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Guardrisk Life Limited

Transfer of Stangen to Guardrisk Life

Report to the Directors of Guardrisk Life

Contents

Section 1: Introduction

1.1 This report documents the details of the transfer between The Standard General Insurance Company Limited ("Stangen") and Guardrisk Life Limited ("Guardrisk").

1.2 The report assumes knowledge of the business of Stangen and of actuarial issues. It is an "internal" report addressed to the management and Board of Guardrisk but may also be given to the holding company's Board, the company's auditors and the regulator. This report may not be published, as a whole or in part, without my specific written consent, save that copies of this report may be made available for inspection by policyholders of Stangen and Guardrisk and copies may be made available to any person requesting the same in accordance with applicable regulatory requirements.

1.3 To produce this report, we have relied on the financial statements provided by the management of Guardrisk.

1.4 The Stangen Credit Life business is in the process of being transferred to Guardrisk in terms of Section 37 of the Long-term Insurance Act, 52 of 1998 ("the Transfer"). In terms of the transfer agreement concluded between the parties ("Transfer Agreement"), this business will be transferred to Guardrisk on the last day of the month in which all the suspensive conditions as set out in the Transfer Agreement is fulfilled or waived, however the rights and liabilities in respect of Stangen will be deemed to have been accrued by Guardrisk with effect from 1 July 2016 ("the Effective Date").

1.5 The Stangen business to be transferred to Guardrisk, is the credit life policies, currently underwritten by Stangen. Before the transfer these policies are fully reinsured to Guardrisk and administered by African Bank.

1.6 We have referred to the "Guidelines for the Transfer of Business of a Long-term insurer in terms of Section 37 of the Long-term Insurance Act ("Acts")" issued by the Financial Services Board (FSB). This report also takes cognisance of the Actuarial Society of South Africa's Advisory Practice Note

APN 108 on "Transfer of Long-term Business of a Registered Insurer – Role of the Independent Actuary".

1.7 This report is produced in my capacity as the Statutory Actuary of Guardrisk.

1.8 This report relies on the following information which was provided by the management of Guardrisk.

- Audited accounts as at 30 June 2016, before the proposed transfer
- Accounts as at 30 June 2016, after the proposed transfer. On the statutory basis, these accounts are equal to the audited accounts before the proposed transfer.

1.9 The primary purpose of this report is to express an opinion from the perspective of the Statutory Actuary of Guardrisk on the following:

- Whether the proposed transaction is actuarially sound;
- Whether the security of the existing Guardrisk policyholders are adequately safeguarded;
- Whether the reasonable benefit expectations of the existing Guardrisk policyholders are adversely affected by the transfer;
- Whether the security of the transferring Stangen policyholders are adequately safeguarded; and
- Whether the reasonable benefit expectations of the transferring Stangen policyholders are adversely affected by the transfer.

This report considers the position from the perspective of both the existing Guardrisk policyholders as well as the transferring Stangen policyholders.

1.10 This report is set out under the following headings:

- Section 2 provides background information and the rationale for the transfer;
- Section 3 considers the security of policyholders' benefits;
- Section 4 considers the impact of the transfer on policyholders' reasonable benefit expectations;
- Section 5 covers the effect of the transfer on processes and controls;
- Section 6 covers the communication to policyholders; and
- Section 7 provides my conclusion.

Section 2: Background and Rationale for the Transfer ("the transaction")

2.1 The proposed transaction is related to and part of the placement of Residual Debt Services Limited (under curatorship) (previously African Bank Limited, under curatorship) ("RDS") in August 2014 and the subsequent restructuring and resolution of RDS.

2.2 On 4 April 2016, RDS, previously named African Bank Limited (under curatorship) changed its name to Residual Debt Services Limited (under curatorship) and in terms of the restructuring proposal, part of the banking business of RDS was transferred in terms of section 54 of the Banks Act, 94 of 1990 to a new legal entity that was incorporated and registered as a bank ("Good Bank") ("the section 54 transfer"). The banking business so transferred was in respect of those loans identified as having a high likelihood of repayment, the so called "Good Loans". The other loans, being the so called, "Bad Loans" remained with RDS. Good Bank was then renamed African Bank.

