

Report of the Head of Actuarial Function

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

25 May 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 short-term insurance policies underwritten by Shoprite Insurance Company Limited ("Shoprite") to 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 30 June 2020.

This report has been prepared in line 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.

2. Background

Shoprite intends to close its insurance licence and will transfer all of its short-term insurance business to Centriq, in terms of section 50 of the Insurance Act, 18 of 2017. The effective date of the transfer is 30 June 2020.

Shoprite's licence as a registered insurer in terms of the Short-term Insurance Act, 53 of 1998 ("STI Act") was not converted into a licence for a licenced insurer on or before 1 July 2020, as required in terms of the Insurance Act. Resultantly, Shoprite was obliged to stop writing new policies from the 1st of July 2020, and to transfer the policies to insurers licenced in terms of the Insurance Act on or before 1 July 2021.

Shoprite Checkers Pty Ltd ("Shoprite Checkers") entered into cell captive arrangements with Centriq Insurance and Centriq Life respectively, and commenced writing policies similar to the Life Policies and the Non-Life Policies with cells within Centriq Life and Centriq Insurance respectively with effect from 1 July 2020.

The policies which form part of the business to be transferred are as follows:

- Death, Disability, Loss of Employment or Inability to Earn an Income policies, which constitutes credit life cover ("Life Policies"); and
- All Risk Insurance and Extension of Manufacturer's Warranty or Guarantee policies, providing risk cover ("Non-Life Policies")

All Life Policies will be transferred to Centriq Life and Non-Life Policies will be transferred to Centriq Insurance.

3. Business to be transferred

Extended Warranty and All Risk policies will be transferred from Shoprite to Centriq Insurance. The corresponding Prudential Authority lines of business are Miscellaneous Warranty and Property Personal Lines, respectively.

The effective date is 30 June 2020 – being the financial year end of Shoprite and half-year of Centriq Insurance and Centriq Life. No Party is required to submit audited financial statements reflecting the position after the implementation of the Transaction.

The claim and premium provisions in respect of the transferring business will be transferred to Centriq Insurance. For the purpose of the after transfer calculation with an effective date of 30 June 2020, it is assumed the value of the assets transferred equal the value of IFRS liabilities. It is expected that when the actual transfer occurs during 2021, the excess own funds in the cell currently on Centriq's licence will be sufficient to cover the additional capital requirement created by the transferred business. However, should there not be sufficient own funds in the cell, Shoprite Checkers will be required to inject additional capital to ensure the cell is fully capitalised as per the current preference share agreement.

Both Local and Foreign Business will be transferred. Foreign business includes both All Risk and Warranty policies written as inwards proportional reinsurance in the following territories: Swaziland, Botswana, Lesotho, Mozambique and Zambia.

A high level summary of the transferring business is shown below. The IFRS and SAM basis have been included for comparison.

<i>IFRS Basis</i>				<i>SAM Basis</i>			
R'000	Total	Local	Foreign	R'000	Total	Local	Foreign
Assets				Assets			
Assets - DAC	47,063	31,196	15,868	Assets - DAC	0	0	0
Assets - Cash	164,611	130,996	33,615	Assets - Cash	164,611	130,996	33,615
Total	211,675	162,192	49,483	Total	164,611	130,996	33,615
Equity and Liabilities				Own Funds and Liabilities			
Technical Provisions	211,675	162,192	49,483	Technical Provisions	94,499	68,495	26,004
Equity	0	0	0	Own Funds	70,112	62,502	7,611
Total	211,675	162,192	49,483	Total	164,611	130,996	33,615

In addition, a more detailed summary of the technical provisions on an IFRS and a SAM basis is shown below.

IFRS Basis

R'000	Total	Local	Foreign
Premium Provisions			
Property - Personal Lines	24,739	0	24,739
Miscellaneous - Personal Lines - Warra	175,087	155,979	19,109
Total	199,827	155,979	43,848
Claim Provisions			
Property - Personal Lines	3,889	2,435	1,454
Miscellaneous - Personal Lines - Warra	7,959	3,778	4,181
Total	11,848	6,213	5,635
Risk Margin			
Property - Personal Lines	0	0	0
Miscellaneous - Personal Lines - Warra	0	0	0
Total	0	0	0
Total Technical Provisions	211,675	162,192	49,483

SAM Basis

R'000	Total	Local	Foreign
Premium Provisions			
Property - Personal Lines	13,125	0	13,125
Miscellaneous - Personal Lines - Warra	66,162	59,568	6,595
Total	79,287	59,568	19,719
Claim Provisions			
Property - Personal Lines	3,745	2,345	1,400
Miscellaneous - Personal Lines - Warra	7,664	3,638	4,026
Total	11,409	5,983	5,426
Risk Margin			
Property - Personal Lines	322	321	0
Miscellaneous - Personal Lines - Warra	3,481	2,622	859
Total	3,802	2,944	859
Total Technical Provisions	94,499	68,495	26,004

Approximately 449,648 (79,602 All Risk and 370,046 Warranty) South African policies are to be transferred as at the effective date of 30 June 2020. The actual number of policies that will transfer as at the transfer date will differ to the policies as at the effective date. The All Risk policies are monthly renewable while the Warranty policies have variable durations.

Shoprite will be responsible (with the support of Centriq) for the implementation of the policyholder communication plan.

4. Financial Soundness

The table below summarises the solvency position of Centriq as at 30 June 2020 both before and after the transfer. Values are shown in R'000s.

	Before Transfer	After Transfer
Solvency Cover		
MCR	2.47	2.45
SCR	1.11	1.09
Summary of Solvency Position		
Total Assets	9,100,304	9,264,915
Total Liabilities	6,893,726	6,988,225
Basic Own Funds / Excess Assets	2,206,577	2,276,690
Own funds eligible to meet MCR	891,099	961,211
Own funds eligible to meet SCR	891,099	961,211
Summary of Liabilities		
BEL	6,188,919	6,279,616
Risk Margin	57,213	61,016
Other liabilities	647,594	647,594
Summary of Capital Requirements		
MCR	361,229	392,724
SCR	802,730	880,377

Centriq's Solvency Capital Requirement ("SCR") cover ratio reduces slightly post-transfer, however, Centriq remains well capitalised. The reduction is due to the Promoter having to fund the excess capital requirement not met by the cell, however, as noted in Section 3, Shoprite Checkers will transfer additional funds (if required) at the actual transfer date to ensure the cell remains capitalised.

The expected capital position of the cell at 30 June 2020 is shown below:

Total Assets	164,611
Total Liabilities	94,499
Own Funds Eligible to Meet SCR	70,112

BSCR	105,122
Operational Risk	2,721
LACDT	-30,196
SCR	77,647

Capital Requirement Covered by Cell	70,112
Capital Requirement Covered by Promoter	7,535

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 that the nature of the transfer and the impact on the financial soundness is not expected to be material , 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.



Anton van Rooijen

Centriq Insurance Company Limited

Head of Actuarial Function

25 May 2021