes to consolidate these different tranches of business into OMART to improve the efficiency of its operations.

2.2 Business affected by the transfer

All Life currently intermediates and administers Life insurance polciies for people living with HIV or Diabetes. It pays a stated lumpsum benefit in the event of death on either a specified term basis or for whole of life.

All of the policies within the preference share agreement underwritten by the Transferor will be transferred to the Transferee, with the exception of circa 60 policies that are currently insured by Sanlam, and inwardly reinsured into the All Life cell. These 60 polciies will remain and may be considered for a transfer at a later stage.

The number of polciies contemplated for the transfer as at the effective date 31 December 2021, is 15,085 as reported in the valuation report for Centriq Life of the same date. The life insurance policies have defined stated benefits ranging from R20,000 to R10,000,000 payable in the event of death. There is no discretion in the size or timing of the benefits payable by the insurer.

All policies considered are reinsured on a risk premium quota share basis at 100%, and 0% of the risk is retained by Centriq Life. It is also confirmed through the equivalent reinsurance arrangement between Gen Re and OMART, that the polciies transferring will continue to be reinsured by Gen Re on the same basis subsequent to the transfer.

As will be shown in Section 3 below, Centriq Life, the Transferor, will remain a solvent going concern as a whole, in order to support the benefits and security of its remaining portfolio of life insurance business subsequent to the transfer.

The preference share arrangement between Centriq Life and All Life will remain in place for the foreseeable future, but with no life insurance business remaining subsequent to the transfer, except for the circa 60 policies currently inwardly reinsured from Sanlam mentioned above. It is intended for the redemption and closure of this cell will be completed at a later stage and that no further new life insurance business will be considered to be written in this agreement. For interest, the resulting impact on this ringfenced cell is also disclosed in Section 3.

2.3 Mechanics of the transfer

2.3.1 Dates of the Transfer

The date of approval of the transfer is expected to be during the financial period of Centriq Life, ending 31 December 2022. Centriq Life will therefore remain responsible for the policies from the Effective date (defined in the Transfer agreement as 31 December 2021. This is the date on which the impact of the transfer is determined and disclosed in this report until the approval and finalisation of the transfer. For reference this is also referred to as the Regulatory Reference date. The Fulfilment Date, as defined in the Transfer agreement, would be the date on which the last of the Suspensive Conditions are fulfilled or waived, as the case may be.

The impact of the transfer, as determined and disclosed in this report, also includes the reserves pertaining to the valid claim events that had occurred up to and including these dates also forms part of the consideration being transferred from Centriq Life to OMART. OMART will therefore be liable for all valid claim events pertaining to the insurance policies being transferred that had originated prior to this date, including those reported and not yet settled, as well as from this date onward.

2.3.2 Administration

All policyholders will continue to be serviced by All Life subsequent to the transfer, as per the binder agreement between All Life and OMART.

All Life will also continue to collect premiums on behalf of OMART in respect of the life insurance contracts that will be transferred. 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 Transferor 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 the Transferor (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 Transferor, Pre- and Post- the transfer. These results therefore considers the protection of the policies not transferring. The protection of the policies transferring is considered in a separate report by the HAF of the Transferee for submission to the Prudential Authority.

The impact of the transfer on the results of the Transferee company, Centriq Life's preference share agreement with All Life (i.e. the All Life Cell), as at the effective date of the transfer, 31 December 2021, is shown in the tables below.

Centriq Life - All Life Ringfenced Cell specific Impact	**Prudential Supervisory Reporting Basis**	
	Pre-Transfer	**Post-Transfer**
Best Estimate Liabilities	(253,280)	(133)
Risk Margin	28,907	540
Other Liabilities	43,673	7,420
Total Assets	(95,601)	13,689
Basic Own Funds	**85,098**	**5,863**
Own Funds available to Cover SCR	85,098	5,863
Solvency Capital Requirement	71,412	2,445
SCR Cover Ratio	**1.19 X**	**2.40 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 2021, are shown in the tables below.

Centriq Life Statutory Entity impact	**Prudential Supervisory Reporting Basis**	
	Pre-Transfer	**Post-Transfer**
Assets	**63,112**	**172,403**
Best Estimate Liabilities	(2,638,955)	(2,385,809)
Risk Margin	233,288	204,921
Other Liabilities	926,202	889,949
Total Liabilities (TPs & Other)	**(1,479,464)**	**(1,290,938)**
Own Funds	**1,542,577**	**1,463,341**
Own Funds Eligible to meet the SCR	**1,144,947**	**1,068,462**
Solvency Capital Requirement	1,134,816	1,057,972
Minimum Capital Requirement	298,124	292,693
SCR Cover Ratio	**1.01 X**	**1.01 X**
MCR Cover Ratio	**3.84 X**	**3.65 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 2021, is shown in the table below:

Centriq Life Statutory Entity impact	Published Reporting Basis	
	Pre-Transfer	Post-Transfer
Total Assets	**1,269,245**	**1,174,080**
Technical Provisions	174,754	174,754
Reinsurance Contract Liability	89,484	0
Cell Owners Interest	656,515	656,515
Other liabilities	309,003	309,003
Total Liabilities	**1,229,756**	**1,140,272**
Net Asset Value	**39,489**	**33,808**

3.1.1 Solvency of the Transferor 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 1.01 and 3.65, respectively. For cell captive provider insurers, 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 this reason, the solvency ratio of the cell needs to be considered, which is the ringfenced cell from which the transfer in question is made. The solvency ratio of the All Life increases from 1.43 to 1.60. This change is due to the change in the solvency capital requirement calculation.

