



TRUE SOUTH

ACTUARIES & CONSULTANTS



Section 50 proposed transfer

**of the insurance business of African Rainbow Life Limited to
Safrian Insurance Company Limited**

Report by independent actuary



The Board of Directors: African Rainbow Life Limited
The Board of Directors: Safrican Insurance Company Limited
Sfrican House
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2198

4 March 2022

Independent actuarial report on proposed Section 50 transfer of insurance business

The report attached to this letter:

- was commissioned from True South Actuaries & Consultants (“True South”) by African Rainbow Life Limited (“African Rainbow” or “ARL”) to be addressed to the two boards of directors listed above
- concerns itself with the intended transfer, on effective date 30 June 2021, of all insurance business of African Rainbow to Safrican Insurance Company Limited (“Sfrican”) as per section 50 of the Insurance Act no 18 of 2017 (the “Insurance Act”)
- addresses at least the (relevant) aspects that the Actuarial Society of South Africa (“ASSA”) expects of its members to consider when commenting in an independent capacity on the relative merits of a proposed section 50 transfer
- assumes knowledge of terms that could reasonably be expected from a Board of an insurance company (such as HAF, ORSA, GOI, Prudential Standards, diversification benefit, loss absorbing capacity etc.)
- is intended to form part of the application for the proposed transfer and may thus, in addition to the addressees, be considered by all parties involved in this process
- assumes that any changes to the information provided, either written or sourced through engagement with the project team, will not invalidate the statements contained in this report

In my opinion, as independent actuary, free from any potential conflict of interest, the proposed transaction safeguards the rights, expectations, entitlements and security of all classes of policyholders affected by it, including current Safrican policyholders. Having performed an in-



depth investigation into the rationale and mechanics of the proposed transfer, we find that it is both appropriate and fair to affected policyholders.

A handwritten signature in black ink, appearing to read 'Francois Hugo'.

Francois Hugo (FASSA)

For and on behalf of True South Actuaries & Consultants



1 APPOINTMENT

1.1 Background to appointment

As per section 50 (5b) of the Insurance Act, the Prudential Authority (“PA”) may appoint a person, at the cost of the insurer or controlling company, to assess the proposed transfer, transaction or change and express a view on the desirability or otherwise thereof. Although the PA has not (yet) requested an independent actuarial report, it may do so, in which case this report will serve this purpose.

Safrican nevertheless took the decision to commission an independent actuarial report to affirm the appropriateness and fairness of the proposed transfer to the African Rainbow and Safrican Boards. This was (at least in part) in anticipation of a potential view that the two transacting parties could be conceived as not being sufficiently independent due to them being wholly-owned subsidiaries of Sanlam Life Insurance Limited (“Sanlam”).

The cost of this report will be covered by the shareholder.

This report does not replace the HAF reports required by the Prudential Authority as part of the submission for approval of the envisaged transfer.

1.2 Qualifications and experience

This report has been prepared by Francois Hugo acting for and on behalf of True South Actuaries and Consultants. The table below sets out his relevant experience:

Table 1 – Independent actuary qualifications, experience and appointments

<i>Relevant academic and professional qualifications</i>	<ul style="list-style-type: none"> • <i>BSc University of Stellenbosch</i> • <i>B Comm (Hons) University of Pretoria</i> • <i>FIA (Fellow of the Institute of Actuaries in the United Kingdom)</i> • <i>FASSA (Fellow of the Actuarial Society of South Africa)</i>
Relevant experience	<p>Co-founder and executive director of True South Actuaries & Consultants (a provider of independent actuarial services to many providers of insurance products in South Africa)</p> <p>More than 20 years’ post qualification actuarial consulting experience mostly (although not exclusively) in the life insurance industry.</p> <p>Holder of a Long-term insurance practising certificate. Several Head of Actuarial Function (“HAF”) appointments under the Insurance Act.</p>



1.3 Declaration of interest

Other than the benefits accruing in respect of professional fees for this assignment, neither the author, nor True South has any financial interests¹ in any of the companies under consideration and would not benefit financially from whether the proposed transfer takes place or not.

