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## Research Update:

# Rating On South Africa-Based Insurer Santam Affirmed At 'BB+'; Outlook Stable

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## Research Update:

# Rating On South Africa-Based Insurer Santam Affirmed At 'BB+'; Outlook Stable

## Overview

- We continue to rate South African insurer Santam above the foreign currency sovereign ratings on South Africa (BB/Stable), and up to our local currency sovereign ratings on South Africa (BB+/Stable).
- This is based on its 'bbb' stand-alone credit profile, before considering the sovereign, together with the execution of Santam's board-approved risk mitigation plan, offset by its concentration of assets in South Africa.
- We expect Santam to continue to leverage its leading position in the South African insurance market, delivering a solid operating performance. Its level of capital adequacy below the 'BBB' level remains an inherent rating weakness, in our opinion.
- We are affirming our 'BB+' global scale rating and 'zaAA+' national scale rating on Santam.
- The stable outlook reflects our outlook on the sovereign, and our belief Santam will continue to post solid operating performance in South Africa and execute its risk mitigation plan, while maintaining capital adequacy and enterprise risk management practices at least in line with current levels.

## Rating Action

On April 20, 2018, S&P Global Ratings affirmed its 'BB+' global scale long-term issuer credit and financial strength ratings on South Africa-based insurer Santam Ltd. The outlook on the global scale ratings remains stable.

At the same time, we affirmed our 'zaAA+' South Africa national scale rating on Santam.

## Rationale

We continue to rate Santam above our foreign currency sovereign credit ratings on South Africa. We believe that the insurer would be able to withstand the stress associated with a default by South Africa on its foreign currency obligations, based on Santam's assets and regulatory capital base. We assume that capital is fully fungible through the group and could be used in the event of stress. Santam's execution of its credible and board-approved risk mitigation plan supports our assumption.

We also continue to cap the ratings on Santam at the level of our local currency sovereign credit rating on South Africa. We believe the insurer remains susceptible to the incremental adverse effect that a default of South African local currency securities would have on Santam's liquidity and investment position, given its asset concentration in local investment assets.

We assess Santam's stand-alone credit profile (SACP), before the consideration of the sovereign risk (that is, the indicative SACP), at 'bbb', above the current ratings. The indicative SACP benefits from Santam's leading and profitable position in the South African insurance market and our view of its strong enterprise risk management. Selected bolt-on acquisitions and maturation of brands within the group have enhanced its dominant market position and sound operating performance.

In our view, Santam's risk-based capital levels (measured using our model) at the lower end of the 'BBB' level) remain a relative weakness for the overall rating. A combination of acquisitions and rising credit risk within the domestic economy over the past years has strained capital levels.

We expect Santam to post premium growth of around 8% per year over the next 24 months and maintain its underwriting performance. We expect it will post a combined (loss and expense) ratio of 94%-96%, supported by its diversified portfolio. Annual operating profits will be at least South African rand (ZAR) 1.5 billion over the same period. We do not expect acquisitions or dividend payments to further strain capital adequacy.

## **Outlook**

The stable outlook on Santam reflects our outlook on the long-term local currency ratings on South Africa because the ratings on Santam are constrained at the level of the long-term local currency rating on South Africa. This also incorporates our view that its level of capital adequacy will remain in line with current levels as per our capital model, while its enterprise risk management practices will remain strong. It also reflects the consideration that the risk mitigation plan will continue to be executed.

### Downside scenario

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

- We were to lower our local currency ratings on South Africa; or
- Santam were not to continue to effectively implement its risk mitigation plan not passing our sovereign stress test; or
- Santam's capital adequacy and risk management practices were to weaken below current levels.

### Upside scenario

We would revise our outlook to positive only following a similar action on the sovereign ratings and if Santam were to increase levels of capital adequacy significantly beyond current levels.

## **Ratings Score Snapshot**

	To	From
<b>Holding Company Rating</b>		
<b>Financial Strength Rating</b>	BB+/Stable/--	BB+/Stable/--
<b>Anchor</b>	bbb-	bbb-
Business Risk Profile	Satisfactory	Satisfactory
IICRA	Moderate	Moderate
Competitive Position	Strong	Strong
Financial Risk Profile	Less than adequate	Less than adequate
Capital and Earnings	Lower adequate	Lower adequate
Risk Position	Moderate	Moderate
Financial Flexibility	Adequate	Adequate
<b>Modifiers</b>	+1	+1
ERM and Management	+1	+1
Enterprise Risk Management	Strong	Strong
Management and Governance	Satisfactory	Satisfactory
Holistic Analysis	0	0
<b>Liquidity</b>	Strong	Strong
<b>Support</b>	0	0
Group Support	0	0
Government Support	0	0

IICRA--Insurance Industry And Country Risk Assessment

## Related Criteria And Research

### Related Criteria

- General Criteria: National And Regional Scale Credit Ratings - September 22,2014
- General Criteria: Group Rating Methodology - November 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions - November 19,2013
- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables - August 14,2017
- General Criteria: Use Of CreditWatch And Outlooks - September 14,2009
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers - November 13,2012
- Criteria - Insurance - General: Enterprise Risk Management - May 07,2013
- Criteria - Insurance - General: Insurers: Rating Methodology - May 07,2013
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model - June 07,2010

## Ratings List

	Rating	
	To	From
Santam Ltd.		
Counterparty Credit Rating		
Local Currency	BB+/Stable/--	BB+/Stable/--
South Africa National Scale	zaAA+/--/--	zaAA+/--/--
Financial Strength Rating		
Local Currency	BB+/Stable/--	BB+/Stable/--
Subordinated		
South Africa National Scale	zaA	zaA

## Regulatory Disclosures

- Primary Credit Analyst: Trevor Barsdorf, Associate
- Rating Committee Chairperson: Marco Sindaco
- Date initial rating assigned: Oct. 10, 2012
- Date of previous review: Nov. 30, 2017

## 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.

## 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.
- Competitive position: An assessment based on an insurer's operating performance, branding, market position, diversification and control over its distribution channels.

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- Date initial rating assigned: The date S&P Global Ratings assigned the long-term foreign currency issuer credit rating on the entity.
- Date of previous review: The date S&P Global Ratings 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.
- 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.
- 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.
- Return on equity (ROE): Measures the return available to stockholders. Calculated as reported net income divided by the year-end average of reported stockholders' equity for the past two years.
- 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.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings 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.

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