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## Various Rating Actions Taken On Insurers And Reinsurers With Exposure To South Africa Due To Diminished Growth Prospects

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- Our negative outlook on the Republic of South Africa reflects its increased economic risks due to the still-slow pace of economic growth, which stems from weak external demand and domestic constraints.
- We believe this will lead to weaker growth and greater competition in both the nonlife and life sectors of South Africa's insurance industry.
- Consequently, we have revised down our insurance industry and country risk assessment for the South African property/casualty and life sectors to moderate from intermediate.
- We are revising our outlook to negative on four insurers, lowering our ratings on two insurers, and affirming the ratings and outlook on two reinsurers.

LONDON (Standard & Poor's) Dec. 9, 2015--Standard & Poor's Ratings Services today took various ratings actions on insurers exposed to the South African market. Today's rating actions follow the revision of our outlook on South Africa to negative from stable (see "Outlook On South Africa Revised To Negative On Continued Slow Growth; Ratings Affirmed," published on Dec. 4, 2015). We also revised down our insurance industry and country risk (IICRA) assessment of the South African life and property/casualty (P/C) insurance sectors to moderate from intermediate.

We lowered our ratings on these insurers:

- Lion of Africa Insurance Co. Ltd.--counterparty credit and financial strength ratings to 'B+' from 'BB-', national scale rating to 'zaBB-' from 'zaBB+'. The outlook is negative.
- Infiniti Insurance Ltd.--national scale rating to 'zaBBB' from 'zaBBB+'.

We affirmed our 'BBB+' long-term counterparty credit and financial strength ratings on the following insurers, and we revised our outlook on them to negative from stable. At the same time, we affirmed our 'zaAAA' South Africa national scale ratings on these insurers:

- AIG South Africa Ltd. and AIG Life South Africa Ltd. (collectively, AIGSA).
- Allianz Global Corporate and Specialty South Africa Ltd. (AGCSSA).
- Hannover Reinsurance Africa Ltd. and Hannover Life Reassurance Africa Ltd. (collectively, HRSA).
- Santam Ltd.

At the same time, we affirmed our 'BB+' counterparty credit and financial strength ratings and 'zaA+' national scale rating on GIC Re South Africa Ltd. We also affirmed our 'A-' counterparty credit and financial strength ratings on African Reinsurance Corp. and its core subsidiary, African Reinsurance Corp (South Africa) Ltd. (collectively, African Re).

In our opinion, economic risks in South Africa have increased due to the still-slow pace of economic growth. We have revised down our estimate of full-year 2015 GDP growth to 1.4% from 2.1% in June. This is because of a combination of weak external demand, low commodity prices, and domestic constraints, including an inadequate electricity supply and overall weak business confidence that inhibits private-sector investment. Prolonged labor strikes, significant negative spill-over effects from the likely U.S. interest rate hikes, and lower demand from China could hamper any improvement in growth.

The change in economic risk prompted us to revise down our P/C and life IICRAS for South Africa to moderate from intermediate. Economic risk is one of the four factors that inform our view of country risk. We expect that the weakening economic environment will dampen demand from consumers and business for both new insurance products and renewals of existing coverage. This, in turn, has weighed on our expectations for real growth in both sectors, which we have revised to negative from neutral. At the same time, we expect the already-strong competition to intensify, particularly in the P/C sector.

Both the life and nonlife sectors have performed well in the past few years, but we expect that the increasingly constrained economic environment will likely put disposable consumer income and business spending under greater pressure. This will curtail real levels of premium growth, which we expect will fall close to zero. Limited growth in both sectors is likely to intensify competition, and we believe insurers will start competing more on price.

#### AFRICAN RE

We affirmed our 'A-' counterparty credit and financial strength ratings on

Africa Reinsurance Corp. and its core subsidiary, Africa Reinsurance Corp. (South Africa) Ltd. The outlook remains stable.

We view Africa Re's business risk profile as satisfactory. Africa Re's diversification leads to a combined IICRA assessment for the group which we have revised to high risk from moderate risk. That said, we believe Africa Re's diversification offsets South Africa's deteriorating growth prospects, and so our assessment of its business risk profile remains satisfactory.

