Bill Haslam Consulting Actuary

P.O. Box 411153
Craighall 2024
Telephone: 011 646 6246
Mobile: 083 290 0395

NOTE
Signatures blacked out for security purposes.

The Standard General Insurance Company Limited ("Stangen")

Report by the Statutory Actuary on the Proposed Section 37 Transfer of Policies

[redacted]

[redacted]

18 October 2016

1. Introduction

1.1. In July 2016 The Standard General Insurance Company Limited ("Stangen") entered into a Settlement Agreement, Reinsurance Agreement and revised Intermediary Agreement (collectively called the "settlement agreements") with Guardrisk Life Limited ("Guardrisk"), Residual Debt Services Limited ("Residual Bank"), Thomas Winterboer in his capacity as the curator of Residual Bank ("Curator") and African Bank Limited ("African Bank").

1.2. All parties to this agreement ("the parties") had been involved in litigation which was settled in terms of the settlement agreements. The settlement agreements were effective 1 April 2016.

1.3. Importantly, Stangen fully and irrevocably reinsured all its credit life insurance risks in respect of its Group Policies and Master Policies (as defined in the settlement agreements) and paid a net settlement amount to Guardrisk in terms of the Reinsurance Agreement.

1.4. The parties now wish to transfer all the rights and obligations of Stangen as primary insurer in terms of the Group Policies and the Master Policies to Guardrisk so that Guardrisk becomes the primary insurer in the place of Stangen and ceases to be the Reinsurer in respect of the Group Policies and the Master Policies, and the parties have signed a Transfer Agreement to give effect to this.

1.5. The effective date of the proposed transfer is 30 June 2016 ("the effective date"). The expected "closing date" of the transaction is in March 2017, subject to the Registrar's approval.

1.6. The transfer is to be subject to the provisions of Section 37 of the Long-term Insurance Act ("the Act"). In terms of this section a report is required, inter alia, by the Statutory Actuary of Stangen into the effects that the transaction, as contemplated, would have on the remaining policyholders in Stangen.

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2. Matters to be Considered in the Statutory Actuary's Report

2.1. Whilst the matters to be considered in such report are not prescribed, I believe that the following matters should be addressed:

2.1.1. The impact that the transfer will have on the solvency of Stangen.

2.1.2. The impact that the transfer will have on any bonus obligations to the remaining policyholders.

2.1.3. The impact on Stangen of not proceeding with the proposed transfer.

2.1.4. Whether alternative schemes had been considered and the impact of such alternative schemes.

2.2. In terms of Part V of the Act, the Registrar may also appoint an independent actuary to review the Transaction. The parties to the agreement have requested that the Registrar waive the need for an independent actuary's review, which request has been granted. As a consequence of this decision, I have further elected to address whether the contemplated transaction could affect the rights of those affected parties of the policies being transferred (referred to hereinafter as the "affected parties").

2.3. The policyholders in respect of the Group Policies and the beneficiary in respect of the Master Policies being transferred, are in all cases either Residual Bank or African Bank (the "banking parties"). Premiums for the policies are paid by the individual clients of the respective bank. The proceeds of any claims paid are paid directly to the policyholders (i.e. either Residual Bank or African Bank). They, in turn, are obliged to use the proceeds to reduce the indebtedness of the individual clients (the life assured) to the respective bank. Thus whilst the banking parties receive the claim payments, I have considered the impact on the individual clients as lives assured (the clients of the respective bank) as being the affected parties, as:

2.3.1. The impact that the transfer will have on any rights of the lives assured.

2.4. This report sets out the review that was conducted and conclusions reached on these matters.

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[redacted]

3. The Impact that the Transfer will have on the Solvency of Stangen

3.1. Appendix 1 shows a comparison between the solvency of Stangen before and after the contemplated transfer, as at 30 June 2016. As can be seen there is no direct change in the amount of the excess assets. There is, however, a small reduction in the Capital Adequacy Requirement which leads to an increase in the CAR cover multiple implying a small improvement in the solvency for Stangen. A proper assessment of the change in the solvency of Stangen would also involve a consideration of the change in solvency before the implementation of the settlement agreements, and the position after the implementation of the Transfer Agreement.

3.2. In order to consider this the solvency of Stangen prior to the settlement agreements was measured as at the end of the previous financial year and may be summarised by the following table:

	30 September 2015
	(R000's)
Total Value of assets on statutory basis	1 947 709
Net policyholders' liability	(715 014)
Current liabilities	(206 253)
Excess assets	1 026 442
Capital adequacy requirement	283 351
Ratio of excess assets to capital adequacy requirement	3,6 times

3.3. The solvency of Stangen as at the effective date after the proposed transfer is set out below:

	30 June 2016
	(R000's)
Total Value of assets on statutory basis	1 622 033
Net policyholders' liability	(145 453)
Current liabilities	(154 623)
Excess assets	1 321 957
Capital adequacy requirement	47 654
Ratio of excess assets to capital adequacy requirement	27,7 times

3.4. The absolute amount of excess assets has increase during that period but the large increase in the ratio is mainly due to the large decrease in the Capital Adequacy Requirement.