2.3 RDS and its sister subsidiary, Stangen, were and still are currently part of the African Bank Investments Limited ("ABIL") group of companies. ABIL however is in the process of changing its name to African Phoenix Investments Limited. Stangen is an insurer and currently underwrites credit life insurance policies in respect of customers of RDS and Good Bank.

2.4 Currently, Stangen provides credit life insurance cover to the customers of RDS and Good Bank in terms of the following policies, namely:

- credit life insurance policies, (Policy number ABL/COM/11/08) issued on 28 October 2008 ("the 2008 Master Policy"); and
- credit life insurance policies , (Policy number ABL/COM/04/10) issued on 22 April 2010 ("the 2010 Master Policy"),

(collectively referred to as "the Master Policies"

2.5 Currently, Stangen also provides credit life insurance cover to the customers of RDS in terms of the following policies, namely:

- group policy number ABL/GRP/08/12 concluded between Stangen and RDS on 23 August 2012 ("the 2012 Group Policy"); and

- group policy number ABL/GRP/08/15 concluded between Stangen and RDS on 30 July 2015 ("the 2015 Group Policy")

(collectively referred to as "the Group Policies").

2.6 The policyholders in respect of the Master Policies are the individual credit customers of RDS and Good Bank, whilst the policyholder in respect of the Group Policies is RDS.

2.7 RDS issued a notice of termination in respect of the two Group Policies to Stangen during November 2015. The notice of termination issued by RDS had the effect that no new insurance business was placed with Stangen in respect of the customers of RDS with effect from 16 January 2016 and that insurance cover in respect of the credit card group scheme customers ceased with effect from that date.

2.8 RDS entered into a credit life group policy with Guardrisk with effect from 16 January 2016 in respect of cover for new borrowers and cover in respect of credit card customers.

2.9 Together with the Good Loans, and as part of the section 54 transfer, RDS also transferred to Good Bank, all its security held in respect of cover granted in respect of the Master Policies issued to borrowers as policyholders under the Master Policies, but not the policies themselves.

2.10 No cover in terms of the Group Policies was transferred to Good Bank.

2.11 The effect of the section 54 transfer was thus the following:

- All security held in respect of the Master Policies relating to the Good Loans transferred to Good Bank;
- All Good Loans transferred to Good Bank;
- All Bad Loans remained with RDS;
- All cover in terms of the Group Policies in respect of Bad Loans remained underwritten by Stangen;
- All cover in terms of the Group Policies in respect of Good Loans reduced to zero and came to an end based on the fact that the outstanding loan amounts in the hands of RDS reduced to zero in respect of those loans so transferred; and
- All cover in respect of both Good and Bad Loans in terms of the Master Policies remained with Stangen.

2.12 As a consequence of the litigation launched by Stangen against RDS and African Bank, the parties entered into a Settlement Agreement and a Reinsurance Agreement during May 2016, in terms of which Stangen reinsured to Guardrisk all the cover in terms of the two Master Policies and all the remaining cover in terms of the Group Policies.

2.13 The Reinsurance Agreement was approved by the Registrar of Long-term Insurance, but with a preference for the business reinsured to be transferred in terms of section 37 of the Long-term Insurance Act, 52 of 1998. Cover in terms of these policies to be transferred will at no point cease in terms of the existing policies and will at no point be replaced with cover in terms of new policies. The cover will remain intact and the policies will statutorily be assigned in terms of section 37 read with section 40 of the LTIA.

