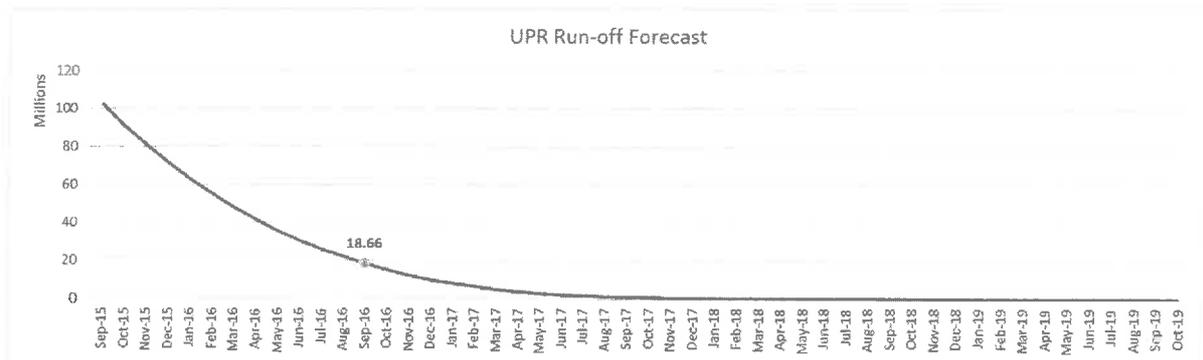


## THE FUTURE OF RELYANT INSURANCE COMPANY (“RIC”)

Luzocode (RF) (Pty) Ltd purchased RIC to run off RIC’s insurance book, with the following intentions and objectives;

- Provide policyholder service, treat customers fairly and in particular handle all policyholder claims in a fair and professional manner.
- Remain compliant with all applicable legislation.
- Operate the business in an efficient manner by minimizing costs and maximizing returns for the shareholders.
- Treat RIC staff fairly during this process.
- Wind up RIC in an orderly fashion and to surrender RIC’s insurance licence.

The majority of RIC’s business was in the form of upfront premium which resulted in the creation of an unearned premium reserve. The projected unearned premium reserve (“UPR”) run-off for the remaining in-force RIC policies is depicted in the graph below:



By 30 September 2016 RIC will be significantly smaller and have released more than 80% of the UPR from when the purchase of RIC was effective. RIC will be simpler to manage and require a limited infrastructure to operate off with a smaller cost base.

A change in strategy is required to achieve/maintain the following outcomes:

- The remaining RIC run-off book is placed into an optimal structure from an ultimate shareholder return perspective.
- The RIC insurance licence is surrendered and RIC wound-up in an orderly fashion.
- All RIC staff are fairly treated, proactively communicated with, and where possible, new employment found.

The following options were considered in order to achieve these objectives:

1. **Option 1:** Sell RIC to a suitable third party.
2. **Option 2:** Run off the remaining RIC book in the company and then surrender the licence.
3. **Option 3:** Undergo a portfolio transfer and transfer the remainder of RIC’s book into the Lombard Insurance Company (“LIC”) licence and continue to meet the obligations to RIC’s policyholders via LIC.

### Option 1:

RIC has been approached by a third party who is interested in purchasing RIC and the remainder of the insurance book with the intention of approaching the FSB with a business plan to start writing new business in RIC again. The shareholders of RIC do not believe this to be the optimal option given that this has the potential to be a protracted process, there would be no guarantee that the new shareholders would treat customers fairly or that the FSB would approve such a transaction. Further to this, the intention at the time of purchasing RIC was to run the insurance book down and surrender the licence.

**Option 2:**

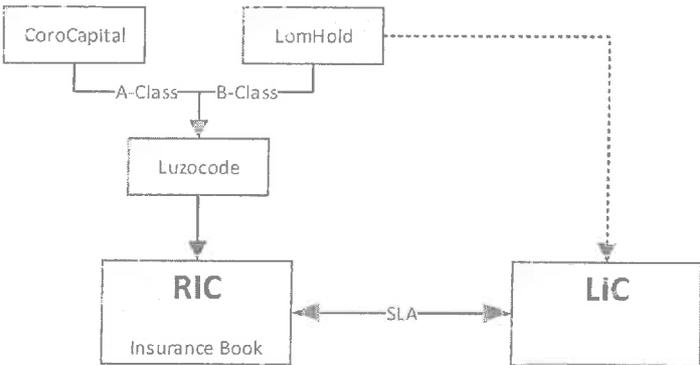
After considering this option it was felt that this is not an ideal option given the fact that to continue in this manner is prohibitively expensive, given the premiums being earned by RIC post 30 September 2016. Further to the costs, as RIC is in run off it is becoming increasingly difficult to retain the key staff required to maintain a compliant and efficient insurance company. It is also difficult to attract the right new staff to an insurance company which is in run off and has a limited life span.

**Option 3:**

After due consideration this appears to be the most sensible approach in order to achieve all the objectives. The cost base or expenses are substantially reduced and hence maximises shareholders return without foregoing policyholder service and policyholder obligations will all be met. It further allows for compliance with legislation and regulations to continue. This is the option which the shareholders of RIC are proposing.