¹ Some indirect interest may exist through exposure to the holding company Sanlam Life Insurance Limited through collective investment schemes.



2 SCOPE

2.1 Legislation and professional guidance

In terms of Prudential Standard GOI 6 as issued by the Prudential Authority which deals with “Transfers of Business and Other Significant Transactions by Insurers”, it is required (in paragraph 2.4) that *“any independent expert appointed by the Prudential Authority under section 50(5) of the Act to review and report on any aspects of the proposed transfer or any aspects of the process involved is responsible for reporting honestly and accurately on these matters.”*

In identifying the aspects that need to be considered, I have referenced professional guidance issued by the Actuarial Society of South Africa and specifically Advisory Practice Note (“APN”) 108. This practise note is entitled *“Transfer of Long-Term Business of a Registered Insurer - Role of the Independent Actuary (v2)”*.

2.2 Overlap of topics covered in the three actuarial reports

Two further actuarial reports (apart from this one) are required in terms of Prudential Standard GOI 6 as issued by the Prudential Authority which deals with “Transfers of Business and Other Significant Transactions by Insurers”. The standard requires that *“The head of the insurer’s actuarial function is responsible for expressing an opinion to the board of directors about the soundness of the proposed action as far as the action relates to his or her functions as set out in GOI 3 (Risk Management and Internal Controls for Insurers).”*

These reports, would also have considered the same professional guidance issued by the Actuarial Society of South Africa:

- Advisory Practice Note 106: Head of Actuarial Function for South African Insurers (v6) (“APN106”) and
- Advisory Practice Note 108: Transfer of Long-Term Business of a Registered Insurer - Role of the Independent Actuary (v2), (“APN108”) as issued by the Actuarial Society of South Africa. (APN106 mentions that although APN108 is intended to apply to independent actuaries appointed by the regulator, the HAF should have regard to this guidance where relevant and appropriate.)

It would therefore be reasonable to expect a degree of overlap in topics considered by the three actuarial reports.



3 INFORMATION CONSIDERED

I confirm that I was not instructed by any of the parties on what should be included in, or excluded from the report, although I allowed myself to be guided on information that could be considered confidential / sensitive. I was provided with access to all parties I wished to interview and all information, reports and documents I considered material to the formulation of the required opinion. In formulating the opinions in this report, I have considered the following:

Table 2 - Information considered by the independent actuary

<i>Information category</i>	<i>Information considered</i>
Project-related information	Draft Transfer Agreement between African Rainbow and Safrican: "Draft Transfer Agreement for discussion.docx"
	Slide pack with program overview ("Actuaries_Section 50_51 Transfer_3 Feb 2022.ppt")
	Various interactions via e-mail and video-conference with Gift Muse (CFO of Safrican), Ana Ferreira (Head of Legal and Compliance of Safrican), Daan du Plessis (HAF of Safrican) and Vivek Moodley (HAF of African Rainbow)
	Draft Prudential Authority application form IF024 ("Application for Approval to Transfer Assets and Liabilities")
	Extract from the minutes of the Safrican board of directors meeting on 11 November 2021 related to the transfer of all insurance business to Safrican from African Rainbow.
Communication Plan	Word and pdf version of the document "Communications Plan_Merger of African Rainbow Life to Safrican_Draft3_Feb2022" which sets out the communication plan to the regulator, policyholders, business partners, key stakeholders and staff.
	Pdf documents containing the following: <ul style="list-style-type: none"> • Letter to policyholders ("NoticeOfTheTransfer_Email Notice") • Email to policyholders ("NoticeOfTheTransfer_Email Notice_Example") • Brochure and example of newspaper layout ("NoticeOfTheTransfer_News Print" and "NoticeOfTheTransfer_News Print_Example") • Layout of webpage ("NoticeOfTheTransfer_Website Update")
Product Information	Summary of African Rainbow's policy count and liabilities per product ("ARL product line 31 Dec 2021.xlsx")
Financial Information	Audited annual financial statements of the two entities as at 31 December 2020.
	The quarterly Quantitative Return submitted to the Prudential Authority for both transacting entities as at 31 December 2021.
	Spreadsheet summary of capital and solvency position pre- and post- transfer ("Submission for Amalgamation 30 June 2021_v2 values.xlsx")
Information from the HAFs of the two entities	Reports from the HAFs of both African Rainbow and Safrican on the proposed transfer (as required per the Insurance Act).
	Discussions with both HAF's.
Other	Out-of-cycle ORSA for African Rainbow triggered by the transfer to Safrican ("ARL ORSA 27Aug final.pdf") ORSA for African Rainbow and Safrican that includes the financial position as at 30 June 2021 of the respective entities. African Rainbow internal audit scope letter related to the transfer.