2.14 The transfer provided for in the Transfer Agreement is the final step in the process envisaged as part of the settlement. In terms of the Transfer Agreement, Stangen will transfer the business to Guardrisk. The business is defined as all rights and obligations of Stangen in terms of the Master Policies and the Group Policies ("the Transfer Policies"). Therefore, in terms of the Transfer Agreement:

- Guardrisk will acquire the Transfer Policies;
- Stangen will assign all rights and obligations under the Transfer Policies to Guardrisk; and
- Guardrisk will assume the obligations under the Transfer Policies.

2.15 Furthermore Guardrisk will cease to reinsure Stangen, although it is noted that certain provisions relating to administrative and operational aspects in the Reinsurance Agreement will not be terminated and will remain active. This is due to the Reinsurance Agreement being effected as part of the settlement of disputes between the parties and cancellation of the disputes between the parties may unintentionally impact the settlement reached between the parties.

2.16 Following the approval of the transfer, the business will be managed on Guardrisk's balance sheet. Prior to the transfer, African Bank supplied the intermediary services and some administration, which will remain the same going forward. However, Stangen implemented an outsourcing and binder agreement with Guardrisk. In line with the implementation of the Reinsurance Agreement, all policyholder administration and claims management were moved to Guardrisk, who outsourced it to African Bank.

2.17 Summary

2.17.1 As a result of the proposed transfer, Guardrisk as a primary insurer will merely replace Guardrisk as reinsurer and outsourced service provider to Stangen.

Section 3: Security of the Policyholders

3.1 The security of both the Stangen policyholders and the existing Guardrisk policyholders are dependent on the financial position of the company which is primarily a function of two major elements:

- Additional shareholder capital held in excess of liabilities as a buffer against future adverse experience. The adequacy of shareholder capital held can be measured in a number of ways, including the ratio of excess assets to the capital adequacy requirements (CAR); and
- Adequate reserving in respect of policyholder liabilities, including appropriate allowance for future uncertainty via the inclusion of compulsory margins.

3.2 Reserves required to back policyholder liabilities are calculated according to all relevant accounting and actuarial regulatory and professional guidance, including IFRS4, Advisory Practice Note APN 104 issued by the Actuarial Society of South Africa and the Long Term Insurance Act 1998. The valuation bases and methodologies are appropriate to the respective business.

Existing Guardrisk policyholders

3.3 The security of the existing Guardrisk policyholders before and after the implementation of the transfer can be evaluated by considering the following:

- The results of the statutory valuation of Guardrisk as at 30 June 2016 before implementing the proposed transfer; and
- The results of the statutory valuation of Guardrisk as at 30 June 2016 after implementing the proposed transfer.

3.3.1 Guardrisk's financial positions pre and post transfer on the statutory valuation basis as at 30 June 2016 are summarised as follows:

Statutory Basis Balance Sheet	Guardrisk as at 30 June 2016 pre transfer R'000	Guardrisk as at 30 June 2016 post transfer R'000
Value of assets on the Statutory basis	5 387 436	5 387 436
Value of policy liabilities	4 317 645	4 317 645
Current and other liabilities	230 841	230 841
Total value of liabilities	4 548 486	4 548 486
Excess Assets	838 950	838 950
Capital Adequacy Requirements	433 803	433 803
Ratio of Excess Assets to Capital Adequacy Requirements	1.9x	1.9x

3.3.2 As can be seen from the above table:

- Both the assets and liabilities post-transfer will be equal to the pre-transfer values.
- The CAR will not change post transfer.

3.4 The table below shows the CAR ratio for Guardrisk in the past, as well as the CAR ratio excluding cell surpluses:

Year	Guardrisk Historic CAR ratios	
	Including cell surpluses	Excluding cell surpluses
31-Mar-14	3.7	1.6
30-Jun-15	2.6	1.2
30-Jun-16	1.9	1.2

3.4.1 Guardrisk's CAR cover before and after the transfer is 1.9 times (as can be seen from the table in section 3.3.1). Following the proposed transfer, Guardrisk is still financially sound and under adverse circumstances, they can reduce dividend payments to improve their CAR cover.