We believe Africa Re has unique competitive advantages, including its "locally admitted" status, diplomatic privileges that afford its staff ease of movement, a network of offices across the continent, and the right--but not the obligation--to accept compulsory cessions. Its operating margins have been sustainably strong, with its net combined (loss and expense) ratio and return on equity averaging 92% and 15%, respectively, for the past five years.

Africa Re sources about 25% of its total premiums from South Africa. Although other markets are growing in importance, we expect that the country will remain a significant source of the group's business.

#### AIGSA

We revised our outlook on AIGSA to negative from stable and affirmed our 'BBB+' counterparty credit and financial strength ratings. At the same time, we affirmed our 'zaAAA' national scale rating on these two companies.

We revised our view of AIGSA's business risk profile to fair, which combines a moderate IICRA assessment and an adequate competitive position. This change led to a one-notch downward revision of AIGSA's stand-alone credit profile (SACP) to 'bbb' from 'bbb+'.

We view AIGSA as strategically important within the AIG group. As a result, under our group rating methodology, we can assign up to three notches of support to such subsidiaries. We apply one notch of uplift to AIGSA's SACP as the ratings are constrained by the sovereign rating.

The negative outlook parallels the outlook on the sovereign. It reflects our view that the ratings on AIGSA remain constrained by the local currency rating on South Africa. We would revise the outlook to stable if we revised the outlook on South Africa to stable. Similarly, we would lower the ratings if we downgraded the sovereign.

#### AGCSSA

We revised our outlook on AGCSSA to negative from stable and affirmed our 'BBB+' counterparty credit and financial strength ratings. At the same time, we affirmed our 'zaAAA' national scale rating on AGCSSA.

The ratings continue to reflect that AGCSSA is highly strategic to its parent, Allianz Global Corporate & Specialty SE (AGCS SE), which is a core subgroup of Allianz SE. Under our group methodology the ratings are aligned with those on the parent, but are limited by the local currency sovereign rating. We would

revise the outlook to stable if we revised the outlook on South Africa to stable. Similarly, we would lower the ratings if we downgraded the sovereign.

GIC RE SOUTH AFRICA LTD.

We affirmed our 'BB+' counterparty credit and financial strength ratings on GIC Re South Africa. The outlook remains stable. At the same time, we affirmed our 'zaA+' national scale rating on GIC Re South Africa.

Although GIC Re South Africa is based in South Africa, it has limited business exposure to the country; only an estimated 15% of its premiums come from business there. Consequently, the company's overall IICRA assessment remains in line with our current assessment of high risk.

HRSA

We revised our outlook on HRSA to negative from stable and affirmed our 'BBB+' counterparty credit and financial strength ratings. At the same time, we affirmed our 'zaAAA' national scale rating on these two companies.

We have revised our view of HRSA's business risk profile to fair, which combines our moderate IICRA assessment and an adequate competitive position. However, the subgroup's SACP remains unchanged. The subgroup continues to benefit from two notches of uplift due to its strategic importance to its parent, Hannover Rueck SE.

The negative outlook parallels the outlook on the sovereign. It reflects our view that the ratings on HRSA remain constrained by the local currency rating on South Africa. We would revise the outlook to stable if we revised the outlook on South Africa to stable. Similarly, we would lower the ratings if we downgraded the sovereign.

INFINITI INSURANCE LTD.

We lowered our national scale rating on Infiniti Insurance to 'zaBBB' from 'zaBBB+'.

Although strained industry growth in South Africa has weakened Infiniti's business risk profile, this is partly offset by the company's improving competitive position. We expect that over the next 12 months, the insurer will have breakeven or better underwriting performance and a competitive position which is comparable with that of similarly sized local peers.

The IICRA revision has affected our view of Infiniti's business risk profile, but this is partly offset by our improved assessment of its competitive position to less than adequate from weak.

LIION OF AFRICA LTD.

We lowered our counterparty credit and financial strength ratings on Lion of Africa to 'B+' from 'BB-'. The outlook remains negative. At the same time, we lowered our South Africa national scale rating on the insurer to 'zaBB-' from 'zaBB+'.

We revised our IICRA assessment to moderate. This--combined with a less than adequate competitive position--leads us to consider Lion's business risk profile as vulnerable. We expect the weaker economic environment could result in Lion of Africa taking longer to rebuild its franchise and market share.