Given my interaction with individuals that provided information, I have no reason to believe that such information is not relevant, not reliable or in any way biased.



4 RATIONALE

4.1 Background and Rationale

The following is an extract from the African Rainbow out-of-cycle ORSA:

"ARL was still very much a start-up business at the onset of the Covid-19 pandemic in 2020. It was already understood that ARL would be dependent on the continued injection of capital by its shareholders during the start-up phase. The out of cycle ORSA finalised for ARL in July 2020 did, however, indicate the potential of significantly larger injections being required in the wake of the pandemic. It also highlighted the relatively large fixed overhead expense in relation to the small size of the business, and the need to urgently increase the book size whilst at the same time retaining tight control over expenses.

Towards the end of 2020, management, the board and the shareholders agreed that it would be better to transfer the ARL business to Safrican (another insurance licence in the Sanlam Group). Such a transfer would enable the Sanlam Group to continue to service the same market(s) as was originally envisaged for ARL, but at a significantly lower fixed cost base. Apart from giving effect to the transfer, ARL management was requested to de-risk the business so as to reduce the potential further shareholder injections required before the transfer could be effected."

In addition to the above, there will be efficiencies that arise from rationalizing the group structure through this transfer:

- To avoid unnecessary duplication of costs
- To reduce complexity
- To comply with regulatory requirements, including aligning with the amended regulatory environment for insurance companies.

To this end, I have had sight of minutes of the Board meetings of both entities approving the transfer.

As noted in the out-of-cycle ORSA, the following risk mitigating actions were taken by African Rainbow in preparation of the transfer:

- Reduction in the fixed cost base
- Closure to new group business (this occurred in mid-2021 and new retail business sales were ceased at the end of January 2022)
- Implementing premium increases for unprofitable schemes
- Increasing reinsurance on group voluntary business



- Additional injections of capital (R25m on 22 February 2021; R10m on 30 April 2021 and R18m on 28 July 2021).

Following the above actions, scenarios were tested that showed no additional capital injections into African Rainbow were required prior to transfer. Scenarios tested included allowing for:

- Expected COVID impacts from waves 3 and 4
- Mass lapse in the group business
- Selective lapsing of profitable schemes in the group business

The scenarios showed at least an improvement in SCR cover, demonstrating good business resilience that can be attributed to the risk mitigating actions taken. However, for liquidity purposes capital can be provided as deemed appropriate by the shareholder (for example due to delayed reinsurance recoveries and delayed rerating of group business).

4.2 Alternative arrangements

Both African Rainbow and Safrican are part of the same group of companies, sharing a common shareholder in Sanlam. Effective 1 May 2021, the staff servicing African Rainbow clients were transferred to Safrican (with the exception of the heads of control functions and the managing executive). Servicing of African Rainbow clients has since been performed by Safrican on an outsourced basis.

Given the above relationships, there is no intention of the holding company to dispose of African Rainbow, or pursue any other alternative arrangement.