Cell results

3.5 Before the transfer the cell's CAR cover was only 1.1 times. This might create a risk to other Guardrisk policyholders. However, as at 31 August 2016, the CAR cover improved to 1.93. The cell was initially capitalised low as it was expected that future profits would result in a quick increase in excess assets, as demonstrated by the CAR improvement in August. The method to calculate the IBNR liability has been improved and the calculated IBNR as at 30 September 2016 is lower, improving the solvency of the cell.

3.6 Due to ring-fencing, one cell cannot be called upon to support the liabilities of another. However, business written in the promoter can be affected, since if the African Bank cell runs into trouble the promoter fund will be used to support the cell. If that happens, business in other cells might be affected as Guardrisk as a whole might face solvency issues. However, the African Bank business is highly profitable as demonstrated by the CAR improvement over the past two months. Hence there is very little risk that promoter funds will be required to support the African Bank cell.

Transferring policyholders

3.7 We also consider the security of the policyholders that are being transferred from Stangen, and their security after the proposed transfer can be evaluated by considering the results of the statutory valuation of Stangen as at 30 September 2016.

3.8 The table below shows the historic CAR ratio for Stangen in the past:

Year	Stangen CAR ratio
30-Sep-14	1.6
30-Jun-15	3.6
30-Jun-16	27.0

3.9 Comparing the above CAR ratio for Stangen to the CAR ratio for Guardrisk in section 3.4 above, the Stangen policyholders are being transferred to a lower CAR cover environment. The 2016 Stangen CAR ratio is over-inflated relative to the historic CAR ratios due to the business being reinsured to Guardrisk. Compared to the 2014 and 2015 positions, the relative CAR ratios between the two companies are closer. The main issue is to assess whether Guardrisk's solvency after the transfer is sufficiently strong to result in an adequate level of security for the transferring policyholders. As long as Guardrisk's solvency is sufficiently strong, there should be no concerns for these customers.

3.10 After the transfer, the solvency of both Guardrisk and the cell is sufficient, as explained above.

3.11 Reinsurance treaty

3.11.1Stangen currently reinsures 100% of its insurance risk on the Transfer Policies with Guardrisk.

3.11.2After the transfer, Guardrisk will cease to reinsure Stangen in terms of the existing Reinsurance Agreement.

3.11.3Guardrisk confirmed that the African Bank business will not be reinsured. This will lead to a reduction in policyholder protection for the transferring policyholders as there is no reinsurance agreement after the transfer, but there was a reinsurance agreement before the transfer. However, when the CAR cover of Guardrisk is considered, it shows that Guardrisk is financially sound and this reduction in policyholder protection will be immaterial.

3.12 Conclusion

3.12.1 Transferring policyholders

3.12.1.1 When considering the security of these policyholders, the test is not whether the solvency position of Guardrisk after the transfer equals or exceeds the solvency position of Stangen before the transfer, but rather whether the solvency of Guardrisk after the transfer provides adequate security to the transferring policyholders.

3.12.1.2 The policyholders are transferring to a lower CAR ratio, resulting in reduced policyholder security. However, Guardrisk is still financially sound after the transfer.

3.12.1.3 Since the transfer date, the cell's solvency improved when comparing the CAR cover for the cell as at 30 June 2016 with 31 August 2016. This gives us comfort that the business is profitable and that the transferring policyholders' benefit security will not be adversely affected.

3.12.1.4 In my opinion the pro forma capital position of Guardrisk after the transfer as at 30 June 2016 provides adequate security to meet the future contractual obligations to the transferring Stangen policyholders.

3.12.2 Existing Guardrisk policyholders

3.12.2.1 The security of the existing policyholders also needs to be considered.

3.12.2.2 Each cell is managed independently and contractually ring-fenced against losses made in other cells, and there is no element of cross-subsidy between one cell and another. This ensures that other cells underwritten by Guardrisk will not be impacted by the transfer.