Since the business being transferred is long term, the actuarial liabilities are long-term in nature and considers all future cashflows emanating from these policies. These cashflows are expected to be profitable considering all future time periods, which results in a Best Estimate Liability (the "BEL") that is negative. The future profits implied in this calculation serves as a source of Own funds to cover the solvency capital requirements of the business (the "SCR"). The capital requirements for its part, is determined with consideration of a range of risks, including the lapse risk and interest risks implied by the negative BEL. Subsequent to the of the business, the BEL becomes zero, while the SCR reduces substantially and remains only affected by the market risk and operational risks remaining within the cell. Accordingly, the Risk Margin, which is driven by the current and future expected SCR of the cell also reduces.

The only other actuarial liabilities in the cell are the 'Incurred-But-Not-Reported' claims (IBNR claims), while the Outstanding Claims Reported (OCR) already reported as at the date of transfer is also being transferred. The Transferee company will become responsible for all claims intimated before and after the date of transfer. Therefore the transfer includes consideration of the IBNR and OCR as defined, of all policies transferring.

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 remaining within Centriq Life.

As part of the preparation of this report, discussions also took place with the HAF of the Transferee company, to ensure that there is an agreement of the principles and consistency of the respective calculation results due to this transfer

3.1.2 Liquidity of the Transferor and Transferee Companies

The historic profitability of the business being transferred have consistently shown strong positive cashflows. This is inclusive of the total liabilities, after inclusion of the IBNR and OCR. The positive cashflow is expected under a reasonable range of scenarios at all time periods for the immediate future.

Considering the business to be transferred as a book exclusive of further new business, at future time periods further into the future, some of the positive cashflows preceding negative cashflows, may need to form part of the backing of positive liabilities in the future. This however is consistent with the normal course of events of long term actuarial liabilities of this nature. The timing of expected cashflows is such that no additional cash will be required to meet liabilities as they fall due, other than what will emanate from the business itself.

It is therefore the view of the HAF that it will not be necessary for the transfer consideration to include any tangible assets such as cash. It is also the opinion of the HAF that any reasonable 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 that the transfer may result in.

3.1.3 Asset management

The management of the assets backing the transferring policies and the associated asset liability modelling will be performed by the Transferee company subsequent to the transfer. Given that the Transferee is familiar with the business being transferred, with its existing arrangement with All Life, there is no reason to believe that this will not continue to be managed appropriately.

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 the binder holder All Life will continue to act as the binder holder and intermediary of the business being transferred. All Life will also continue to collect premiums on behalf of the Transferee in respect of the life insurance contracts that will be transferred.

4.1.3 Correspondence

The communication responsibilities towards policyholders had historically been the responsibility of All Life the as appointed intermediary and binder holder of the business being transferred for Centriq Life. This arrangement will remain unchanged, and All Life 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

Regarding the Transferor, some of the assets and liabilities, that do not relate to the contractual commitments with the polciies being transferred, will remain with the Transferor subsequent to the transfer. These funds will continue to be invested in a pool of liquid money market instruments managed by Centriq Life.

Notwithstanding Section 3.1.3 on asset management above, as regards the Transferor and the business being transferred, since the policies overall generate negative liabilities (i.e., the present value of future cashflows is positive), the cashflow generated within the Transferor's cell is expected to be positive under a reasonable range of scenarios and, as managed by the Transferor, is expected to be retained to the extent necessary for liquidity purposes.

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. As confirmed with the management of the Transferee, the solvency position of the Transferee 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 the policyholders of the Transferor.

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 from Centriq Life. Additionally, since the entity responsible for the administration of the policies will 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 Communication Plan will be published in a Formal Notice in the Government Gazette and national newspapers. This will address queries of Affected Policyholders in accordance with a prescribed script that is detailed in the Communication Plan;

2. Details about the Transaction will be published on Centriq Life's, OMART's and All Life's websites;

3. The call centre of AllLife acting on behalf of Centriq Life and OMART, will be made available with effect from the date of publication of the Formal Notice;

4. The websites of the Transferee and Transferor, and All Life 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.

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

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

5 Alternatives to the proposed Scheme of Transfer

This transfer of the specified business is performed in support of a streamlined and more efficient administration of the business by All Life. An alternative to the proposed transfer would be the status quo, by maintaining two Life insurers for two separate tranches of the business administered by All Life. However, the management of Centriq Life is in agreement that this is not the most cost effective approach and is therefore supportive of the proposed transfer.

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 Transferor) that:

- the proposed transaction is actuarially sound;
- the security of policyholders transferring to from Centriq Life as well as all existing policyholders of Centriq Life not contemplated in this transfer 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 Centriq Life for their assistance and support during the preparation of this report.

Alexander Roux
FASSA
Head of Actuarial Function
Centriq Life Insurance Limited

18 November 2022

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 2021 for Centriq Life;
- Centriq Life pro-forma QRT in respect of Statements OF1 and OF2 as presented in this report. Including the pro-forma financial results of the ring fenced preference share arrangement between Centriq Life and All Life, as presented in this report;
- Centriq Life Audited Annual Financial Statements as at 31 December 2021, i.e., on the effective date; and,
- The Communication plan
- Tax opinion on the potential impact of the transfer to Centriq Life, by Webber Wentzel.