The outlook remains negative to reflect the possibility of a downgrade. This could happen if Lion of Africa were to experience weaker earnings and capital than we anticipate or fails to improve underwriting and risk controls, reduce high risk asset concentrations, and protect the company's franchise value. A revision to stable would result from a track record of improved operating performance and robust capitalization.

#### SANTAM LTD.

We revised our outlook on Santam to negative from stable and affirmed our 'BBB+' counterparty credit and financial strength ratings. At the same time, we affirmed our 'zaAAA' national scale rating on Santam.

We revised our view of Santam's business risk profile to satisfactory, which combines a moderate IICRA assessment and a strong competitive position. Santam's GCP remains unchanged at 'bbb+'. Santam's predominant business exposure is to South Africa, though it has effected segmented rate increases and navigated the current business environment, which has resulted in it posting stronger-than-expected results.

The negative outlook parallels the outlook on the sovereign. It reflects our view that the ratings on Santam remain constrained by the local currency rating on South Africa. We would revise the outlook to stable if we revised the outlook on South Africa to stable. Similarly, we would lower the ratings if we downgraded the sovereign.

#### RELATED CRITERIA AND RESEARCH

##### Related Criteria

- Standard & Poor's National And Regional Scale Mapping Tables, Sept. 30, 2014
- National And Regional Scale Credit Ratings, Sept. 22, 2014
- Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Enterprise Risk Management, May 7, 2013
- Insurers: Rating Methodology, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

##### Related Research

- Outlook On South Africa Revised To Negative On Continued Slow Growth;

*Various Rating Actions Taken On Insurers And Reinsurers With Exposure To South Africa Due To Diminished Growth Prospects*

Ratings Affirmed, Dec. 4, 2015

INSURANCE INDUSTRY AND COUNTRY RISK ASSESSMENT SCORE	To	From
South Africa Property/Casualty	Moderate	Intermediate
Country Risk	Moderate	Moderate
Industry Risk	Intermediate	Intermediate
South Africa Life	Moderate	Intermediate
Country Risk	Moderate	Moderate
Industry Risk	Intermediate	Intermediate

RATINGS SCORE SNAPSHOT  
AFRICAN REINSURANCE GROUP.

	To:	From:
Financial Strength Rating	A-/Stable	A-/Stable
Anchor	a-	a-
Business Risk Profile	Satisfactory	Satisfactory
IICRA	High Risk	Moderate Risk
Competitive Position	Strong	Strong
Financial Risk Profile	Strong	Strong
Capital & Earnings	Very Strong	Very Strong
Risk Position	Moderate Risk	Moderate Risk
Financial Flexibility	Strong	Strong
Modifiers	0	0
ERM and Management	0	0
Enterprise Risk Management	Adequate	Adequate
Management & Governance	Satisfactory	Satisfactory
Holistic Analysis	0	0
Liquidity	Exceptional	Exceptional
Support	0	0
Group Support	0	0
Government Support	0	0

AIG SOUTH AFRICA GROUP

	To:	From:
Financial Strength Rating	BBB+/Negative	BBB+/Stable
SACP	bbb	bbb+
Anchor	bbb	bbb+
Business Risk Profile	Fair	Satisfactory

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IICRA	Moderate Risk	Intermediate Risk
Competitive Position	Adequate	Adequate
Financial Risk Profile	Moderately Strong	Moderately Strong
Capital & Earnings	Moderately Strong	Moderately Strong
Risk Position	Intermediate Risk	Intermediate Risk
Financial Flexibility	Adequate	Adequate
Modifiers	0	0
ERM and Management	0	0
Enterprise Risk Management	Adequate	Adequate
Management & Governance	Fair	Fair
Holistic Analysis	0	0
Liquidity	Strong	Strong
Support	+1	0
Group Support	+1	0
Government Support	0	0
ALLIANZ GLOBAL CORPORATE AND SPECIALTY SOUTH AFRICA LTD.		
Financial Strength Rating	BBB+/Negative/--	BBB+/Stable/--
GIC RE SOUTH AFRICA		
	To:	From:
Financial Strength Rating	BB+/Stable	BB+/Stable
SACP	bb	bb
Anchor	bb	bb
Business Risk Profile	Vulnerable	Vulnerable
IICRA	High Risk	High Risk
Competitive Position	Less than Adequate	Less than Adequate
Financial Risk Profile	Less than Adequate	Less than Adequate
Capital & Earnings	Lower Adequate	Lower Adequate
Risk Position	Moderate Risk	Moderate Risk
Financial Flexibility	Adequate	Adequate
Modifiers	0	0
ERM and Management	0	0
Enterprise Risk Management	Adequate	Adequate
Management & Governance	Fair	Fair
Holistic Analysis	0	0
Liquidity	Exceptional	Exceptional
Support	+1	+1
Group Support	+1	+1

