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Ratings

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Research Update:

Santam Ltd. 'BB+' Ratings Affirmed; Outlook Stable

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Overview

- South African insurance group Santam Ltd. demonstrates sound operating results, while increasingly diversifying its revenue streams in the rest of Africa.
- We continue to view the group's level of capital adequacy (measured by our model) as a weakness to the rating.
- Santam continues to pass our stress test and, considering its board-approved risk mitigation plan, we rate Santam above the foreign currency sovereign rating on South Africa (BB/Stable/B), and at the level of our local currency sovereign rating on the country (BB+/Stable/B).
- We are therefore affirming our ratings on Santam and its subsidiaries, including our 'BB+' global scale issuer credit and insurer financial strength ratings on Santam.
- The stable outlook reflects our outlook on the sovereign rating, and our belief Santam will continue to post solid operating performance in South Africa and maintain capital and earnings near current levels.

Rating Action

On Aug. 27, 2019, S&P Global Ratings affirmed its 'BB+' global scale long-term issuer credit and financial strength ratings on insurer Santam Ltd. The outlook on the global scale ratings remains stable.

At the same time, we affirmed our 'zaAAA' South Africa national scale rating on the group. We also affirmed our 'zaAA-' South Africa national scale rating on Santam's subordinated deferrable hybrid instruments.

In addition, we affirmed our 'BB' ratings on Santam Structured Investments' (Santam SI) core operating subsidiaries: Santam Structured Insurance Ltd., Santam Structured Reinsurance Ltd. PCC, and Santam Structured Reinsurance DAC. Finally, we affirmed our 'zaAA+' South Africa national scale rating on Santam Structured Insurance Ltd.

Outlook

The stable outlook on Santam reflects our outlook on South Africa because the ratings on the insurer are constrained at the level of the long-term local currency rating on the sovereign. The outlook also incorporates our view that Santam's capital and earnings will remain in line with current levels as per our capital model. As well, we expect the group will continue to execute its risk-mitigation plan.

Downside scenario

We could lower the ratings on Santam over the next 12 months if:

- We were to lower our local currency sovereign rating on South Africa;
- Santam were to fail our sovereign stress test; or
- The insurer's capital and earnings were to weaken below current levels.

Upside scenario

We would raise the ratings on Santam only if we took a similar action on the local currency sovereign rating on South Africa.

Rationale

Our assessment on Santam reflects the insurer's dominant and long-standing position in its domestic market, sustained by its strong brand name leading position in several business lines. Santam's liquidity and sufficient capital buffers allow it to pass our stress test under a hypothetical foreign currency sovereign default; the board-approved risk mitigation plan further underpins this.

In our view, the difficult operating environment in the South African property and casualty (P&C) insurance industry dilute some of these strengths. We view Santam's risk-based capital levels as measured by our model as a weakness to the overall rating, mainly due to balance sheet expansion through acquisition and investment activity.

We continue to assess the Santam SI investment group as a highly strategically important subgroup to Santam, due to its senior management's strong support and involvement in operational and financial decision-making at Santam SI, which has been integrated into the wider group. Our rating on Santam SI's operating entities is one notch below Santam's group credit profile of 'bb+'.

Santam Ltd. Ratings Score Snapshot

Business Risk Profile	Satisfactory
Competitive position	Strong
IICRA	Moderately High

Financial Risk Profile	**Fair**
Capital and earnings	Fair
Risk exposure	Moderately Low
Funding structure	Neutral
Anchor*	bbb
Modifiers	
Governance	Neutral
Liquidity	Adequate
Comparable ratings analysis	0
Financial Strength Rating	**BB+/Stable**

*Influencing this is our view of Santam's leading competitive position in South Africa, sustained by innovation and strong risk framework.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed	
Santam Ltd.	
Issuer Credit Rating	
Local Currency	BB+/Stable/--
South Africa National Scale	zaAAA/--/--
Financial Strength Rating	
Local Currency	BB+/Stable/--
Santam Ltd.	
Subordinated	zaAA-

Ratings Affirmed	
Santam Structured Insurance Ltd.	
Santam Structured Reinsurance Ltd. PCC	
Santam Structured Reinsurance DAC	
Issuer Credit Rating	
Local Currency	BB/Stable/--
Financial Strength Rating	
Local Currency	BB/Stable/--
Santam Structured Insurance Ltd.	
Financial Strength Rating	
Local Currency	zaAA+/--/--

Regulatory Disclosures(Santam Ltd.)

