

Research Update:

Largest South African Non-Life Insurer, Santam Ltd., Assigned 'A-' Long-Term And 'zaAA' National Scale Ratings

Primary Credit Analyst:

Neil Gosrani, London (44) 20-7176-7112; neil_gosrani@standardandpoors.com

Secondary Contacts:

Mark Button, London (44) 20-7176-7045; mark_button@standardandpoors.com

Matthew D Pirnie, Johannesburg (27) 11-213-1993; matthew_pirnie@standardandpoors.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Related Criteria And Research

Ratings List

Research Update:

Largest South African Non-Life Insurer, Santam Ltd., Assigned 'A-' Long-Term And 'zaAA' National Scale Ratings

Overview

- We are assigning our 'A-' long-term counterparty credit and insurer financial strength ratings and 'zaAA' South Africa national-scale rating to South Africa-based non-life insurer Santam Ltd. The outlook is stable.
- The ratings reflect Santam's strong competitive position, strong and stable operating performance, and strong financial flexibility.
- Santam's capitalization partially offsets these strengths; it is only "good," owing to material intangibles and equity risk, and the economic and industry risks inherent in operating in South Africa, including a concentrated exposure to the banking sector.
- The stable outlook reflects our expectation that Santam will continue to develop its competitive position through diversification, produce a combined ratio of 92%-96% (in line with its long-term average of 94%) and manage risk exposures in line with capital resources to support the current "good" assessment.

Rating Action

On Oct. 10, 2012, Standard & Poor's Ratings Services assigned its 'A-' long-term counterparty credit and insurer financial strength ratings and 'zaAA' South Africa national-scale rating to South Africa-based non-life insurer Santam Ltd. The outlook is stable.

Rationale

The ratings on Santam reflect its strong competitive position, strong and stable operating performance, and strong financial flexibility. These strengths are somewhat offset by Santam's capitalization, which is only "good," under our criteria, owing to material intangibles and equity risk. There are also economic and industry risks inherent in operating in South Africa that weigh on our assessment; these include a concentrated exposure to the banking sector.

The strong competitive position is based on Santam's dominant position and scale in the local market where it has a 23% share of gross premium written (GPW) in 2011. The company also has a broad and diverse product range, well-established brand, and strong client-servicing abilities. These strengths are somewhat offset by the company's concentrated broker distribution model, use of underwriting managing agents (UMAs), and exposure to the industry and

economic risks inherent to the South African market. That said, Santam has strong and long-standing relationships with its key intermediaries and, in many cases, controlling equity stakes in UMAs, which provides oversight. In addition, the company's strategy is to diversify its business through Santam Re and by earning fee income as the non-life technical partner for Sanlam's (unrated) foreign strategic investments. Our base-case scenario expects the company's competitive position to continue to develop as a result of these diversification initiatives. However, because the initiatives are relatively modest in size, their initial financial impact is expected to be limited. We expect premium growth to be broadly in line with GDP plus consumer price index, with market share rising to 25% by 2014.

Santam's strong operating performance is key to the current ratings. It reflects strong and stable underwriting and investment income. In June 2012, the company reported a combined ratio of 93.9% and an average combined ratio of 93.6% between 2007 and 2011. (Lower combined ratios indicate better profitability. A combined ratio of greater than 100% signifies an underwriting loss.) Loss and expense ratios are tightly controlled and the company's net income has benefited from a net investment yield between 4% and 7% over the same period. Our base-case scenario assumes that in 2012 Santam will produce a combined ratio of 92%-96%, and loss and expense ratios in line with current historical averages of 67% and 27%, respectively.

We view Santam's financial flexibility as strong. This reflects the company's strong ability to generate cash and its limited growth in prospective capital requirements. We expect any future capital requirement to be met from retained earnings.

Capitalization is viewed as good, although a relative weakness to the overall ratings. The company has good capital adequacy, strong reinsurance support, and adequate reserves. The material intangible assets, equity risk, and concentrated exposure to the South African banking sector weigh on our capital assessment. At June 2012, Santam's equity exposures were 24% of invested assets or 62% of shareholders' equity; its asset exposure to four South African banks was around 40% of invested assets. In mitigation, our assessment takes into account certain features of Santam's personal business; it can adjust premium rates or cancel policies monthly in this segment. Our base-case scenario expects Santam to manage risk exposures in line with capital resources to support the current good assessment.

The economic and industry risk inherent in operating in South Africa is a weakness. We note some negative pressures from current social and economic imbalances in the country. These imbalances may, if they persist, result in the economy failing to generate jobs, cause lower levels of real GDP growth, and encourage investor risk aversion. Although we consider that Santam is well placed to benefit from the new regulatory framework, Solvency Assessment and Management (SAM), we expect it to place a significant burden on companies and this is therefore a concern.

Outlook

The outlook is stable, reflecting our expectation that Santam will continue to develop its competitive position through diversification, produce a combined ratio between 92%-96% (in line with its long-term average of 94%) and manage risk exposures in line with capital resources to support the current "good" assessment. There is limited scope for positive ratings action. Negative ratings action could stem from:

- Capital adequacy reducing to a marginal level, which could result from a more-aggressive dividend policy or capital structure, or growth in excess of retained earning capacity.
- A downward revision of the sovereign rating on South Africa, which is likely to increase risk in Santam's investment profile.
- A sustained operating underperformance compared with our expectations.
- Execution risk arising from the strategic objectives to diversify the company.

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal.

- South Africa's Competitive Non-Life Insurance Industry Faces Constrained But Profitable Growth, June 12, 2012
- Principles Of Credit Ratings, Feb. 16, 2011
- Group Methodology, April 22, 2009
- Interactive Ratings Methodology, April 22, 2009
- Counterparty Credit Ratings And The Credit Framework, April 14, 2004
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Criteria Update: Factoring Country Risk Into Insurer Financial Strength Ratings, Feb. 11, 2003

Ratings List

New Rating

Santam Ltd.

Counterparty Credit Rating

Local Currency

A-/Stable/--

South Africa National Scale

zaAA/--/--

Financial Strength Rating

Local Currency

A-/Stable/--

Additional Contact:

Insurance Ratings Europe; InsuranceInteractive_Europe@standardandpoors.com

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Copyright © 2012 by Standard & Poor's Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.