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Government Support	0	0
<b>HANNOVER REINSURANCE AFRICA GROUP</b>		
	To:	From:
Financial Strength Rating	BBB+/Negative	BBB+/Stable
SACP	bbb-	bbb-
Anchor	bbb-	bbb
Business Risk Profile	Fair	Satisfactory
IICRA	Moderate Risk	Intermediate Risk
Competitive Position	Adequate	Adequate
Financial Risk Profile	Lower Adequate	Lower Adequate
Capital & Earnings	Lower Adequate	Lower Adequate
Risk Position	Intermediate Risk	Intermediate Risk
Financial Flexibility	Adequate	Adequate
Modifiers	0	0
ERM and Management	0	0
Enterprise Risk Management	Adequate	Adequate
Management & Governance	Satisfactory	Satisfactory
Holistic Analysis	0	0
Liquidity	Exceptional	Exceptional
Support	+2	+2
Group Support	+2	+2
Government Support	0	0
<b>LIION OF AFRICA INSURANCE LTD.</b>		
	To:	From:
Financial Strength Rating	B+/Negative	BB-/Negative
SACP	b+	bb-
Anchor	bb-	bb
Business Risk Profile	Vulnerable	Fair
IICRA	Moderate Risk	Intermediate Risk
Competitive Position	Less than Adequate	Less than Adequate
Financial Risk Profile	Weak	Weak
Capital & Earnings	Lower Adequate	Lower Adequate
Risk Position	Moderate Risk	Moderate Risk
Financial Flexibility	Less than Adequate	Less than Adequate
Modifiers	0	0
ERM and Management	0	0
Enterprise Risk Management	Adequate	Adequate



*Various Rating Actions Taken On Insurers And Reinsurers With Exposure To South Africa Due To Diminished Growth Prospects*

Management & Governance	Fair	Fair
Holistic Analysis	-1	-1
Liquidity	Adequate	Adequate
Support	0	0
Group Support	0	0
Government Support	0	0
SANTAM LTD.		
	To:	From:
Financial Strength Rating	BBB+/Negative	BBB+/Stable
Indicative GCP	a-	a
GCP	bbb+	bbb+
Anchor	bbb+	a-
Business Risk Profile	Satisfactory	Strong
IICRA	Moderate Risk	Intermediate Risk
Competitive Position	Strong	Strong
Financial Risk Profile	Upper Adequate	Upper Adequate
Capital & Earnings	Lower Adequate	Lower Adequate
Risk Position	Intermediate Risk	Intermediate Risk
Financial Flexibility	Strong	Strong
Modifiers	+1	+1
ERM and Management	+1	+1
Enterprise Risk Management	Strong	Strong
Management & Governance	Satisfactory	Satisfactory
Holistic Analysis	0	0
Liquidity	Strong	Strong
Support	0	0
Group Support	0	0
Government Support	0	0

IICRA--Insurance Industry And Country Risk Assessment.

RATINGS LIST

	To	From
African Reinsurance Corp.		
African Reinsurance Corp. (South Africa) Ltd.		
Local currency		
Counterparty Credit Rating	A-/Stable/--	A-/Stable/--
Financial Strength Rating	A-/Stable/--	A-/Stable/--

AIG South Africa Ltd.

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AIG Life South Africa Ltd.

Local currency

Counterparty Credit Rating	BBB+/Negative/--	BBB+/Stable/--
Financial Strength Rating	BBB+/Negative/--	BBB+/Stable/--
South Africa National Scale	zaAAA	zaAAA

Allianz Global Corporate and Specialty South Africa Ltd.

Local currency

Counterparty Credit Rating	BBB+/Negative/--	BBB+/Stable/--
Financial Strength Rating	BBB+/Negative/--	BBB+/Stable/--
South Africa National Scale	zaAAA	zaAAA

GIC Re South Africa Ltd.