5 MECHANICS OF THE PROPOSED TRANSFER

5.1 Structures

The effective date of the proposed transfer is 30 June 2021. The transaction cannot be implemented until approval had been obtained from the Prudential Authority (in consultation with the Financial Sector Conduct Authority).

Measures were taken in mid-2021 to stop the sale of Group Business under the African Rainbow license, due to the impact on solvency, notably Life Underwriting risk, that arises from increased premiums (new sales will be under the Safrican license). Retail business sales were similarly ceased in African Rainbow at the end of January 2022 and written under the Safrican license.

On transfer, all policyholder liabilities that are in existence with African Rainbow shall become the liabilities of Safrican.

After the implementation date and after all regulatory approvals had been obtained, African Rainbow undertakes to take the necessary steps to have its insurance licence cancelled.

5.2 Transfer price

The parties agree to use the basis as described in the African Rainbow annual financial statements immediately preceding the Effective Date for valuing the Assets and the Liabilities as at the Effective Date, in accordance with the International Financial Reporting Standards (IFRS).

Only assets covering the (IFRS) policyholder liabilities will be transferred with shareholder assets remaining within African Rainbow post the proposed transfer.

Effectively therefore, there will be no consideration paid for the business by Safrican (on an IFRS basis).

5.3 Impact on investment portfolios

All African Rainbow investment portfolios will remain with the current investment manager. Asset mix and investment mandates will not be affected.

5.4 Impact on operations

Effective 1 May 2021, through Section 197(7) of the Labour Relations Act, operational staff of African Rainbow were transferred to Safrican. At the same time, African Rainbow entered into an outsourcing arrangement with Safrican to service its customers. The outsourcing



agreements will remain in place until the date of the proposed transfer when the contract with Safrican will be cancelled.

The exception to the above is that the heads of control functions and the roles of managing executive remained in African Rainbow.

Due to the above, once the transfer is effected, there should not be any impact on African Rainbow customers, as they are already effectively being serviced by Safrican personnel and systems.

5.5 Impact on reinsurance

All African Rainbow Group business (voluntary and compulsory) is 90% reinsured with RGA. This structure will remain in place as long as the policies are on African Rainbow's books, and has been negotiated up to December 2022.

I was informed that the reinsurer has in principle agreed to continue with this reinsurance arrangement once the relevant policies have transferred to Safrican. This is desirable from a Safrican perspective (as confirmed with the Safrican HAF) as cancellation of this reinsurance could have a noticeable negative impact on the SCR Cover Ratio.



6 IMPACT ON POLICYHOLDERS

6.1 Transferring policyholders

African Rainbow sells predominantly risk policies, with some endowment business on books.

The table below summaries the IFRS liabilities as at 30 June 2021:

Table 3 - Transferring policyholders (Source: Safrican HAF Report)

<i>Product Category</i>	<i>IFRS Liability (R'000s) 30 June 2021</i>
Individual Business – Market Related	2 113
Individual Business – Non-participating	22
Group Non-participating Business	945
Total	3 080

All insurance business will be transferred to Safrican, there will be no remaining policyholders with African Rainbow post the transfer.

6.2 Policy servicing, maintenance and correspondence

As explained earlier (in the section that deals with the mechanics of the proposed transfer), the proposed transfer's only impact in terms of policyholder administration would involve the contracting between entities in the background.

Policyholders should already be familiar with the overlap created by the management structures and the service experience should not be impacted by the proposed transfer.

6.3 Terms & conditions, premiums & benefits

As per the transfer agreement between the contracting entities, Safrican will accept all obligations of African Rainbow towards its policyholders that existed as at the transfer date. The terms and conditions of African Rainbow policies will not be amended. Notably, the investment guarantee that exists on the retail market-linked product will remain in place. The only visible change will be that Safrican replaces African Rainbow as the insurer.

Furthermore, as new business sales are already occurring on the Safrican license, there is an existing product set in Safrican that the African Rainbow policyholders will be transferring into – transferring policies will therefore not be managed as a closed book.