3.12.2.3 Since the solvency position of the new African Bank cell post transfer is the same as pre transfer, and the cell's solvency improved since the transfer date, there is no risk that promoter funds will be required.

3.12.3Therefore, I conclude that the transfer will not prejudice the security of the transferring policyholders or the existing Guardrisk policyholders.

Section 4: Reasonable Benefit Expectations

4.1 This section of the report considers a number of internal business practices and the impact that they may have on the reasonable benefit expectations of the Stangen policyholders.

4.2 The protection of the policyholders' reasonable expectations is inter alia dependent on the Management's commitment to look after the interest of policyholders. The Board, Management and the Statutory Actuary of Guardrisk are aware of their duty to ensure at all times that the reasonable benefit expectations of the various classes of Guardrisk's policyholders are not unfairly prejudiced. The existing business practices of Guardrisk will continue to apply to the Stangen policyholders.

4.3 **Premium increases**

4.3.1 The credit life business to be transferred were structured as variable premium business, i.e. the premium was defined as a small level premium plus a percentage of outstanding loan balance. As the outstanding loan balance varies each month, the premium variances is a fixed percentage thereof.

4.3.2 The policies do contain clauses that premiums may be changed. However, given the short-term nature of this business, Stangen historically re-priced for new business only and did not change premiums for inforce business in recent years.

4.3.3 It is Guardrisk's intention that the policy premium rates applicable to the transferring policies will not be increased other than as a direct result of a deterioration in the actual experience. Any increase in premium rates will be assessed and approved by myself to ensure that the reasonable benefit expectations of the policyholders will not be affected.

4.4 **Taxation**

4.4.1 The tax consequences for the transfer is summarised in the Legal Tax Opinion.

4.4.2 It is stated that the proposed transfer and termination of the Reinsurance Agreement should not give rise to any adverse Capital Gains Tax consequences for Stangen, Guardrisk or the Policyholders.

4.4.3 Furthermore, from a VAT perspective, the proposed transaction should not give rise to any adverse VAT consequences as the supply of the transferring policies by Stangen to Guardrisk would be an exempt supply and the termination of the Reinsurance Arrangement would not constitute a supply.

4.5 Investment policy

4.5.1 The current investment strategy implemented by Stangen is to back credit life policyholder liabilities with short-duration cash (current, and up to 6 months' term cash). This is due to the short terms of the policies and the holding company's mandate.

4.5.2 The Guardrisk investment strategy will stay the same as the current strategy for the reinsured business. Currently the cell invests in the Guardrisk unitised money market portfolio which consists of assets that are very liquid and have short-term durations.

4.5.3 Thus, the investment strategy will remain similar to the Stangen strategy, and policyholders' reasonable benefit expectations will not be compromised.

4.6 Conclusion

4.6.1 Transferring policyholders

The reasonable benefit expectations of the transferring policyholders will not be affected by the transfer since premiums on these policies won't increase, there will be no tax implications and the investment strategy that will be followed will be similar.

4.6.2 Existing Guardrisk policyholders

The transfer will have no impact on the reasonable benefit expectations of the existing Guardrisk policyholders, due to the transfer relating to business that is ring-fenced within Guardrisk.

Section 5: Processes and Controls

5.1 The impact of the transfer on processes and controls from the perspective of transferring African Bank policyholders and the existing Guardrisk policyholders were considered:

5.2 Existing Guardrisk policyholders

5.2.1 The controls and processes in respect of these policyholders will not be expected to change or be directly affected by the transferred business.

5.3 Transferring policyholders

5.3.1 Intermediary services and some administration are done by African Bank, and will remain the case going forward.

5.3.2 Following the settlement reached between the banking parties and Guardrisk, Stangen implemented an outsourcing- and binder agreement with Guardrisk. In line with the implementation of the reinsurance agreement all policyholder administration and claims management were moved to Guardrisk, who outsource it to African Bank.