Local currency

Financial Strength Rating	BB+/Stable/--	BB+/Stable/--
Counterparty Credit Rating	BB+/Stable/--	BB+/Stable/--
South Africa National Scale	zaA+	zaA+

Hannover Reinsurance Africa Ltd.

Hannover Life Reassurance Africa Ltd.

Local currency

Counterparty Credit Rating	BBB+/Negative/--	BBB+/Stable/--
Financial Strength Rating	BBB+/Negative/--	BBB+/Stable/--
South Africa National Scale	zaAAA	zaAAA

Infiniti Insurance Ltd.

Local currency

South Africa National Scale	zaBBB	zaBBB+
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Lion of Africa Insurance Co Ltd.

Financial Strength Rating	B+/Negative/--	BB-/Negative/--
Counterparty Credit Rating	B+/Negative/--	BB-/Negative/--
South Africa National Scale	zaBB-	zaBB+

Santam Ltd.

Local currency

Financial Strength Rating	BBB+/Negative/--	BBB+/Stable/--
Counterparty Credit Rating	BBB+/Negative/--	BBB+/Stable/--
South Africa National Scale	zaAAA	zaAAA

REGULATORY DISCLOSURES

Primary credit analyst: Matthew Pirnie, Director--Allianz Global Corporate and Specialty South Africa Ltd., Hannover Reinsurance Africa Ltd., Hannover Life Reassurance Africa Ltd., and Lion of Africa Ltd.

Chairperson: David Laxton

Date initial rating assigned:

- Allianz Global Corporate and Specialty South Africa Ltd. (Aug. 14, 2014)
- Hannover Reinsurance Africa Ltd. (March 25, 2004)
- Hannover Life Reassurance Africa Ltd. (Nov. 20, 2009)

- Lion of Africa Insurance Co. Ltd. (June 11, 2012)

Date of previous review:

- Allianz Global Corporate and Specialty South Africa Ltd. (Oct. 29, 2015)
- Hannover Reinsurance Africa Ltd. (Sept. 1, 2015)
- Hannover Life Reassurance Africa Ltd. (Sept. 1, 2015)
- Lion of Africa Insurance Co. Ltd (Sept. 30, 2015)

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#### GLOSSARY

- Anchor: The starting point for rating an insurer, based on Standard & Poor's assessments of the business and financial risk profiles.
- Business risk profile (BRP): Assesses the risk inherent in the insurer's operations and therefore the potential sustainable return to be derived from those operations.
- Capital and earnings: Measure of an insurer's ability to absorb losses.
- Combined ratio: The ratio of the sum of loss expense, loss adjustment expense, and operating expenses divided by premiums earned.
- Competitive position: An assessment based on an insurer's operating performance, branding, market position, diversification and control over its distribution channels.
- Date initial rating assigned: The date Standard & Poor's assigned the long-term foreign currency issuer credit rating on the entity.
- Date of previous review: The date Standard & Poor's last reviewed the credit rating on the entity.
- Enterprise risk management (ERM): Our assessment of ERM examines whether insurers execute risk management practices in a manner that effectively limits future losses.
- Financial flexibility: The balance between an insurer's sources and uses of external capital and liquidity over the current and next two years.
- Financial risk profile (FRP): The consequence of decisions that management makes in the context of its business risk profile and its risk tolerances.
- Financial strength rating (FSR): A forward-looking opinion about the financial security characteristics of an insurer with respect to its

ability to pay under its insurance policies and contracts, in accordance with their terms.

- Insurance Industry And Country Risk Assessment (IICRA): Addresses the risks typically faced by insurers operating in specific industries and countries, and is generally determined at a country or regional level.
- Issuer credit rating (ICR): A forward-looking opinion about an obligor's overall creditworthiness, focusing on its capacity and willingness to meet its financial obligations in full and as they come due.
- Risk position: Assesses material risks not incorporated in the capital and earnings analysis and specific risks that could affect the volatility of an insurer's TAC.
- Stand-alone credit profile (SACP): Standard & Poor's opinion of an insurer's creditworthiness, in the absence of extraordinary intervention from its parent, affiliate, or related government.
- Total adjusted capital (TAC): Standard & Poor's measure of the capital an insurer has available to meet capital requirements.

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