African Rainbow policyholders will therefore not be affected by the transfer. This was agreed with the African Rainbow HAF during our engagements.



6.4 Policyholder reasonable expectations

As set out above, policy terms and conditions remain unchanged and (provided capital strength is not materially affected – see below), reasonable expectations of policies would not be affected.

As per the African Rainbow HAF report, asset management of the underlying investments will remain with the current asset managers after the transfer and there will be no change in the investments for policyholders. The liabilities will remain matched with the same assets. The expectations of policyholders with African Rainbow investment products would therefore be unchanged. This comment is further affirmed in the Safrican HAF report under section 2.2.

6.5 Costs associated with proposed transfer

All costs of the proposed transfer will be covered by the shareholder, with no additional fees being charged to policyholders. There will thus be no loss of value to policyholders due to additional expenditure incurred as a result of the proposed transfer.

6.6 Impact on policy values: Tax and costs associated with transfer

It is the opinion of Sanlam Group tax (and also my understanding) that there will not be any tax impact on policyholders.



7 FINANCIAL SOUNDNESS

7.1 Basis for assessing financial soundness

For purposes of the required opinion, “financial soundness” is clarified by actuarial guidance (on transfers), as the ability to maintain a financially sound condition on the Prudential Supervision Reporting basis as per the Insurance Act.

The single most useful statistic to assess financial soundness (as per the definition above) is the Capital Cover Ratio (defined here as Eligible Own Funds divided by SCR). The *Capital Cover Ratio* (henceforth denoted in italics to emphasise the fact that it has a very specific definition within the context) considers the extent to which the available capital (assets less liabilities valued as per the Insurance Act) for an insurer exceeds the minimum required capital for the insurer to demonstrate financial soundness (also calculated as per the Insurance Act).

7.2 Capital Cover Ratios compared

The components in the SAM QRT used to calculate the Capital Cover Ratios were provided, as at 30 June 2021, for the respective entities. The same exercise was repeated under a scenario allowing for the transfer. These results are summarised below:

	African Rainbow	African Rainbow <i>post transfer</i>	Safrican	Safrican <i>post transfer</i>
Solvency Cover				
MCR	2,42	1,18	5,49	5,44
SCR	1,58	4,40	1,37	1,36
Summary of Solvency Position				
Total Assets	34 741	35 956	6 090 184	6 093 264
Total Liabilities	-1 600	13 903	5 410 024	5 398 403
Basic Own Funds	36 341	22 052	680 160	694 861
Eligible to meet MCR	36 341	17 758	493 393	508 094
Eligible to meet SCR	36 341	17 758	493 393	508 094
Summary of Liabilities				
BEL	-19 842	-	5 103 376	5 083 534
Risk Margin	3 077	-	16 034	18 698
Other liabilities	15 165	13 903	290 614	296 171
Summary of Capital Requirements				
MCR	15 000	15 000	89 840	93 427
SCR	22 947	4 034	359 358	373 707



- African Rainbow's SCR Cover improves from 1,58 to 4,40 post the transfer as only market risk on the shareholder assets remains. Due to the R15m limit on the MCR, MCR cover drops from 2,42 to 1,18, however this is not a risk to policyholders as they would have all been transferred to Safrican.
- Safrican's SCR Cover remains largely unchanged from 1,37 to 1,36.
- Total assets across the 2 entities increases on the prudential basis due to a deferred tax asset that arises for African Rainbow post the transfer.
- Total liabilities increases, due to a deferred tax liability of R3,9m that is raised on Safrican post the transfer. This further results in an aggregate reduction in own funds eligible to meet SCR across the 2 entities.
- The bulk of policyholder liabilities are negative for African Rainbow on the SAM basis. The transfer therefore results in a reduction in the total Safrican liabilities overall.
- There is also an overall reduction in the risk margin across the entities. This is due to the risk margin being dependant on the SCR, which reduces across the 2 entities due to diversification benefits and offsetting interest rate exposure (African Rainbow is exposed to a downward shock, whereas Safrican (pre and post transfer) is exposed to an upward shock in aggregate).
- SCR increases, as expected, for Safrican, largely due to the take on of market risk and life underwriting SCR from African Rainbow's risk products. Across the two entities SCR reduces as explained above.