5.3.3 Essentially there will be no change in actual administration of the business as a result of the proposed transfer since Guardrisk, as primary insurer, would merely replace Guardrisk as reinsurer and outsourced service provider to Stangen.

5.3.4 Pursuant to the implementation of the transfer, Guardrisk will cease to reinsure Stangen, although certain provisions relating to administrative and operational aspects in the Reinsurance Agreement will not be terminated and will remain active.

5.3.5 The transferring Stangen policyholders will be informed of the proposed transfer.

5.4 Conclusion

5.4.1 Transferring policyholders

From the perspective of the transferring policyholders the transfer of this business will have no impact on the administration and control processes which already exist in terms of the current arrangements.

5.4.2 Existing Guardrisk policyholders

From the perspective of the remaining Guardrisk policyholders the transfer of the Stangen business will have no impact on the administration and control processes which already exist.

Section 6: Communication to Policyholders

6.1 The proposed communication to policyholders is set out in the Stangen Communications Plan. This plan includes detail of the communication methods used, as well as the content of the various communication documents.

6.2 KPMG will be appointed to review the communication process and to compile a detailed report for submission to the Registrar.

6.3 We have not reviewed these communication documents, nor have we assessed whether the proposed communication plan and process adheres to the requirements of Section 38 of the Long-term Insurance Act and to the transfer guidelines as issued by the FSB.

Section 7: Conclusion

7.1 I have considered the transfer from the perspectives of both the remaining Guardrisk policyholders as well as the transferring Stangen policyholders.

7.2 Existing Guardrisk policyholders

7.2.1 Each cell is managed independently and contractually ring-fenced against losses made in other cells, and there is no element of cross-subsidy between one cell and another.

7.2.2 However, business written in the promoter can be affected, since if the African Bank cell becomes insolvent then the promoter funds will be used to support the cell. This represents a risk to other cells, as Guardrisk as a whole might face insolvency if they need to provide a large amount of solvency support. However, the solvency position of the new African Bank cell post transfer is the same as pre transfer, and the cell's solvency improved since the transfer date. Hence there is no risk that promoter funds will be required.

7.2.3 The security and reasonable benefit expectations of the remaining Guardrisk policyholders will not be affected by the transfer.

7.2.4 The transfer of the Stangen business will have no impact on the administration and control processes which already exist.

7.2.5 Thus, the transfer will have no effect on other business already underwritten by Guardrisk.

7.3 Transferring policyholders

7.3.1 The African Bank cell (L00124) was created following the reinsurance agreement between Guardrisk and Stangen.

7.3.2 The administration of the business is unchanged following the transfer.

7.3.3 The pro-forma capital position of Guardrisk after the transfer provides adequate security to meet future contractual obligations to the transferring African Bank policyholders.

7.3.4 The policyholders' security will be reduced since they are transferring to a lower CAR ratio, but Guardrisk is still financially sound after the transfer.

7.3.5 The cell's solvency improved since the transfer date. This gives us comfort that the business is profitable and that the transferring policyholders' benefit security will not be adversely affected.

7.3.6 The reasonable benefit expectations of the transferring policyholders will not be affected by the transfer.

7.3.7 After the transfer, the transferred business will not be reinsured. This might lead to a reduction in policyholder protection for the transferring policyholders. However, Guardrisk is financially sound and this reduction in policyholder protection will be immaterial.

7.3.8 Thus, the transfer will have no adverse effect on the African Bank policyholders transferring to Guardrisk.

7.4 I am satisfied that the proposed transfer is actuarially sound, and that it will:

- Not adversely affect the security of the transferring African Bank policyholders;
- Not prejudice the reasonable benefit expectations of the transferring African Bank policyholders;
- Not adversely affect the security of the existing Guardrisk policyholders; and,
- Not prejudice the reasonable benefit expectations of the Guardrisk policyholders.

[redacted]

MJ Harrison

Statutory Actuary, FASSA

27 January 2017

Deloitte.