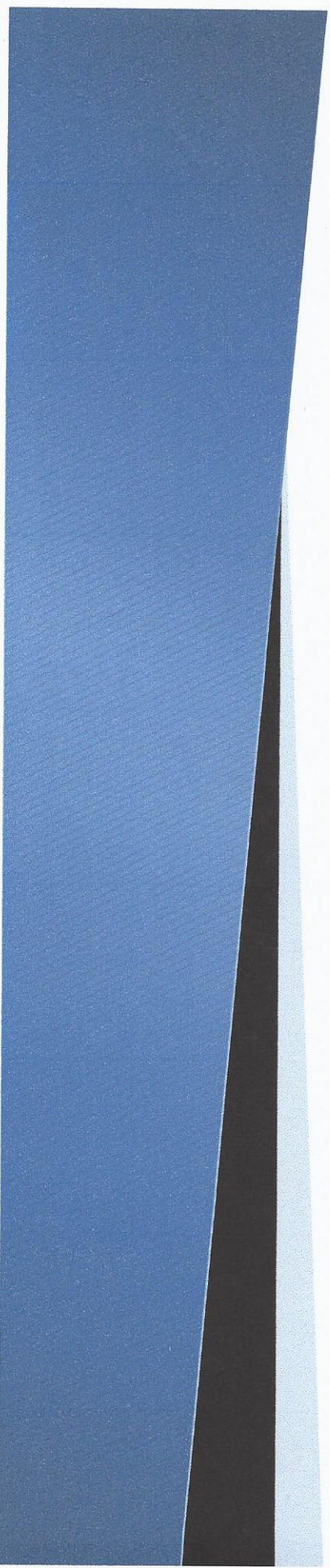



# **MINING REHABILITATION: Coniston Capital Partners Mine Rehabilitation Liability Insurance Product ('MRLIP')**

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# MINE REHAB BACKGROUND

- ▶ Any Company/Individual who wants to apply to the Department of Mining Resources (DMR) for Mining Licence needs to submit a Guarantee which secures the capital requirement to effect the rehabilitation of the disturbed land as a result of the ceased mining activities, for whatever reason.
  - ▶ The Guarantees can be done in 1 of 4 ways:
    - An actual cash deposit lodged with the DMR
    - A 37A Trust registered in the name of the Mine
    - A Guarantee issued by an Investment Bank
    - A Guarantee issued by a STI Company.
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# MINE REHAB BACKGROUND

- ▶ All 4 options carries the benefit of being an allowable Income Tax deduction, however:
  - ▶ Deposit Lodged with DMR:
    - Must be a once-off payment for the total value of the projected Rehabilitation Cost
    - No return on any investment income
    - Creates a severe Capital strain on the Mine
  - ▶ A 37A Trust (being phased out):
    - Full value of the cost of Rehabilitation must be contained in the Trust, from inception
    - Return on investment inures to the benefit of the Trust
    - Trust funds may **ONLY** be applied for the purposes of rehabilitation
- Creates Capital strain on the Mine




# MINING REHAB BACKGROUND

- ▶ Investment Banks:
  - Actual cash deposit must be lodged with the Bank for the full value of the Rehabilitation
    - Return on Investment inures to the benefit of the Mine, but at a substantial reduced rate of return
    - Severe Capital strain on the Mine
- ▶ Short Term Insurance – Coniston Product:
  - Between 20 % to 50 % cash deposit required of the full value of the Guarantee, payable, upfront
  - Investment Vehicle ceded to the Insurance Company
  - Return on Investment inures to the benefit of the Mine
  - Capital strain relief for the Mine



# MINE REHAB BACKGROUND

- ▶ Post 9/11 a spate of Credit downgrades hit the Insurance and Reinsurance Markets, world-wide.
  - ▶ This lead to the DMR placing a moratorium on STI issuing Rehabilitation Guarantees
  - ▶ Commercial Banks thus had a monopoly on Guarantees and the cost of it soared.
  - ▶ During July, 2011, the DMR lifted the moratorium and only 4 STI's remained in this business class:
    - ▶ GuardRisk
    - ▶ Lombard
    - ▶ Infiniti
    - ▶ SGIGA/Constantia
  - ▶ Santam via Centriq has now made a strategic decision to re-enter this market during 2016
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# MINE REHAB