Due to the *Capital Cover Ratios* remaining largely unchanged for Safrican post the transfer, as at June 2021, there should be no concerns regarding the impact of the transfer on financial soundness.

7.3 Audit status and checks on the results

We have reviewed the internal audit scope document, which shows that internal audit will cover the communication strategy, data migration and business closure plan. There is not a requirement for internal audit to review the financial results shown above.

Safrican have further indicated, after engagement with the regulator, that an external auditor will only be appointed, if required, later in the transfer process.

However, we have performed the following checks on the results:

- The base Jun-21 capital positions were verified against the ORSAs prepared by African Rainbow and Safrican in 2021.



- The movement in the own funds and capital components used to derive the *Capital Cover* was checked for reasonability, and discussed with the Safrican HAF. For example, in general the sum of parts pre and post transfer should be similar. For certain items this relationship did not hold true, but could be explained as noted above.

7.4 Capital Cover Ratio post June 2021

Over the second half of 2021, based on HAF feedback and the provisional, unaudited results, both African Rainbow and Safrican have incurred losses, but were supported by capital injections from the shareholder. This demonstrated the willingness of the shareholder to assist the respective businesses if required. A similar comment, related to the shareholders willingness to support the businesses, is included in the Safrican HAF report.

We have further reviewed the Safrican ORSA for 2021 and out-of-cycle 2021 ORSA for African Rainbow, and both show an improvement in Capital Cover post 2021.

Given the above, I am confident in the future ability of Safrican to honour policyholders' benefits as reflected in its shareholders' intentions to ensure that the entity remains well-capitalised. In addition, I am confident that this ability will not be negatively impacted by the proposed transfer.

It is worth commenting on a potential risk should there be a lengthy delay in the transfer. This is noted in the African Rainbow risk register, and in the out-of-cycle ORSA, and points largely to cash flow concerns should the company continue to operate with a diminishing policyholder base and fixed overhead expenses. The transfer should therefore be implemented as soon as possible after approval had been granted.



8 COMMUNICATION PLAN

8.1 General

A comprehensive communications plan has been developed that will ensure that all African Rainbow policyholders, staff and other stakeholders are provided with the necessary information relating to the proposed transfer.

Draft communication that will be sent to policyholders was provided. This will feature in an email to policyholders, in the media and on the Safrican website.

Some items / scripts were still outstanding at the time when this report was finalised. However, from what I have observed and based on discussions with members of the project management team, I am satisfied with the process and that those involved (and invited to contribute to the content) are applying their minds to ensure accuracy and completeness of information.

8.2 Communication with Policyholders

It is worth noting that, since the proposed transfer will have no impact on the administration process, policyholders will continue to interact with service centers as they did before the proposed transfer.

Policyholder communication (in terms of providing information on the proposed transfer) will be in the form of:

- E-mail (where this is on record)
- SMS (both before and after the proposed transfer)
- Whatsapp
- Radio
- On-hold message when calling the call centre
- Newspapers
- Website notice.

8.3 Communication with business partners and key stakeholders

The following partners and stakeholders were identified:

- Brokers (e-mail from the head of the broker division)
- Key Accounts (e-mail / letter)
- 3rd party contracts with group benefits and the broker division (e-mail / letter)
- Reinsurers (already engaged)



- Ombudsman (formal letter from legal department)
- Regulator (email / portal).

8.4 Communication: Staff

Various groups of employees that need to be informed of the transfer were identified. Communication will be via e-mail (with "hymn sheet" in terms of how questions should be addressed), broadcast mailer, staff newsletter, staff meetings and notices in staff publications.

No employees will be made redundant due to the transfer.