Primary Credit Analyst: Trevor Barsdorf, Associate

Rating Committee Chairperson: Marco Sindaco

Date initial rating assigned: Oct. 10, 2012

Date of previous review: Apr. 26, 2019

Regulatory Disclosures (Santam Structured Insurance Ltd., Santam Structured Reinsurance DAC, And Santam Structured Reinsurance Ltd. PCC)

Primary Credit Analyst: Trevor Barsdorf, Associate

Rating Committee Chairperson: Marco Sindaco

Date initial rating assigned: May 24, 2017

Date of previous review: Apr. 26, 2019

Disclaimers

This rating has been determined by a rating committee based solely on the committee's independent evaluation of the credit risks and merits of the issuer or issue being rated in accordance with S&P Global Ratings published criteria and no part of this rating was influenced by any other business activities of S&P Global Ratings.

This credit rating is solicited. The rated entity did participate in the credit rating process. S&P Global Ratings did have access to the accounts, financial records and other relevant internal, non-public documents of the rated entity or a related third party. S&P Global Ratings has used information from sources believed to be reliable but does not guarantee the accuracy, adequacy, or completeness of any information used.

Materials Used In The Credit Rating Process: Sufficient information in general consists of both (i) financial statements that describe the Issuer's financial condition, results of operations and cash-flows, and (ii) a description of the activities and obligations of the entity including of its governance and legal structure.

This credit rating was disclosed to the rated entity or related third party before being issued.

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Glossary

- Anchor: The starting point for rating an insurer, based on S&P Global Ratings' 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. All elements are net of ceded reinsurance. We may use net premiums written (NPW) in the denominator where net premiums earned is not available or where expenses are not deferred in the accounting system the insurer uses (e.g., U.S. statutory accounting).
- Competitive position: An assessment based on an insurer's market or niche position, scale or efficiency of operations, brand name recognition or reputation, and strength of distribution.
- Date initial rating assigned: The date S&P Global Rating's assigned the long-term foreign currency issuer credit rating on the entity.
- Date of previous review: The date S&P Global Rating's last reviewed the credit rating on the entity.
- Earnings before interest (other than interest on nonrecourse or operational leverage) and taxes. We may apply analytical adjustments for items such as nonrecurring events; realized investment gains/losses; or impairments to goodwill.
- Earnings before interest (other than interest on nonrecourse or operational leverage), taxes, depreciation, and amortization. We may apply analytical adjustments for items such as nonrecurring events, realized investment gains/losses, impairments to goodwill, or other non-cash items. Where we believe depreciation and amortization is immaterial, we may use EBIT in the relevant ratios.
- Financial leverage. Financial obligations/(reported equity + financial obligations). We deduct from reported equity any off-balance-sheet pension deficit, net of tax, and any financial obligations included in reported equity, such as preferred stock. We typically include noncontrolling interests as part of reported equity. We may use net assets rather than reported equity, for example in the case of mutual insurers.
- Financial obligations/EBITDA. Determines the number of years of normalized earnings required to pay back debt and is another measure of the sustainability of the level of debt taken on by an

insurer.

- 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.
- Fixed-charge coverage. EBITDA/fixed charges. Fixed-charge coverage represents an insurer's ability to service interest on financial obligations out of EBITDA. Fixed charges include total interest expense including interest expense reported as investment expense, lease expense, and preferred stock dividends (tax-adjusted), minus any interest expense on debt that we consider to be nonrecourse or operational leverage.
- High-risk assets: Volatile or illiquid assets.
- 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.
- Intangibles: The sum of goodwill, intangible assets, deferred acquisition costs (DAC), value of in-force, value of business acquired, and deferred tax assets.
- 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.
- Prebonus pretax earnings are the sum of EBITDA and policyholder dividends.
- Return on assets (ROA): Indicates to us how efficiently management uses its assets to generate earnings by comparing EBIT to the two-year average of total assets adjusted. Total assets adjusted is total assets minus reinsurance assets.
- Return on revenue (ROR): EBIT divided by total revenue. Total revenue is the sum of net premiums earned (or net written premium if net earned premium is not available), net investment income, and other income. We remove the effects of realized and unrealized gains or losses from investments and derivatives to provide a more complete picture of an insurer's revenue-generating abilities.
- Risk exposure: Assesses material risks that the capital and earnings analysis does not incorporate and specific risks that it captures but that could make an insurer's capital and earnings significantly more or less volatile.
- Return on equity (ROE): Reported net income divided by the average of opening and closing reported equity for the year. Reported net income is before remuneration of preferred stock and non-controlling interests. Reported equity includes non-controlling interests and preferred stock.
- Stand-alone credit profile (SACP): S&P Global Ratings' opinion of an insurer's creditworthiness, in the absence of extraordinary intervention from its parent, affiliate, or related government.
- Total adjusted capital (TAC): S&P Global Ratings' measure of the capital an insurer has available to meet capital requirements.
- Total assets are the average of opening and closing total assets (less reinsurance assets) for the year.