

## FAQs – CICL Provisional Curatorship

01 August 2022

- **What does provisional curatorship mean?**

Curatorship is a regulatory mechanism used by the Prudential Authority (PA) to intervene in a business which it regulates, such as a short-term insurance company like Constantia Insurance Company Limited (CICL). A curator is appointed by the High Court to take control of and manage the business, to protect the interests of policy holders, and to endeavour to restore the business to a regulatory sound position.

**The current court order is a provisional as opposed to a final order.** This means that it is a temporary order and the parties will return to the High Court at a later date to determine the necessity for the order to be made final.

**The intended goal of this provisional curatorship is for the curator to step in and assist CICL to restore its required capital ratios whilst protecting the interests of policyholders.**

In short, curatorship is aimed at rehabilitation of a business.

- **Why is CICL under provisional curatorship**

CICL is under provisional curatorship as a result of a shortfall in its regulatory capital requirements, in terms of the Insurance Act. Provisional curatorship was identified by the PA as the most suitable and most effective mechanism to preserve the current financial position of CICL and facilitate ongoing discussions with potential investors to recapitalize the business.

Constantia Life and Health Limited (CLAH), and Constantia Life Limited (CLL) - the life insurance companies - are not under provisional curatorship.

- **What is the difference between provisional and final curatorship?**

**The order is provisional** as it was granted by the High Court without the High Court having heard CICL's representations about why it should not be placed under curatorship.

CICL and all other interested parties are invited to make representations to the High Court as to why a final order should not be made, in respect of the curatorship of CICL.

The PA would also consider, based on the report of the curator, whether any other actions should be taken in relation to CICL's business to protect policyholders.

**Constantia Life and Health Limited (CLAH), and Constantia Life Limited (CLL) - the life insurance companies - are not under provisional curatorship.**

- **What is the role of the curator?**

The curator is required to continue to safeguard the interests of CICL's policyholders and take control of, manage and preserve CICL's business. The curator must conduct CICL's business in a prudent manner and in terms of the provisional court order, as well as any governing legislation.

- **How long will the provisional curatorship last?**

The High Court of South Africa granted a provisional curatorship order which provides the PA and the appointed curator with an opportunity to investigate the affairs of CACL before the curator provides his report to the High Court on 21 November 2022. CACL and all other interested parties are invited to make representations to the court on 6 December 2022, as to why a final order should not be made, in respect of the curatorship of CACL.

- **Why has CACL failed to meet its capital requirements in terms of the Insurance Act**

The Covid-19 pandemic resulted in volatility that negatively impacted CACL's investment portfolio and its regulatory capital requirements. The business is currently working to secure additional capital investment to restore the regulatory capital requirements.

- **What is the current state of the CACL business?**

**In the past 24 months the CACL business has continually returned positive underwriting results, liquidity cash assets have nearly doubled, operational expenses have reduced significantly, and measures were put in place to reduce the volatility on the equity portfolio.**

**Through June 2022, the business continued its upward trajectory with preliminary results showing growth of 8.7% in gross premium income compared to the same period in the prior year. Year-on-year, the insurance operating result improved by more than R10 million. The Insurance Group generated in excess of R110.0 million in operational cash through the end of June 2022, with a cash balance in excess of R190.0 million as at the same date.**

**CACL's non-life insurance licence has been suspended by the PA (this is only in relation to new business and is not applicable to renewals or amendments to current policies)**

The curator will endeavour to continue to manage CACL's business in the ordinary course and in a prudent manner.

The curator intends to perform his duties and to investigate all options available in terms of governing legislation to assist CACL to be permitted to commence underwriting new insurance policies and to be released of its provisional curatorship.

- **What is the implication for CACL's employees?**

The curator will endeavour to continue to manage CACL's business in the ordinary course and in a prudent manner in accordance with the terms of the court order as well as any governing legislation. The curator will endeavour to contact impacted stakeholders in due course and update them on the status of his investigations and next steps.

- **What is the implication for CACL's shareholders?**

The curator is currently in discussions with CACL management and suitable investors for a recapitalization of CACL. The curator will investigate all feasible measures which could be adopted to restore these ratios. The curator intends to perform his duties and to investigate all options available in terms of governing legislation to assist CACL to be permitted to commence underwriting new insurance policies and to be released of its provisional curatorship.

The curator will endeavour to contact impacted stakeholders in due course.

- **What is the implication for CICL's policy holders?**

CICL management has committed to continue to co-operate with the curator in order to ensure that CICL continues to provide the required services to current policyholders and to ensure that CICL is able to restore its capital ratios in compliance with the Insurance Act. The curator is required to continue to safeguard the interests of CICL's policyholders and preserve CICL's business.

- **Are Constantia policy holders safe?**

Only CICL's non-life insurance licence is suspended (**this is only in relation to new business and is not applicable to renewals or amendments to current policies**). The curator is required in terms of the court order, to: (i) continue to safeguard the interests of CICL's policyholders and preserve CICL's business; and (ii) conduct CICL's business in a prudent manner in compliance with the court order as well as any governing legislation.

CICL management has committed to continue to co-operate with the curator in order to ensure that CICL continues to provide the required services to current policyholders and to ensure that CICL is able to restore its capital ratios in compliance with the Insurance Act.

- **What does recapitalization mean?**

Recapitalization is the process of restructuring CICL's debt and equity mixture, to meet the minimum capital requirements which are prescribed by regulation. The curator is currently in discussions with CICL management and suitable investors for a recapitalization of CICL. The curator will investigate all feasible measures which could be adopted to restore these ratios.

- **What has delayed CICL's identification of a suitable investor?**

CICL has attempted to identify potential investors and has considered several proposals to adequately re-capitalise its business. However, those proposals have, to date, been unsuccessful. Some of the challenges affecting CICL's re-capitalisation efforts include the COVID-19 pandemic and the subsequent volatility CICL's investment portfolio.

- **Why has the FSCA suspended CICL's license?**

Customary consequences of a curatorship include a suspension of license in relation to underwriting new insurance policies, but all existing policies will continue to be underwritten by CICL and accepted for renewal as well as for any variations or amendments.

- **Can CICL still service their clients?**

The license suspension only relates to the conducting of new business in order to contain the liabilities of CICL. CICL will be allowed to renew and vary existing policies, provided it does not result in an increase of liabilities.

CLAH and CLL are not under provisional curatorship and their licences are in full effect

- **How will the provisional curatorship impact on potential investors?**

The curator will engage with investors regarding his role in an endeavour to minimise any adverse effects on the potential recapitalisation.

- **How does the provisional curatorship affect the current management team?**

The powers of the board of directors and management of CICL vest in the provisional curator. CICL management has committed to continued co-operation to ensure that required services to current policyholders continue, and that CICL is able to restore its capital ratios in compliance with the Insurance Act.

- **What are the timelines of the provisional curatorship?**

The High Court of South Africa granted a provisional curatorship order which provides the PA and the appointed curator with an opportunity to investigate the affairs of CICL before reporting back to the High Court. CICL and all other interested parties are invited to make representations to the court on 6 December 2022, as to why a final order should not be made, in respect of the curatorship of CICL.

- **Will CICL still be able to service its liabilities in the ordinary course?**

The curator is required to continue to safeguard the interests of CICL's policyholders and preserve CICL's business. The curator must conduct CICL's business in a prudent manner and in terms of the provisional court order granted as well as any governing legislation.