[redacted] 3.5. It is clear that Stangen's solvency position is not adversely affected by proposed transfer. ~~In~~ fact, it would improve.

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4. The impact that the transfer will have on any bonus or obligations to the remaining policyholders.

4.1. The policies that remain in Stangen after the transfer are funeral assurance policies and crime and injury policies. In the case of the funeral policies non-discretionary benefits are paid on the death of the policyholder and his/her spouse and/or other family members, including parents. In the case of the crime and injury policies a predefined non-discretionary benefits is paid in the event of the assured being a victim of crime.

4.2. The policies do not provide for any bonus rights to these policyholders and accordingly no bonus obligations would thus be affected by the contemplated transfer.

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5. The impact on Stangen of not proceeding with the proposed transfer.

5.1. The settlement agreements which have been reached together provided the resolution of potential litigation between all the parties. Such litigation was the result of an irretrievable breakdown in the relationship and the nexus of interests between African Bank, Residual Bank and the Curator on the one hand and Stangen on the other.

5.2. In my opinion the absence of these settlement agreements the continued friction and litigation between these parties would have continued to drain the finances and energies of all parties. This continued destructive behavior would consequently have been to the disadvantage of all including, importantly, the policyholders of Stangen and the individual lives assured of the policies being transferred. The Transfer Agreement concludes the settlement process and allows the respective banking parties and individual lives assured to manage their insurance risks with one insurer, Guardrisk (as opposed to two insurers).

5.3. It is furthermore to Stangen's and its policyholders' advantage not to carry primary insurance risk on a 100% reinsurance arrangement.

5.4. I am satisfied that the impact of not proceeding with the proposed transfer would not be in the interests of the any of the parties and particularly the affected parties.

[redacted]

[redacted]

6. Whether alternative schemes had been considered and the impact of such alternative schemes.

6.1. As mentioned above the settlement agreements were the conclusion of the resolution between the parties to the conflict. As such it was the most effective way of resolving the conflict to the satisfaction of all parties and in a way that did not derogate from the interest of the policyholders and lives assured concerned. The Transfer Agreement merely extends this principle and ensures smoother administration of the business in the interest of the individual lives assured.

6.2. The settlement agreements were concluded with the approval of the Deputy Registrar. It is understood the Deputy Registrar also requested the parties at the time to consider a proposed transfer to conclude the process.

6.1. For the above reason, no other alternative was considered.

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7. The impact that the transfer will have on any rights due to the lives assured.

7.1. The policy provides that the premium rates paid under the policy may be adjusted at any time and in the past where such premium rate changes took place, I was consulted to provide assurance that the revised premium rates continued to be actuarially sound and in accordance with the doctrine of "Treating Customers Fairly". Accordingly, I have asked for, and received, an undertaking from Guardrisk that any amendment to premium rates continue to accord with this practice of the past.

7.2. A copy of this undertaking is attached as Appendix 2.

7.3. In summary, I am satisfied that the rights of these lives assured have not been affected by the contemplated transfer.

[redacted]

W.J. Haslam
Statutory Actuary

18 October 2016

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[redacted]

[redacted]

Appendix 1

Statutory Balance Sheet at 30 June 2016

	Before Merger		After Merger	
	(R 000's)	(R 000's)	(R 000's)	(R 000's)
Total value of assets as per balance sheet (statutory basis)		1 622 033		1 622 033
Total value of assets as per published basis	1 951 780		1 622 434	
Less: Reassurance Asset	(329 346)			
Intangible asset inadmissible on statutory basis	(401)		(401)	
Total value of liabilities		300 076		300 076
Long-term liability (deferred tax)	35		35	
Gross policyholders' liability under insurance contracts	488 214		145 453	
Less policyholders' liability reassured under insurance contracts	(342 796)		Nil	
Net policyholders' liability under insurance contracts	145 453		145 453	
Current liabilities	154 623		154 623	
Excess assets		1 321 957		1 321 957
Capital adequacy requirements		48 633		47 654
Percentage of excess assets to capital adequacy requirements		27,2 times		27,7 times
Equity		1 321 957		1 321 957
Ordinary share capital	26 500		26 500	
Retained income at the end of the period	1 295 457		1 295 457	

[redacted]

Appendix 2

Undertaking provided by Guardrisk.

Bill Haslam
Statutory Actuary for Standard General Insurance Company Limited
Unit 6, The Westwolds,
95 Westwold Way,
Saxonwold,
Johannesburg 2196

18 October 2016

Dear Sir

<u>RE: Standard General Insurance Company Limited (Stangen) run-off book of credit life business</u>

The Stangen book of credit life business is to be transferred to Guardrisk Life It is Guardrisk Life's intention that the policy premium rates applicable to these policies will not be increased other than as a direct result of a deterioration in the actual experience

Should the need arise to increase rates, the Statutory Actuary for Guardrisk Life will assess and approve the proposed increase The Statutory Actuary will confirm this approval in writing

Yours sincerely

[redacted]

Ryno [redacted]
Managing Executive: Volume
Guardrisk Life Limited

GUARDRISK

[redacted]

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