## PROCESS TO FOLLOW

- ▶ The process of obtaining a mining licence is lengthily
- ▶ Initially, applicants must obtain a prospecting licence or a permit
- ▶ It allows the Mining Company to do the prospecting which includes the assessment of the viability of the mining operation
- ▶ It will determine the process to be followed in executing the mining project as well as the life expectancy of the mine. This is done in conjunction with independent geologists
- ▶ An Environmental Management Program Report (EMP Report) is now generated, which is submitted to the DMR, for consideration and approval
- ▶ The EMP Report MUST be submitted to the DMR, annually
- ▶ The Mining House now needs to prove to the DMR that the mine will be viable and sustainable and that they have the Capital means to facilitate the start-up operations
- ▶ (The actual start-up of mining operations can take anything from 1 to 8 years, depending on the type and size of the mine due to the various/different infrastructure it will require, to start mining)

# **MINE REHAB PROCESS TO FOLLOW**

- ▶ **Once the DMR has accepted their Financial adequacy and signed off on the EMP Report, the mining house is given 90 days to execute/activate the actual licence**
- ▶ **The only requirement to execute/activate the licence is purely the submission of an acceptable Mining Rehabilitation Guarantee, in favour of the DMR**
- ▶ **Should the Mining House fail to meet the 90 day dead-line to execute, they will move to the end of the queue of applicants and has to start the process from scratch, again**



# MINE REHAB

## RATING STRUCTURE

- ▶ The Coniston product is based on a 4 tier cost structure:
  1. An Cash Deposit into an Investment Vehicle, acceptable to both, STI and Mining House, ceded to the STI of between 20 % to 50 % of total Guarantee Value, payable upfront, on inception
  2. A recurring monthly investment premium is further required to be deposited into the same (ceded to STI) Investment Vehicle. The monthly premium is calculated to collateralise the full Guarantee Value, over a period of 3.5 years, including the initial upfront cash deposit
  3. Depending on the type of mine, an annual Risk Rate is charged which equates to anything from 1.5 % to 5.5 % pa, again calculated on the full value of the Guarantee
  4. Over and above the Risk and Investment premiums, indemnities and counter-indemnities are signed over to the STI eg Machinery and Equipment; Property Assets etc. These Indemnities are being executed in a way to give the Insurer most surety and additional peace of mind



# MINE REHAB RATING STRUCTURE

- ▶ Facts normally taken into account for rating purposes includes:
  - ▶ Type of Mine
  - ▶ Expected profitability of the Mine
  - ▶ Life expectancy of the Mine (no mine with a life expectancy of less than 10 years will be accepted)
  - ▶ Management Structure; and
  - ▶ Off-Take Agreements
- ▶ It must be understood that on this Class of Business, there can never be an “one-fits-all” approach, as each mine will differ in circumstance, merits, type and finances.



# MINE REHAB SUSTAINABILITY

- ▶ Mining Rehabilitation has been a very profitable Business Class over the past 15 years and more specifically, the last 10 years
- ▶ Market Loss Ratio, since 2004 equates to Zero %
- ▶ The SA Market annual insurance premium on this Business Class equates to ZAR 30.0bn
- ▶ More than 90 % of this premium leaves the borders of SA
- ▶ If structured correctly, no Guarantee should exceed a period of 3.6 years, before it is fully collateralised
- ▶ Mines with a life expectancy of less than 10 years, not accepted
- ▶ We have actively been researching the Markets for solutions, since 2009 are now in a solid position with our Product Offering, to become an active New Player in this Market

Sector

# MINE REHAB SUSTAINABILITY

- ▶ Currently, some 26,000 Mining Licence Applications are still pending with the DMR – one of the main reasons held, that it is directly as a result of the lack of Guarantees
- ▶ In a recent meeting with the Director General of the DMR, he advised that the DMR will only call on any Rehabilitation Guarantee if absolutely necessary as the Government's interest is primarily in ensuring a mine remains open under licence employing people with an adequate mine rehabilitation liability guarantee/insurance in place
- ▶ Point in Case:
- ▶ Aurora Mines suffered severe asset stripping and was forced into liquidation and the DMR was well within its rights to call on the Guarantee but did not do so.



# MINE REHAB SUSTAINABILITY

- ▶ Eventually, Chinese Africa (CA) put in a successful bid to purchase Aurora, including all liabilities. There were substantial interest from other parties in the acquisition, but CA submitted the successful bid
- ▶ In effect, It is a known fact that the value of a mine, apart from the minerals to be mined, is in the mining licence. Consequently, there is invariably a strong likelihood that there will be other mining entities in line to purchase the defaulting mine's licence, including any/all exposure to a mine's rehabilitation liability.
- ▶ Guarantees are issued for a period not exceeding 36 months, with an annual review clause, included
- ▶ This allows the STI to review the operations of the mine, along with the performance of the Investment Account, built up during the preceding 12 months, held as collateral