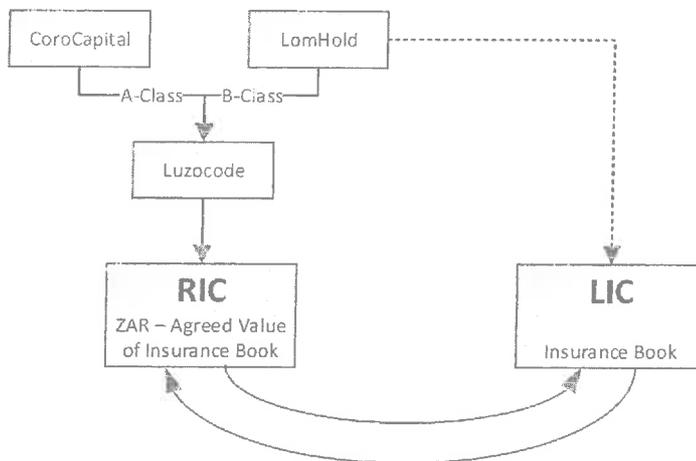
**High-level overview of proposal**

As it stands, the following corporate structure is in place:

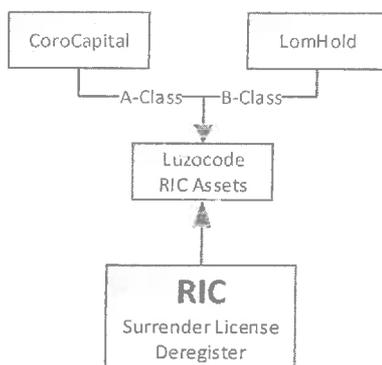


It is proposed that our desired outcomes are achieved by:

- 1. The sale of the RIC book and the associated assets, liabilities and necessary operations base to Lombard Insurance Company (LIC);



## 2. The wind-up of RIC.



It is under these two streams of activity that the project will be managed. While there will be a number of parallel activities, the completion of the sale of the book and associated portfolio transfer to LIC obviously needs to take place prior to the wind-up of RIC.

The targeted completion date is February 2017.

### **The sale of the RIC book and the associated assets, liabilities and necessary operations base to LIC**

#### *Valuation of the RIC Book and Associated Payment*

- RIC will sell the remaining book of business to LIC.
- It is proposed the same valuation process is applied as applied when RIC was purchased by Luzocode from Ellerines.
- LIC will pay RIC the defined valuation amount on the agreed terms.

#### *Portfolio Transfer Process*

- The RIC book of business, including the assets, liabilities and necessary operations base will be transferred to LIC.
- RIC and LIC will follow the portfolio transfer process as defined by the FSB under the Short-term Insurance Act Section 36(2).

- LIC will then be on-risk and take the associated up/downside on the performance of the book.
- Christine Rodriques of Norton Rose Fulbright Attorneys will be engaged to assist in this process.

The following facts need to be taken into account when planning the portfolio transfer:

- The transfer will be seamless from a policyholder perspective due to the fact that policyholders will be able to contact LIC for claims complaints and queries in exactly the same manner as they were able to contact RIC prior to the transfer:
  - the current call centre number will be transferred to LIC
  - existing RIC claims staff will be transferred to LIC to continue handling claims, complaints and queries.
- There will be no change to the current processes used by RIC from a policyholder perspective.
- There will be no change to premiums or terms and conditions of the policies.
- Current Lombard management will take over the management of the remaining business in place.
- The portfolio will be transferred to a stronger balance sheet.

#### **Effective date of transfer**

The desired effective date of transfer is 30 September 2016, which is the current year end of RIC and will eradicate the need for an additional audit for the portfolio transfer process.

#### **Policyholder Communication**

The current geographic spread of policies as at the end of April 2016 is as per the table below and will be slightly different at the time of transfer taking into account the policy run off.

<b>Province</b>	<b>Policy count</b>	<b>Percentage</b>
Eastern Cape:	17684	13.50%
Free state:	9131	6.97%
Gauteng	21885	16.71%
KZN	21022	16.05%
Limpopo	8966	6.84%
Mpumalanga	11942	9.12%
No Region	1493	1.14%
Northern Cape	14797	11.30%
North West	9406	7.18%
Western Cape	14662	11.19%
	<b>130988</b>	<b>100.00%</b>

The suggested method of communication is twofold;

1. SMS messages to policyholders – All active policyholders will be sent an sms, from past experience we know that this customer base does change its cell numbers regularly, we therefore do not expect a success rate of much over 40%.
2. Local newspaper articles – An advert will be placed in a local newspaper in each of the above provinces.

## **The wind-up of RIC**

### *Termination of Outsourcing and Inward Reinsurance Arrangements*

- Currently RIC performs outsourcing services for Relyant Life Assurance Company Limited and Prefsure respectively. Prefsure has been given notice and this agreement terminates at the end of May 2016. Relyant Life Assurance Company Limited has been given notice and this agreement terminates at the end of June 2016.
- The re-insurance agreements whereby the insurers in Lesotho, Swaziland and Zambia re-insured into RIC have been terminated with effect as follows;
  - The Lesotho reinsurance agreement terminated as at close of business on 7 December 2015, this agreement is now in run off.
  - The Zambian reinsurance agreement terminated as at close of business on 31 December 2015, this agreement is now in run off.
  - The Swaziland reinsurance agreement terminated as at close of business on 7 April 2016, this agreement is now in run off.

The obligations of run off reinsurance agreements in consultation with the local insurers will be transferred to LIC.

### *Licence Surrender*

- Once all insurance liability has been transferred to LIC the process of surrendering the insurance licence and releasing the tied up capital to shareholders will begin.
- This is to be done in line with the FSB's requirements under the Short-term Insurance Act Section 42.

### *Balance Sheet Clean-up and Release of Assets*

- Finalise the clean-up of the RIC balance sheet, with due consideration to tax requirements.
- Release of tied up capital to shareholders.

### *Deregistration*

- Final tax submissions completed and Tax clearance certificate received.
- Finalisation of remaining company secretarial issues.
- Deregistration of RIC and transfer to remaining assets to the shareholder.