# MINE REHAB INCOME STREAM

- ▶ In future, in the unlikely event of a Guarantee being called, the Upfront Cash Deposit, plus the recurring Monthly Cash injections that are ceded to the Insurer, along with the Indemnities and Counter-indemnities, should ensure that the Insurer will not be required to utilise its own capital to settle the claim
- ▶ Invariably, during the 1<sup>st</sup> year and some cases 2<sup>nd</sup> as well, not disturbance of the land has taken place BUT the Mining House has been building up collateral since inception
- ▶ If we use the current 3 Guarantees, on hand, as an example the following picture emerges:



# MINE REHAB INCOME STREAM

- ▶ Guarantees on hand:
- ▶ 1) Village Main Reef
  - ▶ Risk Premium = ZAR 8,381,692
  - ▶ 2) Ferrum Crescent
    - ▶ Risk Premium = ZAR 5,420,000
    - ▶ 3) Universal Coal
      - ▶ Risk Premium = ZAR 2,885,000
      - ▶ Total risk premium = ZAR 16,666,692
      - ▶ Less: 15 % Retention = ZAR 2,503.038
      - ▶ @ 27.5 % (min) R/I Commission = ZAR 3,900,514 (ZAR 16,686,692 @ 85.0 % @ 27.5 %)
- ▶ Total Income, commissions, only = ZAR 3,900,514 on these 3 Risks

# MINE REHAB NET EXPOSURE

- ▶ Using FERRUM CRESCENT as a stand alone example:
- ▶ ZAR 95,000,000 = Guarantee Required
- ▶ 3 year policy term, incl Annual Review Clause
- ▶ ZAR 14,250,000 = Net (15.0 % of ZAR 95.0m)
- ▶ Securities:
  - ▶ ZAR 23,750,000 = 25.0 % Up-front deposit
  - ▶ ZAR 2,850,000 = Recurring monthly premium
  - ▶ ZAR 71,820,000 = ZAR 2.850k X 12 X 2.1 years



# MINE REHAB NET EXPOSURE


EXPOSURE	SECURITY	NET
Year 1) 14,250,000	3,562,500	10,687,500
Year 2) 14,250,000	8,692,500	5,557,500
Year 3) 14,250,000	13,822,500	427,500
Year 4) 14,250,000	14,250,500	0

The above table depicts the actual cash reserves, only, without taking any of the normal Indemnity Securities, applicable on any individual case, into consideration.





# MINE REHAB U/W STRUCTURE

- ▶ A new Underwriting Managing Agent (UMA, also known as an MGA in the Worldwide market outside of South Africa) will be created and will underwrite business on behalf of yourselves
  - ▶ Jas Visser (Chief Underwriter) who has more than 34 years experience in the underwriting of Corporate/Commercial risks and Reinsurance departments of Santam Ltd ( Head Reinsurance)
  - ▶ Jas has been actively involved in underwriting Mining Rehabilitation business, since 2009, with CIM Insurance Ltd (which merged with SWAN Insurance Ltd) Mauritius
  - ▶ Loss Ratio since 2009 equates to zero %
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# MINE REHAB U/W STRUCTURE

- ▶ Coniston will enter into a business agreement with your retail broker for the purposes of implementing the Coniston Partners Mine Rehabilitation Liability Insurance Product (MRLIP)
- ▶ Jas Visser, CEO of Coniston has in-depth experience having worked over 30 years with Sanlam
- ▶ Jas Visser has in-depth experience of assisting with the DMR procedures and compliance relating to Guarantees
- ▶ Optimising sureties for Guarantees
- ▶ Optimising the quantum in EMP Reports by using the Act that governs provision to the fullest
- ▶ Rating and structuring the actual Mining Guarantee subject to our own underwriting criteria
- ▶ Loss Ratio since 2001, equates to Zero %



# MINE REHAB PREMIUM PROJECTION

- ▶ SA Market annual premium equates to ZAR 30.0bn
  - ▶ Our investigation and research done leads us to believe that the initial goal and objective would be to acquire an 0.80 % market share within the 1<sup>st</sup> year of operation, being ZAR 250.0m
  - ▶ This objective is well within our reach as to date we have secured business to the tune of ZAR 230.0m, without actively marketing the potential Product
  - ▶ A minimum growth factor of 10.0% pa, thereafter will be contracted and again this will be well within reach as we are aware of the fact that approximate 26,000 applications are lodged with the DMR
  - ▶ Line Size in Year 1:
  - ▶ Coniston will conservatively require a line size of ZAR 100.0m
  - ▶ Reinsurance cover is being sourced on a 85.0 % Quota Share basis , should R/I Cover be required
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